

# Risk Management

## Risk Management

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### Our Basic Approach and Strategy

The Unicharm Ideals state that “we contribute to creating a better quality of life for everyone by offering only the finest products and services to the market and customers, both at home in Japan and abroad.” The basis of our business activities is to fulfill our responsibility to society by constantly striving to create new value for our stakeholders. For that reason, gaining an appropriate understanding of the various risks that could affect our business activities and the realization of these objectives, and preventing or minimizing the impact of such risks when they occur, are positioned as important management issues. In view of this, the Company has established a Groupwide risk management system, which is being operated while continuously reviewing and improving risk management. At the same time as overseeing the code of conduct and code of ethics, the Board of Directors analyzes and evaluates major risks that are reported by each unit leader, in order to deliberate and decide on improvement measures. Audit & Supervisory Committee members fulfill their roles by implementing various audits during their statutory term of office.

In addition, the ESG Committee has defined 12 business risks that could impact the Company and is now discussing these risks and implementing appropriate responses. Urgent risks that do not fall under these 12 business risks are discussed and addressed by the ESG Committee promptly. Moreover, in the event of a major crisis, the Crisis Management Response Committee will convene and strive to respond quickly and appropriately toward a prompt recovery based on the Groupwide Crisis Communication Manual, which serves as internal rules for crisis management.

The 12 business risks that could impact the Company are significant risks that could impair the Company’s financial standing and management results. Thanks to the effects of various response measures, at present, these risks have not emerged to a degree where they would have serious impacts on management. In addition, the timing and extent to which these risks could emerge in the future are unknown. Furthermore, there are risks other than those mentioned above. Risks that could impact the Company in the future are not necessarily restricted to those matters appearing here.

### Basic Policy

- Clarify roles and responsibilities related to risk management.
- Give due consideration to possible risks during the decision-making process.
- Establish a system for implementing Groupwide countermeasures against important risks facing management.
- Develop organizations, systems, and plans related to crisis response.
- Conduct audits of the risk management process.

### Business Risks

Risks	Details of Risks and Impacts on the Company	The Company's Main Response
Intense competition in the sales environment	Competition for the Company's main products could become even more severe in Japanese and overseas markets in terms of price and product line depending on the economic and market environments. Given their consumer-oriented purpose, the Company's main products are always exposed to severe price competition, and competitors also regularly release new products. The selling environment is also influenced by changes in the consumption behavior of customers and the response of competitors regardless of the Company's efforts to lower manufacturing costs, cut overheads, or enhance marketing. If the Company is unable to respond appropriately to the selling environment, its sales and profits could be adversely impacted.	The Company strives to thoroughly research the living conditions and consumption situations of individual countries and regions, develop products tailored to local cultures and living environments, and provide products that are not susceptible to economic impact. The Company seeks to increase earnings in a stable manner by using this research and market analysis methodology to expand its area, country, and region of coverage. In addition, in terms of production, the Company is reducing costs by lowering procurement costs and improving production efficiency. In terms of sales and marketing, it strives to increase buyers of its products including through the use of online channels. The Company endeavors to maintain and improve competitiveness and reinforce its marketing capabilities by proposing to retailers how to purchase and sell products with a customer-oriented perspective using digital technology. Furthermore, the Company is working to decentralize its authority and delegate responsibilities to its overseas subsidiaries, creating a system where it can respond swiftly to changes in the consumption behavior of customers.

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Changes in population structure	In Japan, the number of births will continue to decline over a long period of time and the population of infants and menstruating women will decline, too. In addition, a similar trend is seen in some countries and regions overseas where the Company engages in business. Through these changes in population dynamics, there is a possibility that demand for baby care and childcare products and feminine hygiene products, the core businesses of the Company, could decline in these countries and regions. Furthermore, the Company believes it must continue to strive to secure and develop the talented human resources required for the execution of business. Meanwhile, the difficulty of securing human resources is increasing as a result of the declining birthrate and aging population. If it cannot secure or develop human resources as planned, the Company's business activities could be impacted.	Under its mission of contributing to the realization of a cohesive society—an affluent society where all people live equally and freely, respect one another's humanity, and are kind to one another and emotionally connected—the Company aims for business activities that are less susceptible to the impacts of population dynamics. It achieves this by using well-balanced business development of its products and services in every country and region of the world, contributing to the satisfaction found in the enjoyment of life, where all consumers, from infants to seniors, and partner animals (pets) are liberated from various burdens, thereby supporting people to live independently and as they see fit through mutual aid. Additionally, the Company uses product strategies based on the market growth stage in an effort to maintain and increase demand even with a declining target population, by diversifying its lineup and communicating the value of products.  As one way to counter the declining working population, the Company is promoting the creation of workplace environments where diverse human resources, regardless of nationality, gender, age, or disability, can use their strengths to achieve a sense of purpose by playing an active role. Specifically, the Company provides opportunities for growth by creating a development plan based on individual career visions and career plans, allocating the right people to the right position, conducting quarterly evaluations, and offering rank-based training, with the aim of producing human resources who can identify and resolve issues on their own. To encourage employees to determine their own work-styles and sense of purpose, the Company has introduced working from home, eliminated core hours, and increased the options to select where and when to work to achieve flexible work-styles that elevate creativity and productivity. Furthermore, the Company is actively working to engage senior citizens and to promote the empowerment of women.
Overseas business	The Company manufactures products in China, Indonesia, Thailand, India, the Middle East, and Brazil, among other countries. Business development overseas could involve considerable impacts on raw materials prices and equipment costs caused by fluctuations in exchange rates. There is also a possibility that major changes in markets could impact the Company's business activities or the value of its assets depending on the regulations, economic environment, and social and political conditions of each country and region. In addition, the balance sheets of overseas consolidated subsidiaries denominated in the currency of their respective country or region are converted to Japanese yen when preparing the consolidated financial statements. As a result, yen appreciation will have a negative impact on the Company's financial situation and management results.	In terms of international trading, the Company is working to secure stable export and import transactions and earnings by choosing shipment locations according to the situation, from the perspective of manufacturing base utilization and exchange rate-related profitability. In response to fluctuations in exchange rates, the Company strives to minimize risks by using hedging based on a comprehensive review of foreign currency transactions including raw materials procurement along with outstanding credits and liabilities. Also, to contribute to stable shareholder returns and the flow of internal funds, the Company actively uses dividends from overseas consolidated subsidiaries that have cash in excess of planned investments and is building a mechanism to curtail negative impacts on overseas assets when the yen is strong.
Raw materials price volatility	As a manufacturer, the Company directly faces the risk of fluctuations in the prices of raw materials. The Company purchases raw materials across borders from many different suppliers. In particular, raw materials such as pulp are procured from overseas suppliers typically using U.S. dollar transactions. Depending on exchange rate volatility, the cost of raw materials could increase significantly. Also, fluctuations in market prices for commodities such as oil, naphtha, and pulp, among others, could impact the prices of raw materials.	The Company analyzes trends in the prices of major raw materials, forecasts future prices, uses adjustment of purchasing, and regularly revises its cost projections to manage earnings. It also strives to purchase raw materials in a stable manner using a comprehensive perspective by continuously engaging suppliers locally and in countries with preferential tariffs to prepare for unforeseen situations that block imports and for curtailing the risk of fluctuations in import prices attributed to exchange rates. In addition, the Company prepares for large increases in raw materials expenses due to exchange rates using the foreign exchange hedging mentioned above in "Overseas business." It also conducts research to reduce the quantities of raw materials used and increase their functionality.
Environmental issues	Environmental issues are growing at a global level, including concerns about the depletion of resources, marine pollution caused by plastics, and the destruction of ecosystems. As a result, initiatives to conserve the environment and reduce environmental impact are underway around the world. For the Company, which manufactures disposable products such as disposable diapers and feminine hygiene products, manufacturing that is considerate of the environment is a critical issue that cannot be neglected. In addition, the Company strives to comply with environmental laws and regulations in Japan and overseas. If, however, the Company's management of waste is inappropriate and violates laws and regulations, it could face legal sanctions such as production restrictions and its social trust could be impacted.	As part of its recycling-oriented business model, the Company has implemented recycling projects for used disposable diapers since 2015. It has also successfully recycled pulp and super absorbent polymers (SAPs) as well as conducting demonstration tests on disposable diapers made from recycled pulp. Furthermore, it has set numerical targets for the environmental issues identified in Environmental Targets 2030 and the "Safeguarding the well-being of our planet" theme, a key initiative of Kyo-sei Life Vision 2030, announced in October 2020. The Company is formulating and implementing specific initiatives for achieving these objectives. In addition, it is stepping up efforts to facilitate environmental activities by establishing the Basic Environmental Policy as a part of the Unicharm Group Charter of Actions, and having all employees read them through together. The Company is now working to foster compliance with environmental laws and regulations by increasing employees' awareness of the environment.
Climate change	The severity of impact caused by climate change continues to increase every year. The Paris Agreement represents an agreement to rein in increases in the worldwide average temperature, and, at the 26th Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) held in November 2021, 1.5°C was set as the target for limiting global warming. The Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Services Board (FSB) has issued recommendations encouraging companies to disclose climate-related financial information. The need for information disclosure in Japan continues to increase as the shift to the Prime Market of the Tokyo Stock Exchange will call for disclosures that are in line with the recommendations of the TCFD. If mitigation and adaptive measures against climate change such as reining in worldwide average temperature increases are not taken, we foresee such impacts as soaring prices of forest-derived raw materials, one of the main raw materials used in the Company's products, and major fluctuations in energy prices while significant consequences may be in store for Asia, a region of priority for Unicharm. In addition, should the Company's initiatives to reduce CO <sub>2</sub> in order to curb temperature increases and its relevant disclosures prove to be inadequate, the Company's social trust could decline as a result.	To contribute to the Paris Agreement's 2°C scenario, in June 2018 the Company received certification for its carbon reduction plan up to 2045 from the Science Based Targets initiative (SBTi). Also, it has stated its endorsement of the TCFD's recommendations and is now reporting information following this framework.  With the aim of realizing a "zero-carbon society in 2050," the president & CEO is taking the lead in target setting and progress management and the Company aims for 100% of the electricity used to power its operations to come from renewable sources, as indicated in Kyo-sei Life Vision 2030, through the efforts of all employees. It is actively encouraging all stakeholders involved in the supply chain to ensure that emissions are reined in across the entire product life cycle.

Risks	Details of Risks and Impacts on the Company	The Company's Main Response
Product reliability	As a manufacturer and seller of consumer products, the Company has not experienced the payment of large sums of compensation impacting management related to product quality or safety since it was founded. Nevertheless, if a serious problem involving quality or safety were to occur that could not be foreseen during the manufacture or sale of the products, the reliability of its products could decline greatly.	As many of our products come into direct contact with people's skin, we strive toward proper labeling for conveying correct information and improving product quality and safety so as to provide peace of mind to consumers. Also, products are checked for both quality and safety during all processes, from the procurement of raw materials through to development, manufacturing, distribution, sales, and disposal after use, based not only on compliance with relevant laws and regulations but also our own in-house strict standards. If a complaint is made regarding one of its products, the Company has a system in place to swiftly identify the cause and address the matter to prevent a decline in the product's reliability, regardless of how big or small the complaint may be.
Legal compliance violations	If the Company or its employees violate laws or regulations in Japan or overseas—such as the Antimonopoly Act, the Unfair Competition Prevention Act, or tax laws—and, for example, they are subject to formal sanctions for making unreasonable demands during a transaction or engaging in bribery to facilitate or expedite official procedures, the Company's performance or social trust could be impacted.	The Unicharm Group Charter of Actions contains the laws and regulations pertaining to the actions that should be taken into consideration by employees to fulfill the Company's pledge to all stakeholders as a way to improve awareness of compliance including anti-corruption. The Company also conducts monitoring every year using an employee survey. An array of initiatives are also being carried out with the purpose of raising awareness about legal compliance and preventing the occurrence of compliance violations. These include training programs for new employees and employees assigned to work overseas based on a curriculum that covers compliance themes, compliance workshops tailored to directors and executive officers, and e-learning programs aimed at all employees featuring seminars on compliance-related topics. In this manner, the Company thoroughly promotes compliance with laws and regulations.
Intellectual property including patents and trademarks	If the Company's intellectual property rights are infringed upon in some way or another by a third party, the Company could incur large damage such as a loss of expected earnings. In contrast, if the Company unknowingly infringes upon the intellectual property rights of a third party, it may be forced to pay a large sum of damages or have its business activities restricted.	The Company takes a resolute stance including litigation in response to infringement of its intellectual property rights by third parties or unfair exercising of these rights. It will use close collaboration internally and coordination with the government of each country to stop products that violate its intellectual property rights and counterfeits. At the same time, it combines off-the-job training, on-the-job training, and e-learning in internal compliance training on patents, trademarks, and the Act against Unjustifiable Premiums and Misleading Representations to ensure the safeguarding and protection of intellectual properties of the Company and other parties.
Disasters and accidents	In order to minimize losses due to interruptions to manufacturing or sales caused by a major earthquake, large-scale natural disaster, fire, or accident, the Company has established a system that enables collaboration between manufacturing and distribution points and the swift restoration of IT systems and management functions pursuant to its business continuity plan (BCP). Following a fire at a Company factory in India in June 2020, the BCP functioned to swiftly establish a supply system not only from other factories in India but also factories in other countries, making it possible to minimize any downturn in sales due to the fire. The Company could, however, experience problems in sustaining manufacturing, securing raw materials, and providing a stable supply of products due to the occurrence of a disaster or accident that exceeds its predictions.	The BCP comprises: (1) basic requirements, (2) ensurance and confirmation of the safety of employees and their families, (3) specific measures for sustaining operations, (4) important matters to address together with business continuity, and (5) measures required to implement the BCP. Training exercises for (5) include evacuation drills using the example of an emergency situation based on various scenarios and are conducted regularly. In addition, in Japan, the Kyushu Factory was constructed and put into operation in 2019 in order to disperse risk and to be used as a substitute base.
Acquisitions, partnerships, business consolidation, etc.	The Company strives to pursue the maximization of corporate value, believing that it must always administer management resources efficiently. In the future, within this process, it could consider acquisitions of other businesses, investments in our partnerships with other companies, mergers and the elimination of businesses, and streamlining and spin-offs. After execution, however, market changes could occur or the results of these measures could fall below expectations, potentially causing losses due to falling prices of risk assets such as goodwill.	When considering acquisitions, partnerships, and business consolidation, the Company decides through the Board of Directors after fully confirming with relevant departments that the possibility of the impairment of goodwill and other fixed assets that are recorded is marginal, based on the gathering of sufficient information and the careful planning of future investment recovery plans. After execution, for target companies that fall short of the plan following the confirmation of risks of impairment after judging the impairment outlook in a timely manner, the Company analyzes these factors and reviews the business plan as needed, in an effort to ensure the recoverability of planned profits.
Information leaks	The Company retains a large amount of information, including personal information obtained pursuant to agreements with business partners such as customers and to confidentiality agreements, not just information generated internally. If some form of information leak were to occur, the Company could be held legally responsible for information management or lose the trust of its customers.	The Company has established the Information Security Policy and Information Management Security Rules. Personal information that it obtains is managed rigorously according to the Personal Information Protection Regulations and Specified Personal Information Handling Regulations and efforts are made to prevent leakage. To ensure the rigorous implementation of regulations, the Company has established the Information Management Security Committee, which continuously implements employee training and monitoring along with information management security measures covering the entire Group. As physical countermeasures to prevent information leaks associated with the loss or theft of devices, the Company uses computers that cannot store data and a complete cloud environment where data and systems can only be used via a server. As countermeasures against external cyberattacks on our websites, we work closely with external experts to implement various security measures, including building the most appropriate servers, preventing phishing and viruses, ensuring proper password and ID management, and installing and monitoring by means of security devices. In addition, we have included information in the Groupwide Crisis Communication Manual to ensure that we respond promptly to identify a situation and minimize impacts during an incident, such as an information leak.

For the management of these risks, Unicharm uses ISO standards as a framework to recognize quality and environmental risks as important business risks to a manufacturer. In addition, individual management is conducted for risks including business continuity at the time of disasters.

#### ► Primary Reference Frameworks

- COSO, ISO 9001, ISO 14001, ISO 10002, ISO 13485, ISO 14971

## Management Structure

The ESG Committee is a cross-functional organization that considers sharing risk management issues and measures to be one of the important themes that needs to be addressed. The themes deliberated by the ESG Committee and their results are reported to the Board of Directors by the head of the ESG Division, while supervision of risk management is implemented by directors and members of the Audit & Supervisory Committee. In addition, the Unicharm Group Charter of Actions has been established as a guideline for employees in recognition of major issues, including the prohibition of insider trading, compliance with antitrust laws, the elimination of child labor and forced labor, and the protection of personal information. In order to respond comprehensively to risks of corruption that have a high probability of occurring in society, including insider trading and bribery, efforts are being made to better educate the employees in our countries and regions of operation on compliance by means of training programs held prior to being posted overseas and e-learning programs. Moreover, Unicharm provides employees with cautionary information on insider trading via the Company intranet and conducts internal audits as measures to prevent corruption.

Audit results are reported to the president & CEO and the full-time Audit & Supervisory Committee members, and regular reports are made to the Audit & Supervisory Committee to verify the effectiveness of the audits.

P.010 ESG Promotion Structure

## Serious Crises

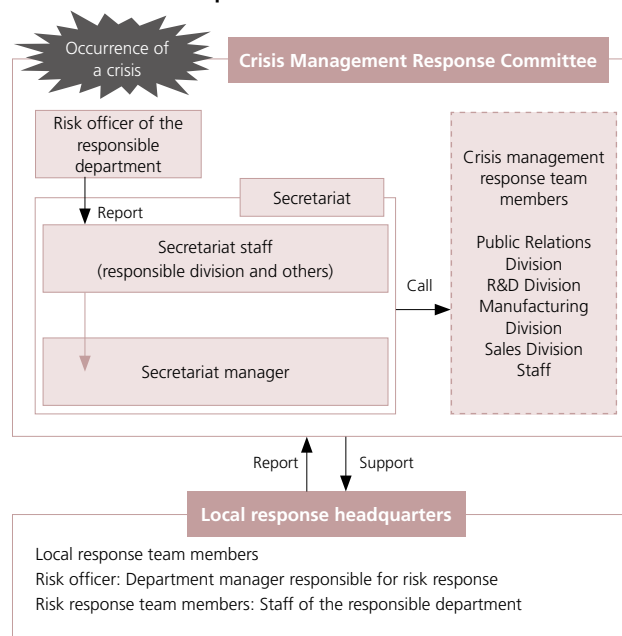
- ① Quality
- ② Environment
- ③ Representation
- ④ Occupational safety
- ⑤ Human rights
- ⑥ Supplier-/vendor-related
- ⑦ Senior management-/ executive-related
- ⑧ Disasters
- ⑨ Informational accidents
- ⑩ Reputational damage
- ⑪ Pandemics
- ⑫ Disputes/political changes

## Response to Business Risks

If a major crisis occurs, the Crisis Management Response Committee will convene and endeavor to respond quickly and appropriately to achieve a prompt recovery based on the Groupwide Crisis Communication Manual, which was established as internal rules for crisis management.

An emergency in which the above business risks are realized is considered a crisis and Unicharm identifies the 12 items below as serious crises. When such a crisis occurs, Unicharm fulfills its social responsibility by assessing the situation swiftly and accurately in accordance with the Groupwide Crisis Communication Manual, working to prevent further damage and communicating appropriately with stakeholders. A handy manual has been distributed to every employee for the purpose of responding promptly when an ESG risk has emerged or a crisis has occurred.

### Framework in Response to the Occurrence of a Crisis



## Initiatives and Achievements

### Rigorous Information Security

To ensure rigorous information security, Unicharm has set out information security principles and procedures such as the Information Security Policy and Information Management Security Rules. We also have the Personal Information Protection Regulations and Specified Personal Information Handling Regulations in place to safeguard our customers' personal information, and we strictly manage this information and take precautions to prevent information leaks. To ensure these rules are strictly observed and to prevent information leaks, Unicharm has established the Information Management Security Committee. One day of each month has been earmarked as an information management day on which we highlight a different security topic to remind employees about the risks of specific information leaks. We continue to develop such measures, provide employee training, and monitor progress to improve the security of information management across the Group.

Moreover, as a physical measure to prevent information leaks in Japan through the loss or theft of devices, we have developed a cloud environment in which data and systems can only be used on a specific server and created an environment in which systems can be used anywhere, at any time, without the need to take office PCs off company premises. In 2022, Unicharm revised its regulations in accordance with the revisions to the Personal Information Protection Law and made this known to all employees, renewed the content of new employee training, and enhanced the quality and increased the frequency of targeted attack email training sessions. We also increased the frequency of our communication with overseas subsidiaries, carried out risk assessments in IT fields, and distributed quarterly information security newsletters throughout the Group.

## Business Continuity Plan

Aiming to strengthen risk management since 2005, Unicharm has formulated a business continuity plan (BCP) to help prepare for major emergencies that could occur in Japan, such as an earthquake directly underneath Tokyo or a large-scale interconnected earthquake involving the Tokai, Tonankai, and Nankai plates. As a specific example, we assumed the scenario of an earthquake with its epicenter under the Tokyo metropolitan area (with an intensity of approximately 6 Upper on the JMA Seismic Intensity Scale), which includes the head office, adjacent factories, and sales offices, and prepared impact assessments and damage assumptions, etc., while considering alternative measures and establishing organizational and backup structures to ensure the safety of employees and their families for business continuity if an actual emergency occurs. We also conduct ongoing evacuation drills assuming the occurrence of such an emergency based on this scenario.

Unicharm has established procedures to recover important operations, particularly head office functions, immediately so that its products, which are necessities for daily living, can be delivered to people in disaster-affected areas as well as to those who require them as soon as possible.

Also, we are working to further enhance workplace safety through various initiatives. Specifically, we conduct e-learning sessions for all employees to raise awareness and encourage proactive responses and distribute a disaster response pocket manual for immediate reference during an emergency to all employees. We have put systems in place that allow us to contact employees using smartphones, which they must carry at all times, to help us confirm their safety and maintain business continuity during emergencies.

In addition, we conduct disaster training drills at each business site, hold basic survival courses, and provide training that is tailored to the function of each division, as well as carry out first-response drills with an emphasis on confirming employee safety and the capabilities of the disaster response headquarters, including monitoring the safety of all Unicharm employees in Japan.

In 2020, we launched the COVID-19 Crisis Management Team in response to the spread of COVID-19, as well as compiled and implemented the COVID-19 Response Guidelines to ensure each employee would take appropriate measures. Going forward, we will develop systems for responding to all incidents that can be assumed by strengthening risk countermeasures on a global level that incorporate risks such as riots or terrorism overseas.

### ► Overview of the BCP

- (1) Basic requirements
  - Basic policy • Assumed risks • Impact assessment
  - Assumed damage • Main elements
- (2) Confirmation of safety and well-being of employees and their family members
  - Ensuring the safety of lives
- (3) Specific measures for business continuity
  - Organizational and command structures
  - Securing of important bases
  - External information dissemination and information sharing
  - Backup • Provision of products and services
- (4) Important items that should be responded to along with business continuity
  - Cooperation with and contribution to the community
- (5) Measures necessary for implementing the BCP
  - Education and training
  - Inspections, corrective actions, and reviews

### Ensuring Business Continuity through the Securing of Important Bases (Japan)

In 2019, we began operation of the Kyushu Factory and have since conducted BCP measures to diversify domestic supply risk and ensure the continuity of this business. If production facilities were to shut down in the event of a Nankai Trough mega earthquake, which would likely cause significant damage to the western Honshu and Chubu regions, the Kyushu Factory would function as an emergency location, particularly given that our main production facilities in Japan are located in Fukushima, Shizuoka, and Shikoku prefectures,

areas at risk of suffering serious damage from a disaster of this magnitude. In this way, we have put in place a highly dependable supply system.



Kyushu Factory

### Risk Management Information Webpage

In 2017, we added the Risk Management Information webpage to the Company intranet to provide information on potential risks that may impact the lives of Unicharm employees in Japan and overseas. More specifically, the webpage provides risk-related information and a response manual on natural disasters, pandemics, occupational accidents, large-scale equipment-related accidents, kidnapping, intrusion into and damaging of Company facilities, terrorist attacks, riots, coups d'état, and civil war. In 2022, we revised the contents of the Overseas Risk Management Manual, which specifies the procedures for responding to each event, updated on a daily basis the information provided by the Ministry of Foreign Affairs of Japan and a risk management company that we have contracted, and posted cautionary information on our corporate website. These measures are a reflection of our continuous efforts to keep up with environmental changes and information concerning safety.



Risk Management Information webpage