Table of alignment with the TCFD framework

Climate at the centre: uncovering risks and opportunities

Among the strategic priorities set out in Tendam's Strategic Sustainability Plan 2022-2025 is the dissemination of climate-related information. Along this line, we are working on bringing our climate change management and disclosure structure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as well as with other frameworks in this area.

The actions carried out by Tendam around the four main aspects that make up the TCFD framework are presented below: governance, strategy, risk management and metrics and objectives.

Governance

Disclose the organisation's governance of climate-related risks and opportunities.

Strategy

Disclose the current and potential impact of climate-related risks and opportunities on business, strategy and planning financial information of the organisation where such information is material.

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks

Metrics and targets

Disclose metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Progress in aligning with TCFD recommendations

Gobernanza

The Board is made up of three delegated committees: the Audit and Risk Committee, the Appointments and Remuneration Committee and the new Sustainability Committee, which is responsible for climate change issues.

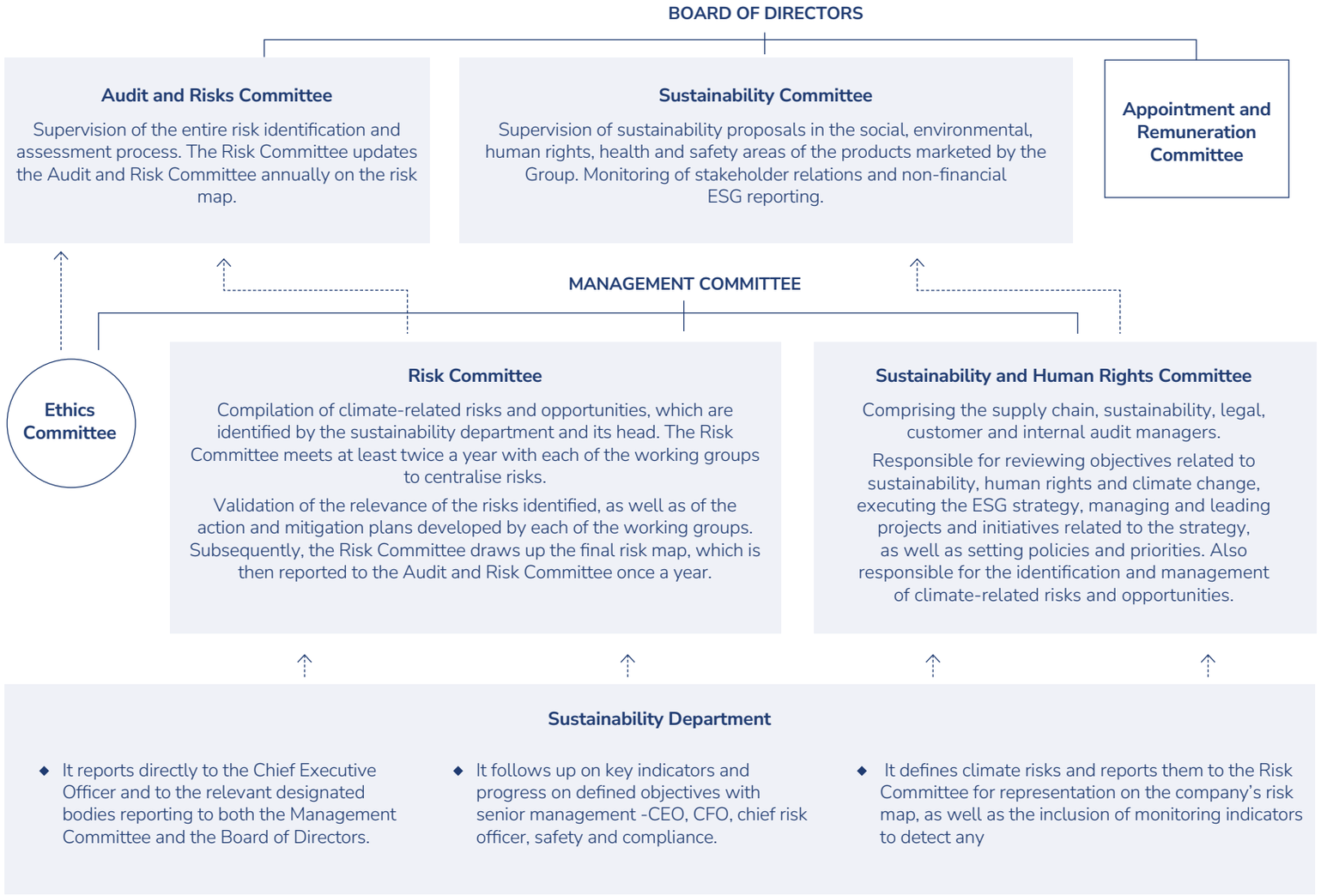
The Audit and Risk Committee is responsible for overseeing the entire risk management process, including climate-related risks. The Audit and Risk Committee meets four times a year and is briefed once a year by the Risk Committee to update the risk map.

The CEO and chairman actively oversees sustainability performance through direct communication with the head of the area, as well as the Sustainability and Human Rights Committee. He also oversees related risks, including climate risks, as head of the Risk Committee.

In turn, the head of sustainability reports on climate-related issues to the Sustainability Committee at least once a year. The Sustainability Committee meets at least twice a year and, among its functions, oversees the implementation and fulfilment of the objectives set out in the ESG Strategy and proposes changes and updates as necessary.

In addition, a new Sustainability and Human Rights Committee has been set up within the Management Committee to deal with climate-related issues. This Committee is responsible, inter alia, for the follow-up and monitoring of the 2022-2025 Strategic Plan.

The Sustainability department and its head are responsible for detecting climate change risks within the universe of risks identified by the Risk Committee and other working groups within the company.



Strategy

Global warming caused by the increase in GHG emissions in recent decades poses major medium- and long-term challenges for Tendam's business model. Due to the complexity of the risks that climate can cause in different areas of the value chain, it is very difficult to know the exposure and impacts that Tendam could experience. In this context, in 2022, Tendam conducted a study for the identification, assessment and quantification of risks and opportunities related to climate change.

Our study was based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) framework in order to address the following points:

Climate forecast in 2030 and 2040

Tendam selected three horizons, 2025 as the short term, 2030 as the medium term and 2040 as the long term. Our study found that the physical hazard impacts of climate change (e.g. floods, droughts, extreme heat, etc.) are most noticeable in the medium to long term, when higher levels of GHG emissions have occurred and lead to changes in weather patterns. On the other hand, transition risk impacts tend to be more pronounced in the short and medium term, while uncertainty levels increase considerably in the longer term.

Differences between an intermediate and a high emissions scenario

Como el futuro es incierto, el uso de escenarios es As the future is uncertain, the use of scenarios is an important and useful tool for understanding the strategic implications of climate-related risks and opportunities. The scenarios are not market forecasts, rather they represent different plausible futures. Tendam selected two physical risk scenarios (RCP 4.5, RCP 8.5) with the objective of analysing the scenario more aligned with current trends in the trajectory of actual emissions and the current rate of warming (RCP 8.5) and a scenario more aligned with the Paris Agreement and involving the implementation of emissions management and mitigation policies (RCP 4.5).

The physical hazards that were analysed in depth were extreme heat, river and coastal flooding, water stress and drought, fires and cyclones. For each of the climate risks, different climate variables, provided by the IPCC and other sources, were used. These variables were analysed for both the current situation and its projection in the selected scenarios. The result was a matrix of probability of occurrence and risk intensity.

Differences between the STEPS scenario and the SDS scenario

For transition risks, Tendam relies on two scenarios provided by the IEA. These are the STEPS (Stated Policy Scenario), as a starting point, and the SDS (Sustainable Development Scenario), to analyse the changes towards a low-carbon scenario. Transition risks discussed in depth were carbon mechanisms, stricter environmental and climate regulation, changes in consumer preferences towards more sustainable clothing, diversification of raw materials and use of low-carbon materials, and use of energy from renewable or low-carbon sources.

The following is a list of climate risks[11] and opportunities[12] identified through this analysis, as well as the associated impact and mitigation measures.

[11]. These risks are not yet integrated in Tendam's risk map, but are included or considered within a generic risk category called "Strategic risks".

[12]. Climate risks and opportunities are coded as follows: operational compliance (R/O-CO), market and technology (R/O-MT), brand and reputation (R/O-BR) and physical impacts (R-P).

Transition risks

Transition risks	Description	Impact	Time horizon	Description of the financial impact
Carbon mechanisms	New carbon mechanisms and taxes could in the future affect imports of goods and may increase the price of energy and fuel supply.	Medium	Short term	◆ Direct or indirect cost increases due to new taxes on imports of goods or energy.
Stricter environmental and climate regulation	On waste and plastics, the new Waste and Contaminated Land Act for a Circular Economy will increase taxes or extended liability. This law will include a Green Tax on single-use plastics (€0.45/kg) and may have an impact on packaging costs. Laws that may affect the sale of specific apparel and products in a country.	High	Short term	◆ Reduced revenue because certain legislation may prevent a garment from entering the market. Partial cessation of activity in a country. ◆ Increased direct or indirect costs due to tax payments
Product regulation and labelling	Regulations on traceability, end-of-use and eco-labelling that may affect apparel. The European Commission is analysing a possible Digital Product Passport for sectors with a potential for circularity.	Medium	Short term	◆ Increased direct or indirect costs due to changes in product composition and management throughout the product life cycle.
Supply disruption due to climate change	Partial disruption of the supply chain due to climate change.	Low	Medium term	◆ Reduced revenue due to supply interruption. ◆ Impact on stocks and sales. ◆ Impact on stock availability.
Price increases due to availability of raw materials	This risk is a consequence of all the indirect risks that can occur at the origin of raw materials, etc. (extreme heat, water stress). Tendam considers this risk low due to the diversification of suppliers.	Low	Long term	◆ Increased raw material costs. ◆ Impact on stocks and sales. ◆ Impact on stock availability.
Changing customer and investor expectations on transparency and more sustainable models	Tendam's reputation may be affected by the increased demands in reporting to different stakeholders (e.g. Corporate Sustainability Due Diligence Directive (CDP).	Medium	Short term	◆ Increased disclosure compliance costs.

Physical risks

Physical risks	Description	Impact	Time horizon	Description of the financial impact
Increased temperatures. Increased energy demand in stores	Increased energy demand in stores and logistics centres as a result of extreme heat.	Medium	Medium term Long term	◆ Increased direct operational costs due to increased energy demand.
Floods. Damage to own facilities.	Increased flooding can lead to physical damage to facilities and partial paralysis of supply (i.e. logistics centres). Currently, only the Hong Kong logistics centre is exposed to this risk.	Low	Medium term Long term	◆ Reduced revenues or increased costs due to damage and temporary closure of certain strategic locations. ◆ Impact on stock availability. ◆ Impact on sales. ◆ Increased health and safety costs
Extreme weather events (cyclones). Damage to own facilities.	Extreme weather events such as cyclones, storms, etc. can disrupt supply activities (i.e. logistics centres). Mexico's logistics hub is exposed to this risk.	Low	Medium term Long term	◆ Reduced revenues or increased costs due to damage and temporary closure of certain strategic locations. ◆ Impact on stock availability. ◆ Impact on sales. ◆ Increased health and safety costs.
Extreme weather events	Cyclones pose a high risk to the supplier located in Bangladesh and the cotton crops in India and Pakistan.	—	Medium term Long term	◆ Indirect cost increase due to change of alternative supplier ◆ Reduced revenue due to delays in receipt of goods
Rising temperatures	Rising commodity prices due to rising temperatures are currently a low risk for Tendam's management. All cotton crop and supplier locations currently offer a high risk of extreme heat.	Low	Medium term Long term	◆ Indirect cost increase due to change of alternative supplier ◆ Reduced revenue due to delays in receipt of goods
Water stress	Rising commodity prices due to increased water stress is currently a low risk for Tendam's management. All cotton growing locations currently offer a high risk of water stress	Low	Medium term Long term	◆ Indirect cost increase due to change of alternative supplier ◆ Reduced revenue due to delays in receipt of goods
Floods	Supplier locations in China and Bangladesh offer a high risk of flooding.	—	Medium term Long term	◆ Indirect cost increase due to change of alternative supplier ◆ Reduced revenue due to delays in receipt of goods

Opportunities arising from climate change

Transition opportunities	Description	Impact	Time horizon	Impact
Shifts in consumer preferences towards more sustainable apparel	The shift in consumer behaviour and preferences towards more sustainable apparel offers Tendam an opportunity to position itself against its competitors.	Medium	Short term Medium term	◆ Increased revenues due to better positioning of Tendam's products compared to competitors.
Diversification of raw materials and use of low carbon materials	Tendam is aware of the great opportunity to use more sustainable raw materials.	High	Short term	◆ Increased revenues due to better positioning of Tendam's products compared tobcompetitors. ◆ Reduction of indirect costs due to carbon emission reductions.
More efficient production and distribution processes	Tendam sees more efficient energy use in its stores and offices as an opportunity to reduce direct electricity costs.	Low	Short term	◆ Direct cost reductions due to more efficient energy use
Use of energy from renewable or low-carbon sources	Tendam sees this as one of the best opportunities to reduce indirect emissions.	High	Short term Medium term	◆ Reduction of indirect costs due to lower carbon emissions. ◆ Reduction of costs associated with the increase in the price of fossil fuels. Reducing their dependency.
Incentives and financial support	Incentives and economic support for the textile sector such as the PERTE Circular Economy - investment aid. Circularity investment programmes. Incentives for renewable or low-carbon energy	Bajo	Short term	◆ Reduction of direct or indirect operational costs through investment support for circular economy or renewable projects.
Changing customer and investor expectations on transparency and more sustainable models	Tendam's reputation can benefit from the good response to the reporting requirements of different stakeholders (e.g. Corporate Sustainability Due Diligence Directive (CDP).	Medium	Short term	◆ Increased investment

One of the main risks facing the organisation in the short term is the regulatory tsunami in the area of sustainability - among others, legislation linked to circularity, eco-design or human rights due diligence. In this context, climate change is a cross-cutting aspect of numerous initiatives within Tendam's ESG Plan. Thus, several actions have been defined with funding to achieve the objectives defined in this regard in the short-medium term, such as defining an internal carbon price, defining a system of incentives linked to climate indicators or extending the calculation of Scope 3 emissions to new categories.

The company defined a Climate Roadmap that has been integrated into the 2022- 2025 ESG Plan, which can be consulted in detail in the section Combatting climate change in Chapter 5, We are the Planet.

Risk management

As indicated above, Tendam's Risk Committee meets at least twice a year to monitor the risks identified by them and validate action plans. Identified risks are assessed and prioritised based on their impact, likelihood of occurrence and exposure. The risk map, including climate risks, is drawn up and regularly reported to the Audit and Risk Committee. Action measures to mitigate, transfer or control risks are defined by each of the working groups and then validated during Risk Committee meetings.

The climate risk and opportunity identification, assessment and quantification study developed by Tendam in 2022 is integrated into Tendam's existing risk management system.

Metrics and Targets

Tendam has carried out a preliminary identification and mapping exercise of appropriate indicators for monitoring and managing its climate risks and opportunities. Indicators identified include scope 1, 2 and 3 GHG emissions, renewable energy use, waste management and product with sustainable characteristics.

The indicators and metrics used are described in more detail in Chapter 5. We are the Planet.

We have ambitious emission reduction targets approved by the Science Based Target Initiative (SBTi):

- 46.2% reduction in Scope 1 and 2 GHG emissions in FY 2030 compared to FY 2019
- 62% reduction in GHG emissions per €M of Scope 3 turnover in FY 2030 compared to FY 2019
- 100% renewable energy consumption by 2030

Moving towards climate neutrality

The company has implemented emissions reduction initiatives that have enabled us to achieve a 74% reduction in Scope 1 and 2 emissions since 2019. The various initiatives are described in the section Our progress in combating climate change in Chapter 5. We are the Planet.

For the methodology used to calculate greenhouse gas emissions, see the Greenhouse gas emissions section of Chapter 5. We are the Planet.

In addition, Tendam is in the process of developing a new remuneration system subject to climate-related metrics. This system - defined as a line of action to be addressed included in the ESG Plan 2022-2025 - would imply that a small part of the Management Committee's variable remuneration (around 10%) is linked to a scope 1, 2 and 3 emission reduction target[13]. These targets will then be transferred to the first circle of managers as more specific objectives depending on the activity of each group.

[13] Scope 1, 2 and some of the Scope 3 categories of emissions for recent years are calculated and disclosed in the Sustainability Report. These calculations have an associated history (2019, 2020 and 2021) calculated on the basis of the GHG Protocol.