

# 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 foundation of our business activities is to fulfill our responsibility to society by constantly striving to create new value for our stakeholders. For this reason, we recognize the importance of identifying and preventing the various risks that could affect our business activities, minimizing the impact of such risks when they occur, and taking measures to prevent their recurrence in our business operations. In view of this, the Company has established a Groupwide risk management system, which is operated while continuously reviewing and improving risk management.

While overseeing the code of conduct and code of ethics, the Board of Directors analyzes and evaluates major risks that are reported by each department, and if necessary, leads the formulation of improvement measures, which are then deliberated and decided upon. Audit & Supervisory Committee

members fulfill their roles by implementing various audits as required by laws and regulations. In addition, the ESG Committee has identified 12 risks as business risks and discusses the details of such risks and takes appropriate response as necessary. Urgent risks that do not fall under these 12 business risks are discussed and addressed promptly by the ESG Committee. Moreover, in the event of a major crisis, the Crisis Management Response Committee will convene and strive to respond quickly and appropriately toward prompt recovery based on the Groupwide Crisis Communication Manual, which outlines the Company’s internal rules for crisis management.

The 12 business risks are significant risks that could impair the Company’s financial standing and management results. However, due in part to the effectiveness of various countermeasures, these risks are not likely to have serious impact on our business operations at the present time. In addition, the timing and extent to which these risks could emerge in the future are unknown. Risks that could impact business operations in the future are not restricted to those listed below.

### 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 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 sales environment is also influenced by changes in consumer behavior and competitor response regardless of the Company’s efforts to lower manufacturing costs, cut overheads, or enhance marketing.	<p>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.</p> <p>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.</p>

Risks	Details of Risks and Impacts on the Company	The Company's Main Response
<p>Changes in population structure</p>	<p>In Japan, the birthrate will continue to decline over time along with demographics such as infants and people who menstruate. 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 and child care products and feminine care products, core businesses of the Company, could decline in these countries and regions.</p> <p>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.</p>	<p>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, contributing to the satisfaction found in the enjoyment of life, where all people from newborns to the elderly and their 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.</p> <p>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, endorsing 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.</p>
<p>Overseas business</p>	<p>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.</p>	<p>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.</p>
<p>Raw materials price volatility</p>	<p>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.</p>	<p>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.</p>
<p>Environmental issues</p>	<p>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. As a manufacturer of disposable products, such as disposable diapers and sanitary pads, the Company understands the significance of developing environmentally friendly products by complying with all environmental laws and regulations. If efforts are perceived as inadequate by stakeholders, the Company's social trust could be impacted.</p>	<p>In fiscal 2015, the Company launched a project to recycle used disposable diapers and began selling nursing care disposable diapers made from recycled pulp. In addition, it established numerical targets for the environmental issues set forth in Kyo-sei Life Vision 2030 and Environmental Targets 2030, and has formulated and implemented specific measures to achieve these objectives.</p> <p>Moreover, the Company has established the Basic Environmental Policy and Guidelines in the Unicharm Group Basic Environmental Policy, which is read by all employees in an aim to raise internal awareness, and strives to develop products and services that minimize environmental impact in all stages of the product and service design process.</p>
<p>Climate change</p>	<p>In Asia, a region of priority for the Company, the market could be significantly impacted by the introduction and increase of carbon pricing, higher operating costs due to major fluctuations in energy prices, and the expected increase in procurement costs due to soaring prices of forest-derived raw materials, one of the main raw materials used in the Company's products.</p> <p>Moreover, if efforts to reduce greenhouse gas (GHG) emissions aimed at curbing temperature increases and disclose such information prove to be inadequate, the Company's social trust could be compromised.</p>	<p>As declared in Kyo-sei Life Vision 2030, the Company aims to achieve 100% use of renewable energy for all electricity used in its business activities. It has launched the GHG Emissions Visualization Project to provide a comprehensive visualization of its GHG emissions, including Scope 3 emissions; collected primary data for GHG emissions based on the materials used, which will serve as a benchmark for improving renewable energy efficiency and energy conservation; begun making specific calculations; and is working to disclose GHG emissions by product.</p>
<p>Product reliability</p>	<p>As a manufacturer and seller of consumer products, since its founding, the Company has not experienced large-sum payment or other compensation issues impacting management related to product quality or safety. Nevertheless, if a serious unforeseen issue involving quality or safety were to occur during the manufacture or sale of a product, the reliability of the Company's products could be greatly compromised.</p>	<p>The Company strives to enhance the quality and safety of its products throughout their life cycle, from the procurement of raw materials to development, distribution, sales, and disposal after use, in compliance with not only relevant laws and regulations, but also voluntary industry standards set by industry associations of the countries and regions in which it operates, as well as its own strict standards.</p> <p>Moreover, to ensure effective communication of information, the Company endeavors to produce evidence-based advertisements and records in compliance with relevant laws and regulations. In the event of complaint regarding a product, the Company has a system in place to swiftly identify the cause and take corrective action, regardless of the significance of the complaint, thereby ensuring that the reliability of its products is not compromised.</p>

Risks	Details of Risks and Impacts on the Company	The Company's Main Response
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 sets forth 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 the prevention of unlawful acts. The Company also conducts monitoring each year via 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 against the infringement of its intellectual property rights by third parties, which includes legal action, and endeavors to eliminate unauthorized and counterfeit products by working closely in-house and cooperating with local government agencies in the countries and regions in which it operates. In addition, the Company protects and ensures respect for the intellectual property rights of Unicharm and other companies by conducting infringement prevention surveys at the product development stage and providing on-the-job training and e-learning seminars on patents, trademarks, and the Patents and Trademarks Act as a part of its in-house compliance training.
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 factory of a local subsidiary 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 downtime 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) insurance 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 fiscal 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 resource 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 impairment of goodwill and other fixed assets 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 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. Subsequently, if the Company anticipates that the planned profits are not recoverable, it recognizes impairment losses on assets in accordance with accounting standards.
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 security measures covering the entire Group. In addition, to ensure that it can swiftly identify the situation and minimize the impact of incidents, such as information leaks and cyberattacks, the Company has disseminated a correspondence policy globally based on the Information Management Security Rules and begun developing an IT business continuity plan in preparation for incidents and disasters. 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.

The Company includes product quality and the natural environment in its consideration of important business risks that occur during the course of business activities as a manufacturer, and utilizes COSO and ISO reference frameworks to appropriately respond to such issues.

Also, business continuity risks that arise in the event of a disaster are managed individually through separately established business continuity plans.

► 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 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 occurrence, including insider trading and bribery, efforts are being made to better educate the employees in our countries and regions of operation on compliance through training programs held prior to posting overseas and through 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.

P009 Sustainability Promotion System

## Serious Crises

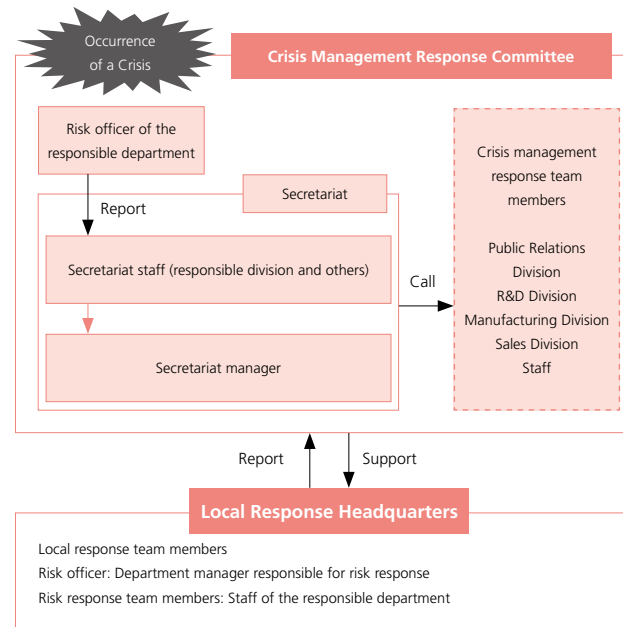
- |                               |   |
|-------------------------------|---|
| ① Quality                     | ⑦ Senior management- or executive-related |
| ② Environment                 | ⑧ Disasters                               |
| ③ Representation              | ⑨ Information accidents         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

## Response to Business Risks

In the event of a major crisis, we have a system in place whereby the Crisis Management Response Committee will convene and endeavor to respond quickly and appropriately and realize a swift recovery based on the Groupwide Crisis Communication Manual, which was established as internal rules for crisis management.

The aforementioned business risks that have actual impact on our business are defined as crises, and Unicharm identifies the 12 items below as serious crises. When a crisis occurs, Unicharm fulfills its social responsibility by assessing the situation in accordance with the Groupwide Crisis Communication Manual, working to prevent further damage and communicating appropriately with stakeholders. A handbook has been distributed to every Group employee for the purpose of ensuring awareness and swift response in the event of an ESG risk or crisis.

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



## Initiatives and Results

### 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 remove office PCs from company premises. In fiscal 2022, Unicharm revised its regulations in accordance with the revisions to the Personal Information Protection Law and made this known to all employees, renewing the content of new employee training. We also continue to increase the frequency of our communication with overseas subsidiaries, carry out risk assessments in IT fields, and distribute quarterly information security newsletters.

## Business Continuity Plan

As a part of its efforts to strengthen risk management since fiscal 2005, Unicharm has formulated a BCP to prepare for emergencies, such as an earthquake directly under the Tokyo metropolitan area or the Nankai Trough mega earthquake—a large-scale interconnected earthquake involving the Tokai, Tonankai, and Nankai plates, which is raising concerns in Japan. Specifically, we assume the scenario of an earthquake with its epicenter in the Tokyo metropolitan area (6.0 on the JMA Seismic Intensity Scale), which includes the head office, adjacent factories, and sales offices, and have prepared impact assessments and damage assumptions. In order to maintain business operations under any circumstance, under the BCP, we ensure the safety of our employees and their families while, at the same time, establishing a backup system necessary for business continuity that takes a panoramic view of the value chain, and continuously carry out evacuation drills and response simulations based on emergency scenarios. We have established procedures to recover critical operations—particularly head office functions—in order to provide the daily living necessities Unicharm manufactures to disaster-affected areas and other areas in need as quickly as possible.

In addition, we conduct e-learning seminars to enhance employee awareness of risk management and facilitate proactive responses in the event of a disaster and distribute a disaster response pocket manual that can be quickly checked in an emergency. Moreover, to confirm the safety of employees and their families as quickly as possible in the event of a disaster, we have established a system based on a smartphone app, conduct specific disaster training drills at each business site, hold basic survival courses, and carry out training drills on a by-function basis. In addition, safety confirmation drills are also conducted regularly for all Group employees in Japan, with an emphasis on initial response after a disaster, ensuring employee safety, and confirming the status of functions of the disaster response headquarters.

In preparation for the spread of COVID-19, in fiscal 2020 we introduced the COVID-19 Crisis Management Team and formulated and implemented the COVID-19 Response Guidelines to enable each employee to respond appropriately to the unprecedented impacts of the pandemic. We will continue to strengthen risk management on a global scale, including for riots and terrorist attacks overseas, and prepare for all possible situations.

## 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
  - Ensure 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 response actions 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 Securing of Important Bases (Japan)

In fiscal 2019, we began operation of the Kyushu Factory and have since conducted BCP measures to diversify our domestic supply network 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 Site

In fiscal 2017, we added the Risk Management Information Site 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 website 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 fiscal 2023, we continued to make efforts to address changes in safety conditions and keep up with and improve access to safety-related information, organizing safety confirmation procedures for overseas business travelers into an easy-to-understand four-step process and aggregating information provided by the Ministry of Foreign Affairs of Japan and by a contracted risk management company.



Risk Management Information Site