Ultrafabrics Holdings, Inc.
Financial Disclosure on Climate Change Related Risks

Ultrafabrics Holdings Co.,Ltd.（4235）

INTRODUCTION

Ultrafabrics Group believes that in order for a company to grow and prosper in the future, the entire society in which it operates must be prosperous and sustainable, not only our own company. Therefore, it is important for the company, as a member of society, to promote initiatives to solve social issues. As a statement of this intention, we have adopted "Focus on Sustainability and Contribute to Society" as one of our group management philosophies.

We have endorsed the Task Force on Climate-related Financial Information Disclosures (TCFD) recommendations to proactively address climate change, a key sustainability issue, and have conducted a scenario analysis of the risks and opportunities posed by climate change to our business based on the recommendations and disclosed related information. In the future, we will expand the scope of the analysis, reflect the results in our management strategies, and further enhance the disclosure of information on financial impacts.

At the same time, we also received certification from the Science Based Targets initiative (SBTi) for "Science Based Targets for Small and Medium Enterprises (SBT for SMEs)" regarding our greenhouse gas emission reduction targets. We will continue to promote further measures to combat climate change in order to contribute to the realization of a decarbonized society.

BASIC APPROACH TO CLIMATE CHANGE

In promoting sustainability, we have established five "P" priority areas and identified materialities in each area to meet the needs of all stakeholders, including customers, business partners, shareholders, employees, and local residents. We have identified materiality in each of these areas.

Key focus areas to promote sustainability for Ultrafabrics group

	Materiality Identification	Activities
People	Respect for the human rights of employee, customer and residents	•Provide safe and rewarding workplaces •Accept diverse human resources
Product	Sustainable product design Responsible procurement practice Biodiversity conservation	•Renewable/Recycled material •Energy reduction in production •Product design to reduce CFP •Enhance resource circularity
Planet	Climate change mitigation Water resource protection Waste and hazardous substance management	•CO_2 emission reduction •Reduce water consumption /reuse •Waste reduction •Chemical substance reduction /recovery
Partner	Mutual development with business partners	•Reduce CO_2 emission /Maintain and improve a working environment throughout the value chain
Profit	Responsibilities as a Corporate Citizen Responsibility to Shareholders Ensuring Business Continuity	•Mid- to Long-term growth •Stable stock price increase

With regard to climate change, we recognize that it is the important issue related to Products and Partners, with a focus on Planet among the five priority areas, and we will work on various themes to solve the issue, such as reducing CO_2 emissions in our group.

(REFERENCE) SUMMARY OF TCFD PROPOSED DISCLOSURE RECOMMENDATIONS

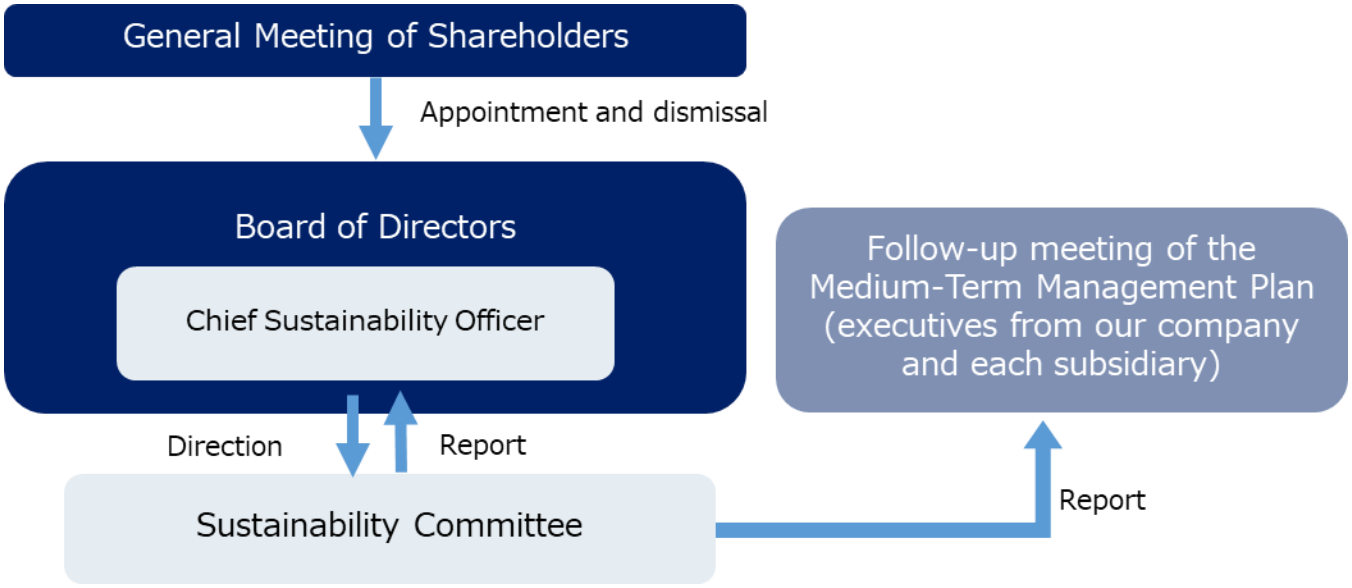
Item	Summary	Description
Governance	Governance of the organization with respect to climate-related risks and opportunities	Board oversight of risks and opportunities
		Management's role in assessing and managing risks and opportunities
Strategy	Organization's climate-related risks/opportunities and their impact on business, strategy, and finances	Short-, medium-, and long-term risks and opportunities
		Impact of risks and opportunities on business, strategy, and finance
		Impact of 2°C target and other climate scenarios, resilience of organizational strategy
Risk management	Processes for identifying, assessing, and managing climate change risks	Climate-related risk identification and assessment process
		Climate-related risk management process
		Status of integration into organization-wide risk management
Indicators and Targets	Indicators and targets used to assess and manage climate-related risks and opportunities	Indicators used to manage climate change risks and opportunities
		Greenhouse gas emissions (Scope 1,2,3)
		Targets and performance used to manage climate change risks and opportunities

GOVERNANCE

Our group has established the "Sustainability Committee" to promote the resolution of issues in each priority area. The committee is chaired by the Chief Sustainability Officer, a member of the Board of Directors, and includes the executive officers of relevant divisions. The committee is responsible for formulating basic sustainability policies, formulating policies, targets, and promotion plans for addressing key issues in each area, and overseeing and evaluating the progress of activities.

The status of the committee's activities and the challenges it is addressing are reported at follow-up meetings of the Medium-Term Management Plan attended by executives from our company and each subsidiary. In addition, particularly important issues are discussed by the Board of Directors, and the decisions are reflected in the committee's activity policy as well as in the policies, measures, financial targets, etc., of the Medium-Term Management Plan. Furthermore, through the mechanism of the ISO 14001 Environmental Management System, our management team oversees and supervises the activities of this committee.

Sustainability Committee in the Organizational Chart



GOVERNANCE

- Remuneration for our company‘s directors consists of base (fixed) and incentive remuneration. Results in company's sustainability promotion are reflected in part in incentive remuneration.

STRATEGY : ①SCENARIO ANALYSIS STEPS

Based on following multiple scenarios, an assessment of the business and financial impact of climate change was conducted according to the following steps.

■ Reference Scenarios

Classification	Scenario Overview	Type of risk as subject of analysis	Reference scenario
4°C scenario	Scenario in which temperatures rise as expected without progress in climate change action, resulting in physical risks/opportunities	Physical risk “Acute" and "Chronic"	- IEA World Energy Outlook2020. Stated Policy Scenario - IPCC RCP8.5
2°C scenario (Less than)	Scenarios in which various activities are implemented to prevent global warming and risks/opportunities associated with the transition to a decarbonized society	Transition risk “Policy and Regulation”, "Technology“, "Market“, and "Reputation"	- IEA World Energy Outlook 2020. Sustainable Development Scenario Net Zero Emission 2050 - IPCC RCP2.6/SSP2.6

■ Scenario Analysis Steps

Enumeration of climate-related risks and opportunity items	Qualitative business impact	Quantifying financial impact	Consideration of countermeasures
・Identification of climate change risks and opportunities ・Assessment of risks and opportunities of high importance ・Decision of evaluation axes related to risks/opportunities of high importance	・Listing of existing scenarios that are closely related ・Setting of climate change scenarios	・Analyze the financial impact of each scenario based on each scenario and the identified key climate-related risks/opportunities and associated parameters	・Assessment of the resilience of our strategy to climate change risks and opportunities ・Consideration of measures to be taken based on the current assessment

STRATEGY : ②TYPES OF CLIMATE CHANGE RISKS AND OPPORTUNITIES

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- The risks and opportunities associated with climate change were identified and listed by type as follows.

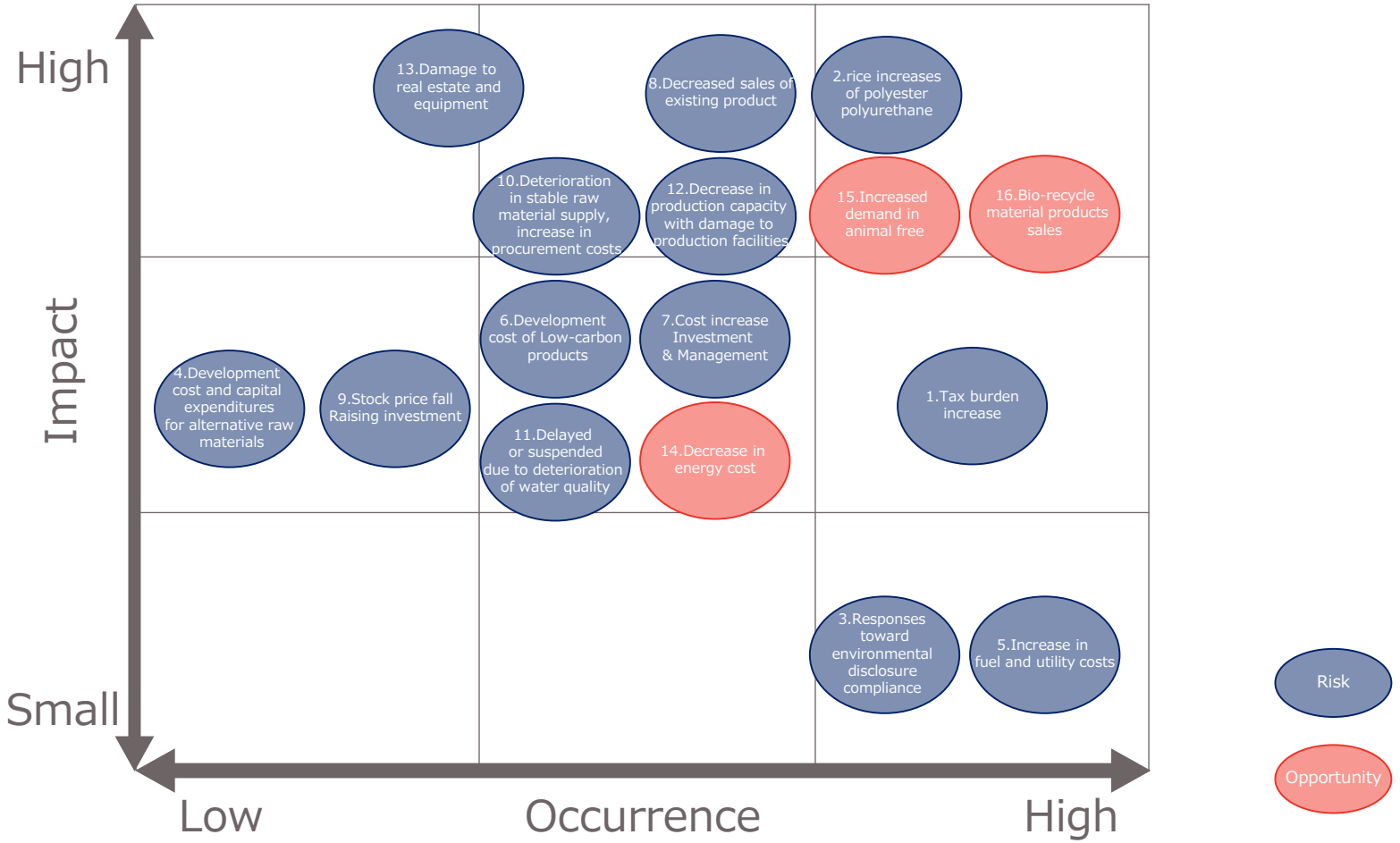
■ Types of Climate Change Risks and Opportunities

	Category	Subcategory	Examples of major aspects and cuts
Risk	Transition risk	Policy and Regulatory risk	Tighter regulations on GHG emissions, expanded information disclosure requirements, etc.
		Technology risk	Replacement of existing products with low-carbon technologies, failure to invest in new technologies, etc.
		Market risk	Changes in consumer behavior, uncertain market signals, rising raw material costs, etc.
		Reputation risk	Changing consumer preferences, blame on the industry, increased stakeholder concerns, etc.
	Physical risk	Acute risk	Increased severity and increase in extreme weather events such as cyclones and floods, etc.
		Chronic risk	Changes in rainfall and weather patterns, higher average temperatures, rising sea levels, etc.
Opportunity	Energy source		Appeal to customers by reducing fossil energy risks and increasing renewable energy rates
	Products & Services		Expand sales of climate change mitigation and adaptation products
	Market		Expansion of products using bio-based materials in consideration of climate change

STRATEGY : ③IDENTIFICATION OF CLIMATE CHANGE RISKS AND OPPORTUNITIES

We evaluated the risks and opportunities that may arise for our company on two axes : impact and probability of occurrence.

Assessment of Climate Change Risks and Opportunities



STRATEGY : ④FINANCIAL IMPACT AND RESPONSE MEASURES

Financial impact and response to climate change risk

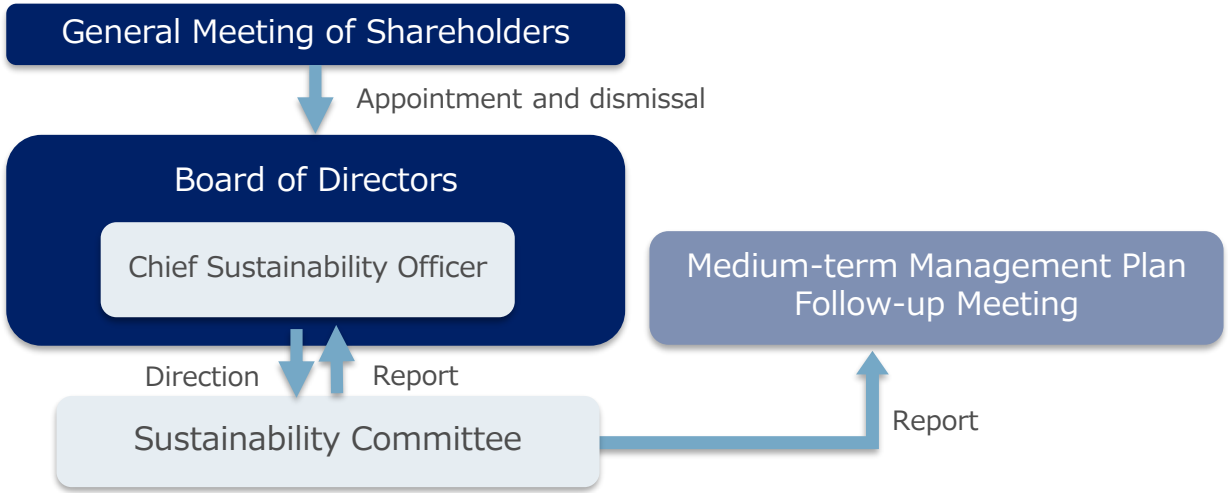
	Category	Sub category	Driver (of a vehicle)	No.	Business Impact	Financial Impact	Our Response
Risk	Transition risk	Policy and Regulation	Introduction of carbon tax and increase in carbon tax rate	1	Increase in our tax burden	- -	Monitoring policy trends Reduction of CO2 emissions
				2	Rise in raw material (polyester and urethane) prices	- - -	Monitoring policy trends Reduction of CO2 emissions
			Regulatory measures for products and raw materials	3	Cost of compliance with requirements for measurement and display of environment-related information	-	Monitoring of environmental regulatory trends
				4	Switch to alternative raw materials Increase in new product development costs and capital expenditures that do not use regulated raw materials	- -	Monitoring of environmental regulatory trends
			Changing Energy Mix	5	Increase in fuel and utility costs	-	Reduction of energy use
		Technology	Transition to low-carbon products	6	Increase in low-carbon product development costs and capital investment	- -	Collaboration with raw material and equipment manufacturers
			Introduction of low-carbon technologies	7	Increase in capital investment running costs due to introduction of low-carbon manufacturing technology	- -	
		Market	Growing preference for low-carbon products	8	Sales of our existing products declined due to preference for low-carbon products.	- - -	Development of low-carbon products in collaboration with manufacturers of raw materials and equipment
		Reputation	Increased stakeholder concerns	9	Decline in stock prices and investment pullback	- -	Appeal for a low-carbon posture
	Physical risk	Chronic	Average temperature increase, change in precipitation patterns	10	Deterioration in stable supply of raw materials, increase in procurement costs	- - -	Stable procurement through multiple suppliers
				11	Delays or stoppages in production due to water shortages and deterioration in water quality caused by drought, etc.	- -	Reduction of water consumption
		Acute	Increase in the rate and severity of extreme weather events	12	Decrease in production capacity due to damage to production sites	- - -	Business Continuity Planning
				13	Impact on business continuity due to loss of owned real estate facilities and damage to facilities	- - -	
Opportunity	Energy source		Introduction of renewable energy sources	14	Decreased energy costs Strengthen BCP to prepare for physical risks	+ +	Installation of solar panels and other renewable energy sources
	Products & Services		Helping to support the transition to a decarbonized society	15	Growing demand for animal-free, lightweight, and long-life materials	+ + +	Further weight reduction and durability improvement
	Market		Access to new markets	16	Sales of low-carbon products using bio-recycled materials	+ + +	Promote utilization of bio/recycled materials

The number of +,- represents the magnitude of each influence.

RISK MANAGEMENT

- We regard risks related to climate change as one of our key risks, and our Sustainability Committee identifies and assesses risks and opportunities to discusses and examines countermeasures and preventive actions. The Sustainability Committee reports particularly important agenda items to the Board of Directors.

- The importance of identified risks is determined based on their impact and frequency of occurrence, and countermeasures are considered and implemented for critical risks.

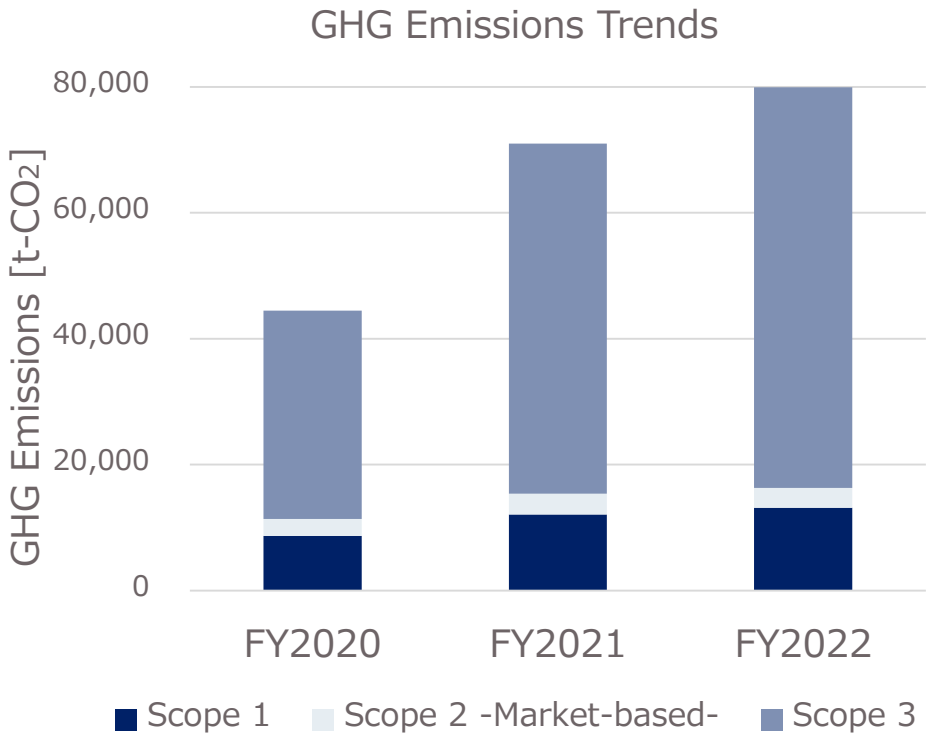


INDICATORS AND TARGETS -CALCULATION OF GHG EMISSIONS

We have calculated our GHG emissions from FY 2020 to FY 2022 in accordance with the GHG Protocol approach.

Emissions by Scope	FY2020 [t-CO_2]	FY2021 [t-CO_2]	FY2022 [t-CO_2]
Scope 1	8,699	12,105	13,125
Scope 2 Market-based	2,663	3,265	3,173
Scope 2 Location-based	2,615	3,128	3,040
Scope 3	33,111	55,626	63,625
Total Market-based	44,473	70,996	79,923
Total Location-based	44,425	70,859	79,790

Scope3 Emissions by Category	FY2020		FY2021		FY2022	
	Amount [t-CO_2]	Composition rate [%]	Amount [t-CO_2]	Composition rate [%]	Amount [t-CO_2]	Composition rate [%]
Category 1	22,763	69	37,273	67	41,005	64
Category 2	279	1	2,009	4	1,796	3
Category 3	2,737	8	3,744	7	4,006	6
Category 4	4,474	14	9,358	17	13,685	22
Category 5	889	3	1,227	2	1,381	2
Category 6	38	0	41	0	43	0
Category 7	100	0	106	0	109	0
Category 9	1,831	6	1,869	3	1,601	3
Total	33,111	100	55,626	100	63,625	100



Market-based: Emission factors based on electricity purchase contracts are used.

Location-based: A method that calculates emissions from secondary energy sources such as electricity using a grid average for the same grid or market.

INDICATORS AND TARGETS - TARGETS

- Based on the current situation, we have set the following goals

- GHG emission reduction targets

We have been working to reduce CO_2 emissions, and have obtained SBT for SMEs approval, with the goal of reducing our 2030 Scope 1,2 emissions by 42% from the 2021 level.
In addition, for Scope 3, we will monitor emissions and make efforts to reduce emissions.

- Water consumption reduction target

We have set a goal of reducing water consumption per unit of production by 20% by 2025 compared to 2020.

	FY2020	FY2021	FY2022
Water Consumption[t/yard] <FY2020=100.0>	100.0	88.9	79.2

- Waste-related targets

Our goal is to maintain the ratio of nonconforming sales or returned products generated during the manufacturing to sales process to production at 3% or less.

	FY2020	FY2021	FY2022
Waste Rate [%]	3.15	2.33	3.46