Sustainability

**Information Disclosure
Based on TCFD Recommendations**

TSI HOLDINGS GROUP

Creating a sustainable future with fashion entertainment

2022/10/12

Contents

Agenda

Toward the Realization of Carbon Neutrality

It is said that the amount of CO_2 emissions in the apparel industry account for 4 to 10 % of all industries combined, and the reduction of CO_2 emissions is the most important issue to be tackled.

Under such circumstances, this April, we identified materialities to realize carbon neutrality by 2050. We will, this time, complete the visualization of Scope 1, 2, and 3, and accelerate the implementation of initiatives for climate change.

We voluntarily promote information disclosure according to the TCFD Recommendations while setting and achieving goals for the reduction of CO_2 emissions. We will submit a commitment letter to acquire SBT certification going forward so that we can achieve the goals based on scientific evidence.

TSI's Materialities

Environment
Global Environment

❶ Climate change

❷ Raw materials

❸ Waste

❹ Water resources

The apparel industry causes environmental burdens in various aspects. To bring about a change in the industry, we first visualize environmental burdens, and then build a sustainable business model.
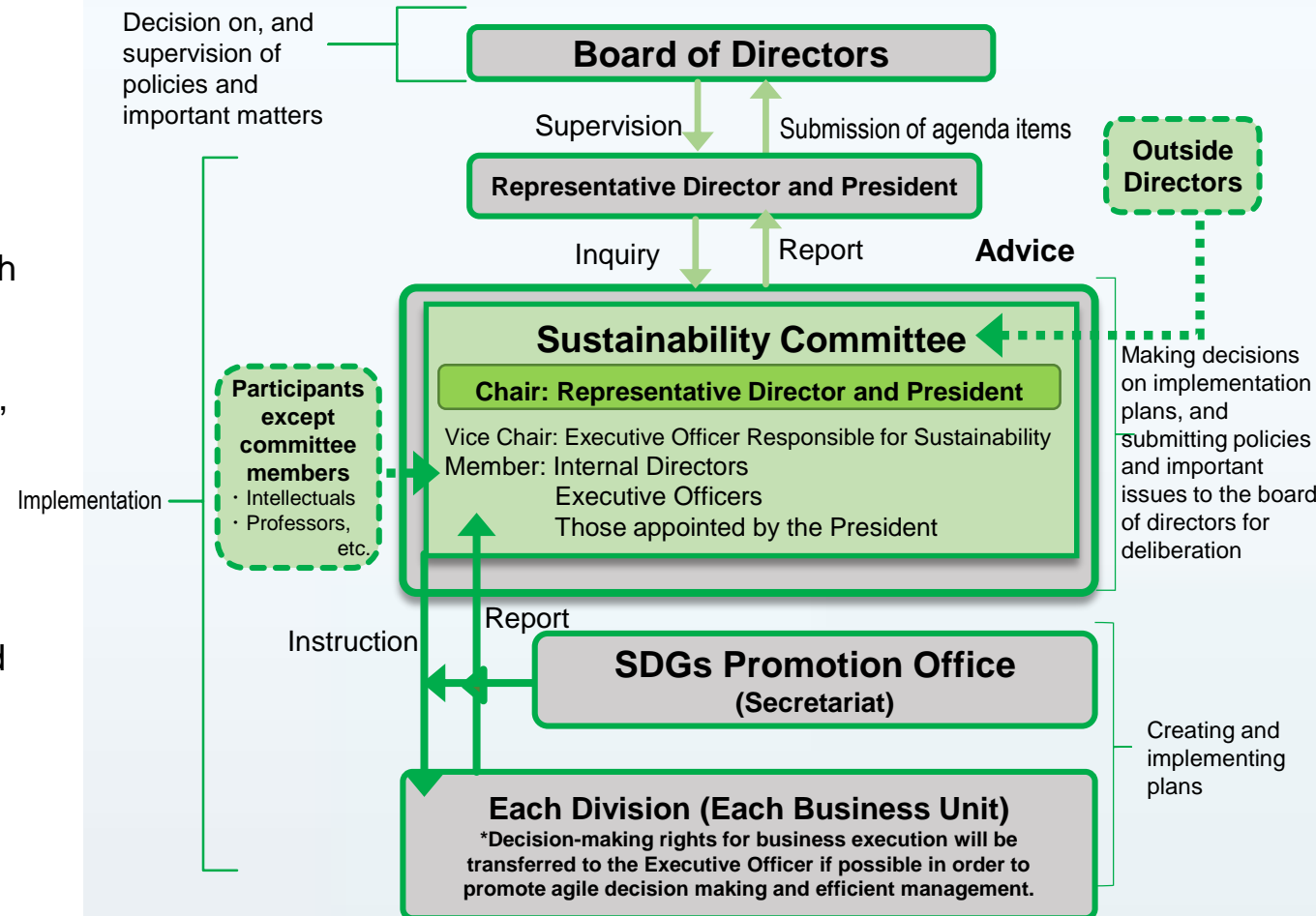
Global Environment

Fashion Entertainment

People

Society

People
People

❺ Diversity

❻ Health & safety

❼ Employee wellbeing

❽ Fair labor conditions

Social
Society

❾ Local community

G o v e r n a n c e

TSI HOLDINGS GROUP

Introduction

Governance

Risk Management

Strategy

Indicator and Goal

Establishment of the Sustainability Committee

We established the "sustainability committee" to strengthen the governance of the sustainability strategy that combines climate change measures and the management policy/medium-term management plan.

We will expand our business toward a sustainable future through the management of policies and greenhouse gas emissions, establishment of greenhouse gas reduction goals, human rights, and our supply chain management.

We promote sustainability initiatives on a company-wide basis working with the sustainability committee which was established as an advisory organization to the Representative Director and President under the supervision of the board of directors.

Sustainability Committee System

Decision on, and supervision of policies and important matters

Board of Directors

Supervision | Submission of agenda items

Representative Director and President

Outside Directors

Inquiry | Report | **Advice**

Sustainability Committee

Chair: Representative Director and President

Vice Chair: Executive Officer Responsible for Sustainability
Member: Internal Directors
Executive Officers
Those appointed by the President

Participants except committee members
· Intellectuals
· Professors, etc.

Implementation

Making decisions on implementation plans, and submitting policies and important issues to the board of directors for deliberation

Instruction | Report

SDGs Promotion Office
(Secretariat)

Creating and implementing plans

Each Division (Each Business Unit)
Decision-making rights for business execution will be transferred to the Executive Officer if possible in order to promote agile decision making and efficient management.

Risk Scenario Analysis

In cooperation with experts, we conducted a risk analysis of important factors impacting the growth of sustainable business at the sustainability committee.

We referred to the existing scenarios developed in line with the Paris Agreement's target global temperature rises - 4 degrees Celsius and 1.5 degrees Celsius - disclosed by the IPCC and IEA.

We will flexibly review the analysis in accordance with climate change, and the market changes caused by it as well as our management strategies and medium-term management plan.

[Official Scenarios for Reference]
・4 degrees Celsius Scenario: AR5 RCP (Representative Concentration Pathways) 2.6, 4.5, 6.0, and 8.5 as well as AR6 SSP5-8.5 reported by IPCC (Intergovernmental Panel on Climate Change)
・1.5 degrees Celsius Scenario: SDS (Sustainable Development scenario) reported by IEA (International Energy Agency), and AR6 SSP1-1.9 by IPCC
*SSP1-1.9: Holding global warming to approximately 1.5 degrees Celsius above the average between 1850 and 1900 in 2100 "after slight overshoot," to realize net-zero CO_2 emissions around the middle of the century.
*SSP5-8.5: A very high greenhouse gas emissions scenario without the implementation of any additional climate change measures. This scenario can be realized only if going for the fossil-fueled social and economic development as shown in SSP5.

Scientific Scenario of Temperature Rise Used for Analysis

*Source: IPCC AR5 WGI Figure SPM.7
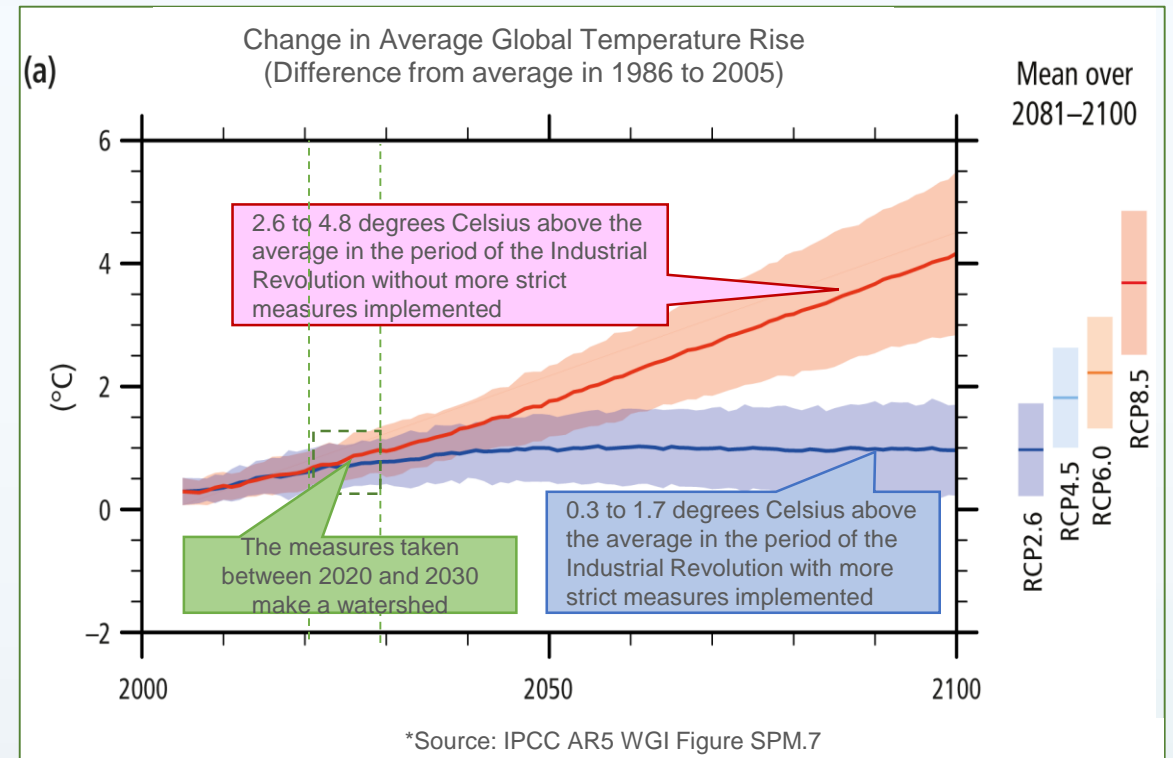
We referred to the forecast of changes in the average global temperature by the end of the century in IPCC AR5 RCP. We need to implement specific measures by 2030.

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Risk Identification

Category	Classification	Driver	Impact on Business	Impact	
				4 degrees C	1.5 degrees C
Physical Impact	Chronic	Temperature Rise	A decrease in the sales of heavy clothing such as jackets and coats due to the shortened autumn and winter seasons	◎	○
			A decrease in the opportunities for consumers to go out due to a temperature rise, or an epidemic that accompanies it	○	○
			A decrease in the sales of sports or outdoor gear and accessories due to a decrease in the opportunities for consumers to indulge in sports, or outdoor activities	◎	○
			A weak cotton crop caused by droughts, etc., and a hike in raw material prices attributable to water stress	◎	○
	Acute		A decrease in sales caused by store closures due to the increase in the intensity and frequency of large-scale natural disasters	◎	○
			A decrease in sales due to the supply chain disruptions caused by natural disasters	◎	○
Impact by Shift	Reputation	Social Reputation	Diminished customer engagement due to the fixed corporate image as unfriendly to the environment	○	◎
	Market	Temperature Rise	An increase in the costs including the risk evaluation of major business hubs and travel expenses	◎	○
		Change in Customers' Sense of Value	A decrease in sales due to slow response to changes occurring in customer needs along with an increasing awareness about the environment such as an increasing demand for sustainable products	○	○
	Technology	Technology of Environment Friendly Products	A cost increase resulting from switching to environment-friendly materials or manufacturing methods	–	◎
			An increase in the demand for the recyclable raw materials and reusable products that contribute to the realization of the "Recycling-based Society"	–	◎
	Policy	Energy	A hike in production/logistics costs due to skyrocketing fossil fuel and alternative resources costs	○	◎
			Skyrocketing electricity prices and rising production costs due to changes in the energy mix as well as an increase in the electric power production ratios of power generation facilities with low CO_2 emission factors (renewal energy/new energy/next-generation energy)	○	◎
		Information Disclosure	An increase in operational costs caused by the strengthened information disclosure of environmental issues	○	◎
		Carbon Pricing	An increase in operational costs caused by the introduction of policies to curb greenhouse gas emissions such as a carbon tax, the European Union Emission Trading Scheme, and carbon pricing	–	◎

Business Transformation and Innovation Domains

We established three innovation domains in order to create more opportunities while taking risks into consideration.

With an aim to transform the entire value chain, we decided to call raw materials "material innovation," and the system to review the manufacturing and logistics processes for resource circulation "SCM Platform Innovation." On top of that, we will build new relationships with customers through "Engagement Innovation."

We will create more opportunities and values by developing these domains.

The Three Innovation Domains

Engagement Innovation
[Customer Engagement – Sales Method]

Material Innovation
[Raw Materials]

SCM Platform Innovation
[Manufacturing – Logistics – Resource Circulation]

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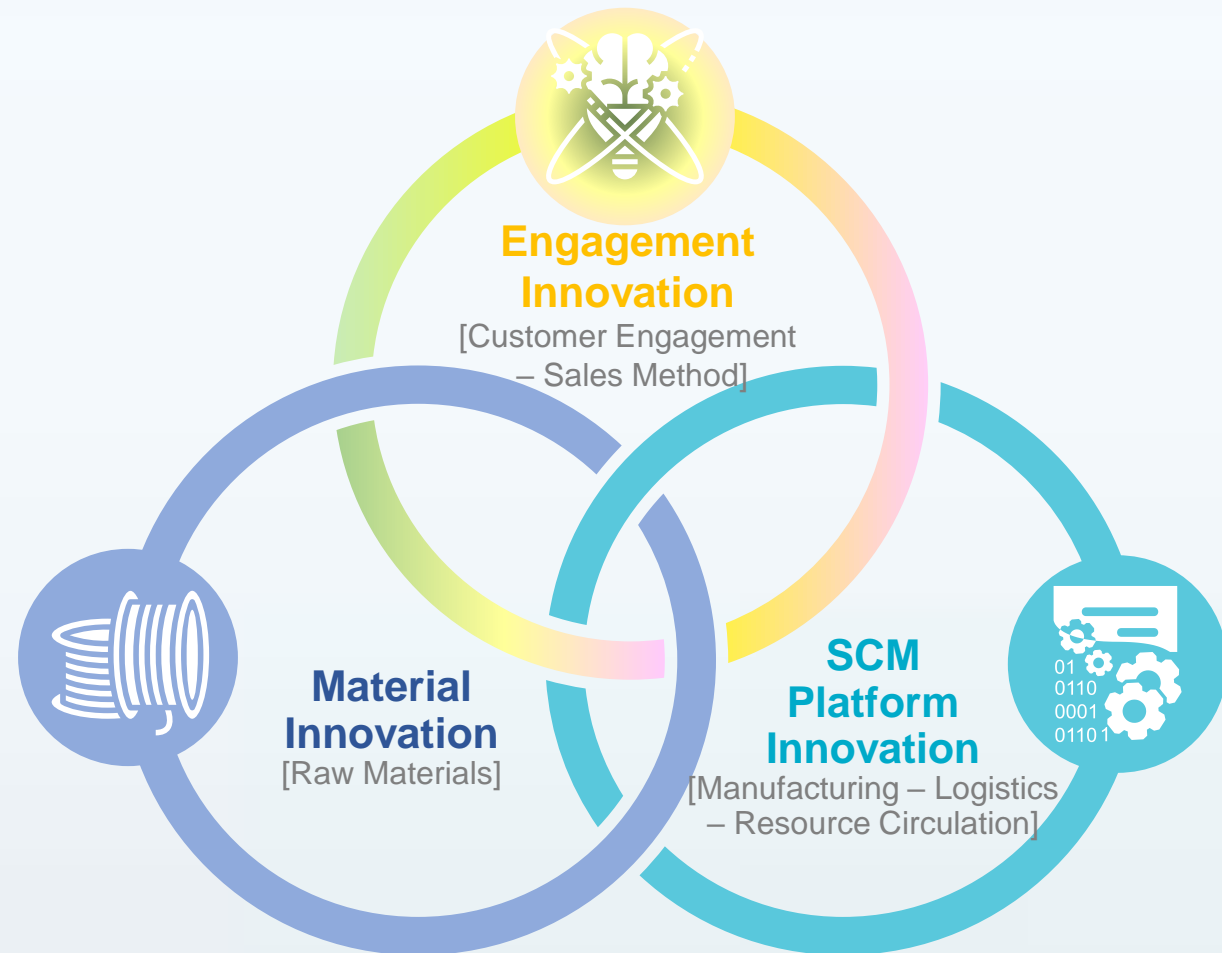
Strategy toward Carbon Neutrality

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Innovation Domains

Business Domains

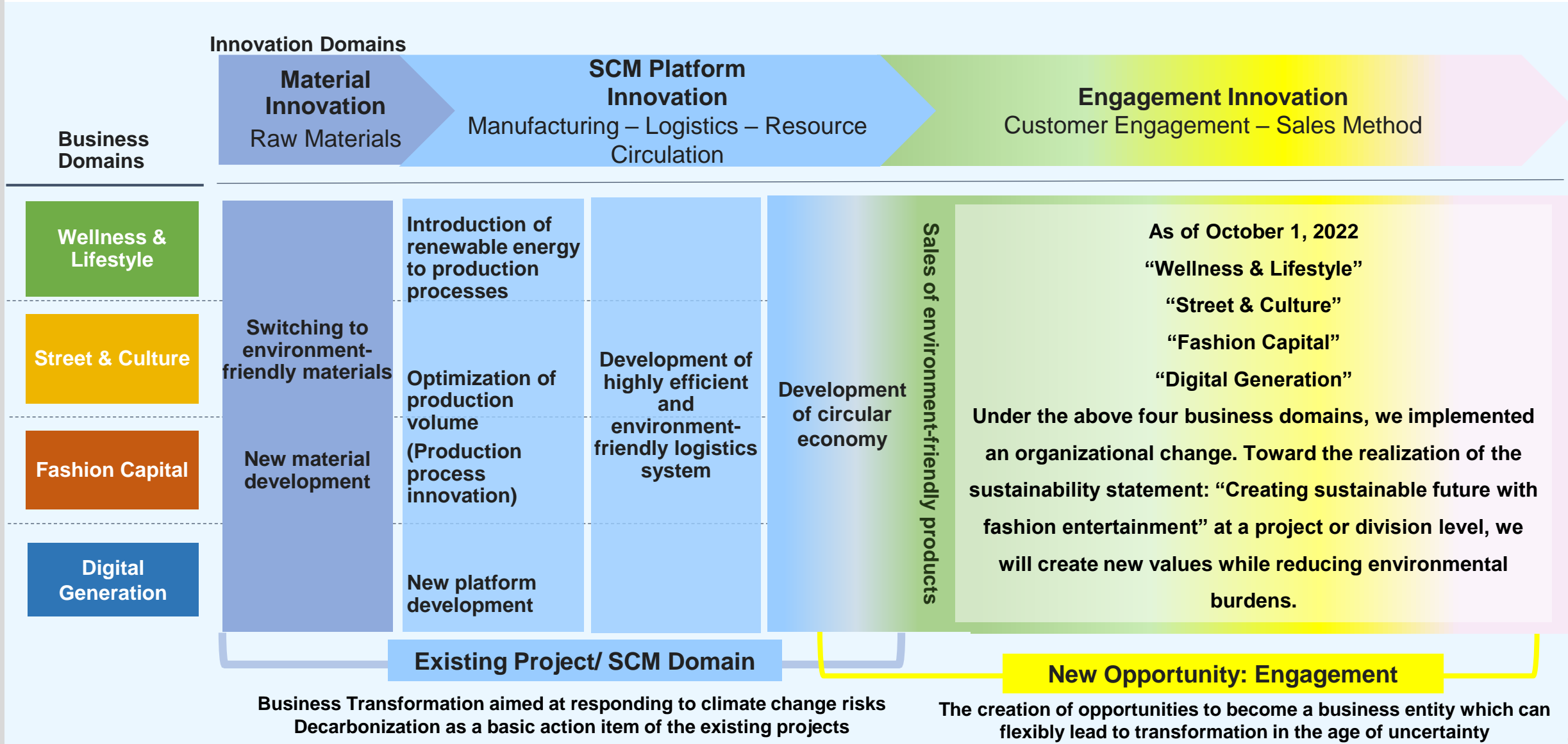| Material Innovation Raw Materials	SCM Platform Innovation Manufacturing – Logistics – Resource Circulation		Engagement Innovation Customer Engagement – Sales Method

| | Wellness & Lifestyle | | | | | |

| **Switching to environment-friendly materials**

New material development | **Introduction of renewable energy to production processes**

Optimization of production volume (Production process innovation)

New platform development | **Development of highly efficient and environment-friendly logistics system** | **Development of circular economy** | **Sales of environment-friendly products** | **As of October 1, 2022**
"Wellness & Lifestyle"
"Street & Culture"
"Fashion Capital"
"Digital Generation"
Under the above four business domains, we implemented an organizational change. Toward the realization of the sustainability statement: "Creating sustainable future with fashion entertainment" at a project or division level, we will create new values while reducing environmental burdens. |

Business Domains:
- **Wellness & Lifestyle**
- **Street & Culture**
- **Fashion Capital**
- **Digital Generation**

Existing Project/ SCM Domain

New Opportunity: Engagement

Business Transformation aimed at responding to climate change risks
Decarbonization as a basic action item of the existing projects

The creation of opportunities to become a business entity which can flexibly lead to transformation in the age of uncertainty

Visualization of CO_2 Emissions in the Entire Value Chain and Reduction Goals

Introduction

Governance

Risk Management

Opportunity   Strategy

Indicator and Goal

Toward the realization of carbon neutrality by 2050, we visualized the CO_2 emissions of the entire value chain to reduce the environmental burdens produced by our business as a whole.

As the medium-term milestone for the reduction of CO_2 emissions, we decided to reduce the total CO_2 emissions by 48% for Scope 1 and 2, and by 35% for Scope 3 by 2030, compared with February, 2020.

We will contribute to the preservation of the global environment by achieving the reduction goals for Scope 1, 2, and 3.

CO_2 Emissions and Reduction Goals

	Scopes 1 – 3 (total)	Scopes 1 and 2	Scope 3
CO_2 emissions in February, 2020	305K tons	9K tons	295K tons
CO_2 emissions reduction goals Feb 2030	-35% (-108K tons)	-48% (-4K tons)	-35% (-103K tons)
CO_2 emissions reduction goals in line with SBT	—	1.5 degrees C (Target) 4.2% reduction every year	WB2 degrees C (Target) 2.5% reduction every year

*The reduction goal for Scope 1 and 2 coincides with the 1.5 degrees C target. The reduction goal for Scope 3 coincides with the 2050 carbon neutrality target.
As for CO_2 emissions, all numbers smaller than 1,000 are rounded down to the nearest 1,000 in the above list.