

3. 【Business Risk and Other】

In our Risk Management Basic Rules, “risk” is defined as “all factors that may hinder the achievement of the business objectives of our group”. We identify such risks, assess the likelihood of their occurrence, evaluate impact of such risks, set priorities among such risks and decide on how to address and mitigate such risks. In order to address and mitigate such risks, we implement various countermeasures designed to reduce our exposure to such risks as much as feasible, while simultaneously monitoring such countermeasures with an aim to continuously improve upon their substance and effectiveness. In addition, we engaged in risk management measures that are designed to minimize the impact of such on stakeholders including communities and society by responding promptly to any problems and/or incidents that may occur if such risks materialize.

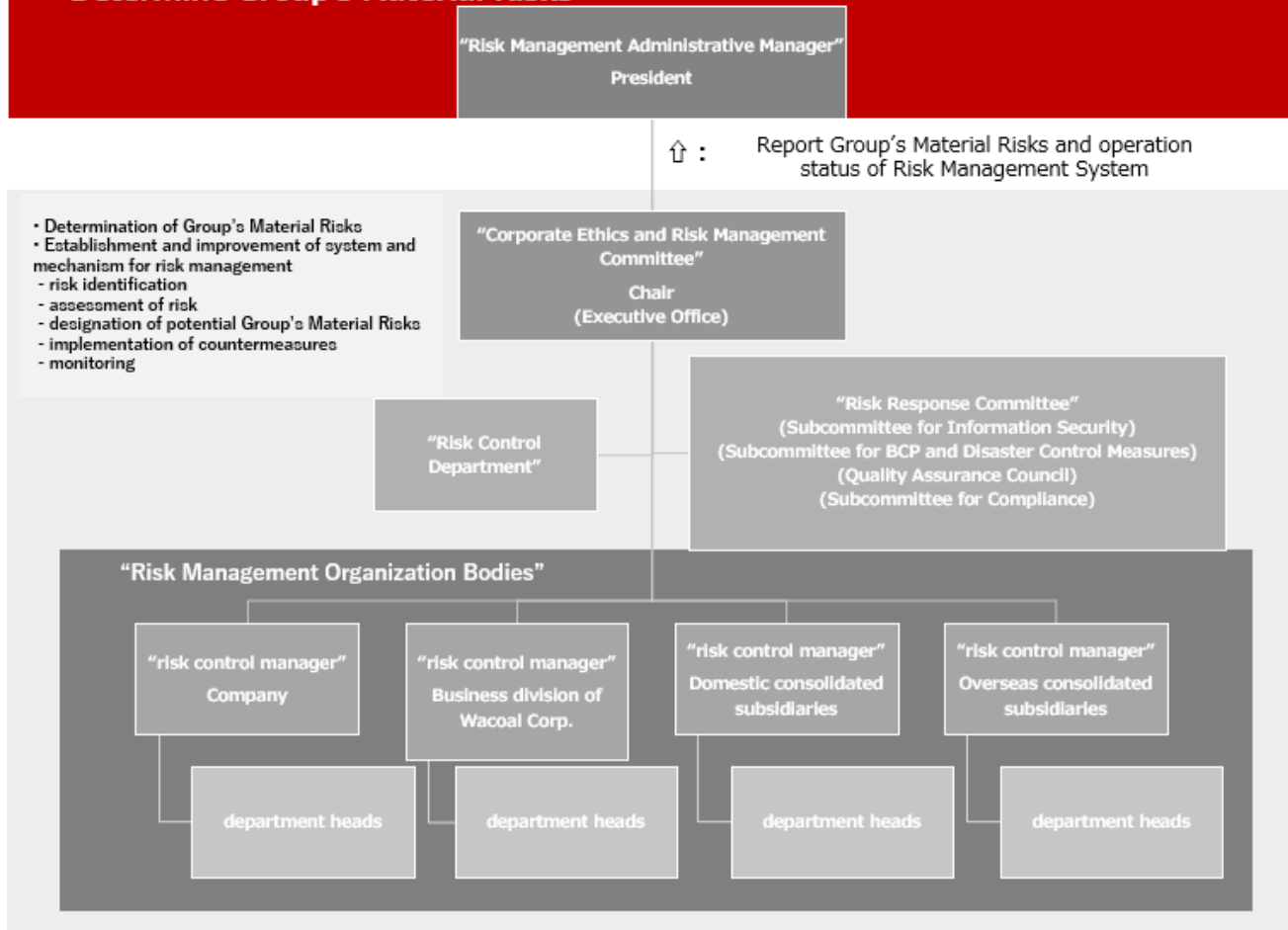
(1) Risk Management System

As shown in the diagram below, our group’s Risk Management System is headed by our Representative Director, President and CEO who acts as the risk management administrative manager, and is under direct control of our Representative Director, Vice President and Executive Officer and CFO who acts as the Chair of the Corporate Ethics and Risk Management Committee, which consists of members appointed by the Chair. In addition, the Corporate Ethics and Risk Management Committee has established various subgroups including the Risk Control Department and Subcommittee for Risk Response which formulate policies on activities and monitor important issues across the entire group, and the Risk Management Organization, which manages risks by identifying, assessing, responding and monitoring risks as determined by the Corporate Ethics and Risk Management Committee and the risk control managers of the Risk Management Organization bodies.

The Corporate Ethics and Risk Management Committee evaluates risks identified by each Risk Management Organization bodies from the perspective of their likelihood of occurrence and impact of such risks, and annually submits what we refer to as “Group’s Material Risks”, the risk items that are determined as having a significant potential impact on the management of our group to the Board of Directors. The Risk Control Department or the Subcommittee for Risk Response then proceeds to work on countermeasures aligned for each item of the Group’s Material Risks to minimize these risks, and a meeting of Corporate Ethics and Risk Management Committee is held quarterly, and whenever necessary from time to time, to monitor whether our Risk Management System is working effectively.

Board of Directors (and Management) Meeting

- Determine Group's Material Risks



"Risk Management Organization Bodies" ("risk control manager" + "department heads")

[Collection of risk-related information]

- ▶ submission of business risk assessment reports
- ▶ submission of material risk description reports
- ▶ mitigation and monitoring at the risk management organization level

"Corporate Ethics and Risk Management Committee" ("Risk Control Department" + "Risk Response Committee")

[Identification of Group's (potential) Material Risks] [Establishment and improvement of system and mechanism for risk management]

- ▶ collection and analysis of material risk description reports at the Executive Office
- ▶ selection of potential Group's Material Risks
- ▶ periodic reporting by the Chair regarding operation status of risk management system to the Board of Directors
- ▶ after determination of Group's Material Risks, organization of relationship management issues and assignment of responsibilities for implementation of countermeasures between Risk Control Department and Risk Response Committee
- ▶ monitoring of material risks related to business strategy at management issues review meetings
- ▶ evaluation of progress during quarterly meetings of the Committee

Board of Directors (and Management) Meeting "risk management administrative manager"

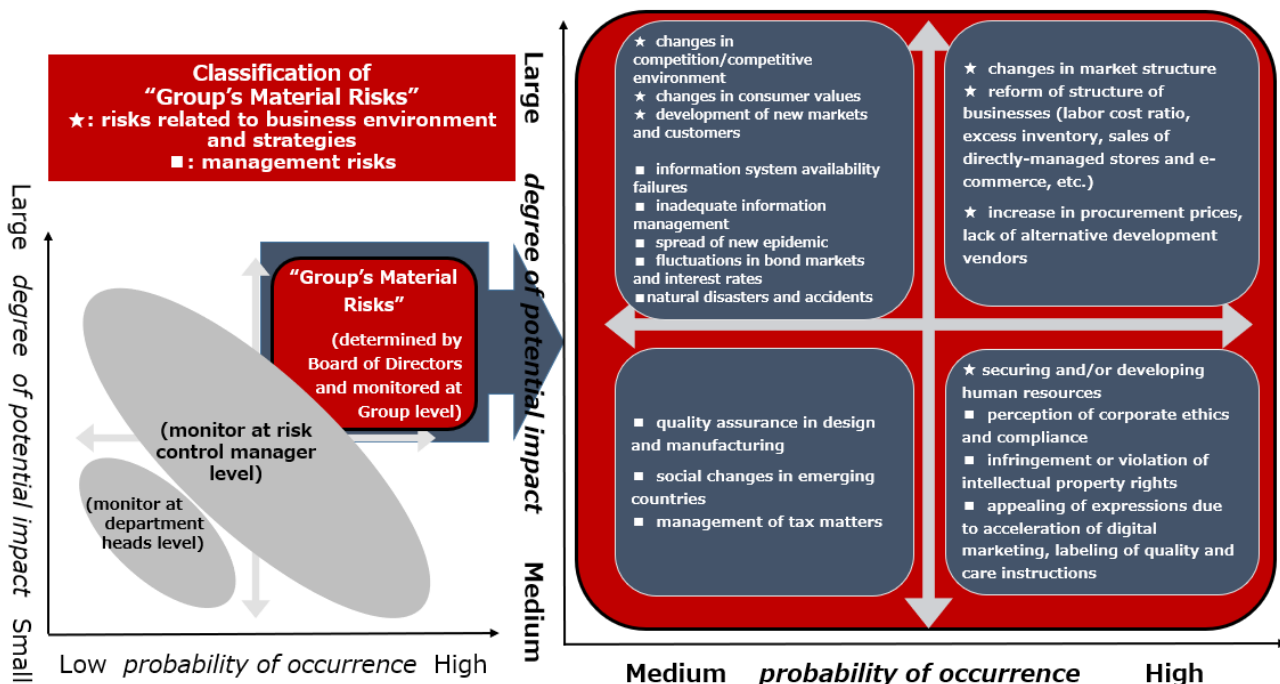
[Determination of Group's Material Risks]

- ▶ discussion of selection results and risk management system
- ▶ determination of Group's Material Risks
- ▶ supervision of operation status of risk management and provision of instructions

(2) Business Risk Factors

Major risk factors related to business and financial conditions described in this report as identified by the management that may significantly impact the financial position, results of operation and cash flows within group, and their countermeasures are as follows. Forward-looking statements in this report are made based on information available as of the end of current fiscal year.

The Board of Directors discusses and determines Group’s Material Risks after the Corporate Ethics and Risk Management Committee assesses and selects the risk items that may significantly impact our group’s management. Items with ★ marks below indicate risks related to “business environment and strategies”, and items with ■ below indicate “operational” risks.



(2)-1 Risks related to business environment and strategies

➤ Risks related to changes in market structure	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none">● Risk details A decline in the number of large-scale retailers and commercial facilities, including department stores and mass merchandisers may significantly impact our group's business performance, which has a large share of sales from department stores and mass merchandisers. In addition, a decrease in consumer contact points (physical stores) may affect a decline in brand recognition and a decrease in consumer's willingness to purchase. The change in the market structure may result in restructuring of existing business platforms, or changes in sales policies, which may affect our group's business performance.	
<ul style="list-style-type: none">● Countermeasures The retail market is undergoing structural change (expansion of online markets such as online malls and flea market apps), and the sales share of wholesale outlets such as traditional department stores, mass merchandisers, and specialty stores is expected to gradually decline. In Japan, our group is shifting to an area-based sales and marketing system that cuts across brands and distribution channel categories to achieve centralized management of our customer data, at the same time, we are promoting our CX strategies that enhances the value of customer experience as lifetime value ("LTV") that the needs of each customer by utilizing various distribution channel categories. Going forward, we will continue to balance between the enhancement of personalized services at our physical stores with the reinforcement of stress-free coordination of personal information for our online sales. In overseas market, we aim to improve the customer experience in fitting that our competitors cannot imitate by developing unique services that involve merger of offline and online customer experience while continuing to focus our efforts on increasing our brand recognition in individual countries and regions. In the United States, we acquired Intimates Online, Inc. in order to capture millennials as customers in our group's global expansion, and create growth opportunities and strengthen our competitiveness in the e-commerce ("EC") market. We are also accelerating DX in individual countries and regions to improve the LTV of our customers and aiming to increase the ratio of EC sales to total sales to over 50% by fiscal year 2030.	

➤ Risks related to reform of structure of businesses (labor cost ratio, excess inventory, sales of directly managed stores and e-commerce etc.)	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details <p>High labor cost ratio due to the wholesale-centered business reform still being progressed, and an increase in distribution costs and revaluation of discounts induced from an increase in inventories due to an increase in stock keeping units (“SKUs”) and failure of total inventory and total sales production management may adversely affect earnings performance. On the other hand, failure to strengthen our area-based sales capabilities and to quickly and effectively advance our growth strategies for directly managed stores and online sales may result in inability to adapt to the changes in the distribution channel structure, which may adversely affect performance.</p> 	
<ul style="list-style-type: none"> ● Countermeasures <p>While market structure rapidly changes and executing medium- to long-term management strategies, we are promoting personal planning and organizational reforms to achieve an appropriate workforce structure. During the current fiscal year, we have implemented the Flexible Retirement Program at Wacoal Corp. to quickly optimize its workforce and workforce composition, enhance profitability of its domestic business, accelerate its business structure reform and support future career development of its employees. We will continue to develop a performance evaluation system that enables the visualization of the contribution of each employee to the company to create an organizational culture in which employees can realize that they are creating the future of the company.</p> <p>On the other hand, our previous brand strategy has been meticulously adapted to the characteristics of the distribution channel categories, and as a result, in recent years, we have developed approximately 60 brands (including sub-brands). Today, customers’ purchasing behavior (customer journey) has shifted to a seamless online and offline shopping experience, and in addition, competition is intensifying with the global specialty retailer of private label apparel (“SPA”) type brands. We have overhauled our brand organization and have established our “core brand strategy” that consolidates our brands into 9 core brands, with approximately 30 constituent brands under the 9 core brands. We are working on organizing for overall optimization from the customer's perspective, for example, to ensure that there is no overlap in brands and/or products. We will build a customer-based value creation process, and will draw growth strategies and narrow down investment areas so that we can provide products and services that are "needed" and "exceed expectations" from the customer's perspective, and also so that we can create fans, which will be the basis of our core brand strategy.</p> 	

➤ Risks related to increase in procurement prices	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details <p>The structural changes in the supply chain may cause an increase in purchase prices due to an increase in raw material prices, a higher labor costs in production regions and higher transportation costs, and may affect our group’s business performance.</p> 	
<ul style="list-style-type: none"> ● Countermeasures <p>In the procurement of materials and production of products, we are increasing our emphasis on procurement and production in Asian countries and regions, while appropriately matching both quality and cost aspects. In recent years, in response to changes in the social and working environment, the axis of overseas production has shifted from China to ASEAN countries including Vietnam. In addition, we are working to minimize the number of material varieties to the extent possible in the planning and designing stages of products, expand our overseas suppliers for materials, and minimize the number of products and materials that end up in landfills.</p> <p>On the other hand, we consolidated our three sewing domestic companies into one company in April 2022. By building a flexible production management system that responds to changes in the external environment while inheriting the high level of sewing technology in Japan, we aim to both strengthen our competitive superiority and improve business efficiency. At the same time, we are working to strengthen our business effectiveness by integrating the collaboration between the divisions responsible for product research and development and the sewing unit under the integrated sewing company, thereby enhancing the production system that is capable of quick delivery, and challenging and small-lot production.</p> 	
➤ Risks related to changes in competition/competitive environment	

<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details In domestic and overseas markets, competitors, low-priced products and new entrants from other industries may intensify the competition in the market, which may result in a loss of sales share and a decline in business performance in a long-term. 	
<ul style="list-style-type: none"> ● Countermeasures Increase in a competition will lead to lower prices, increased advertising costs, and reduced sales and market share, which will significantly impact the business, performance and financial position of our group. In order to improve profitability and return to a growth trajectory at Wacoal Corp., we believe it is essential to focus on strengthening our competitive advantage based on our customer-oriented strategy. We will reinforce our “customer-driven” approach by providing personalized data to customers using digital technology and by promoting the CX strategy that further deepens the relationship with each and every customer across distribution channel categories and brands. In addition, through our personalized apps of “Wacoal Carnet” and “Wacoal 3D smart & try”, we provide customers with scientifically advanced and easy-to-understand information to enhance their trust in our brands and create bonds that will lead to “deeply, broadly long-lasting” relationships as loyal customers. Furthermore, our three major corporate entities in the United States, Europe and China continue to invest in growth in their businesses to differentiate themselves from competitors by enhancing the group’s unique and distinctive brand development and product strategy. At the same time, we are accelerating shop openings and actively investing in advertisement to expand our business in India in order to gain pioneering advantages in the emerging countries. 	

➤ Risks related to changes in consumer values	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details Our brand strategy, products, or services may not match to the changes in consumer values and we may fail to attract customers or may lose customers, resulting in a decline in business. In addition, failure in brand management and marketing mix may result in unsuccessful attraction of younger generation of customers, while defection of existing customers may damage our brand value. 	
<ul style="list-style-type: none"> ● Countermeasures We consider all activities that create value for our customers as “marketing”, and are strengthening our efforts to draw a series of customer experience that leads to us as their inevitable choice. We have moved away from the old-fashioned orientation of product purchase, and are building a system in which customer data is integrated and linked at all points of contact with our customers, both at physical stores and online, to create a connection with our brand, providing value to the customers’ series of actions and creating long-lasting relationships and lifelong customers. In terms of brand management, we are organizing and consolidating our nine core brands, and by concentrating and selecting brand communication and marketing costs linked with such approach, we expand both the quality and quantity of our messages to our customers. At the same time, we are strengthening our efforts in sustainability activities to enhance and establish our reputation with society and other stakeholders. 	

➤ Risks related to development of new markets and customers	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details <p>In response to the shrinking domestic market due to a decline in population and fewer children with an aging society in Japan, our group is working to develop new markets by developing overseas markets and entering into new business categories and fields. On the other hand, our failure to meet the diversifying values of consumers and to generate planned outcome may affect our group's business performance.</p> 	
<ul style="list-style-type: none"> ● Countermeasures <p>In domestic market, we are struggling to acquire new customers due to lack of developed products and marketing measures that can stimulate purchase motivation among potential customers who have little contact with our brands. We are working to reevaluate customers' series of customer experience and purchasing behavior (customer journey), and to formulate initiatives for making us their inevitable choice. On the other hand, our efforts to strengthen retention marketing to existing loyal customers are steadily yielding results, and we are able to build ever deeper bonds with them as loyal customers. We will prioritize and further focus our efforts on maximizing LTV, which can be realized as the value offered by our group, by expanding our wardrobe assortment for our loyal customers.</p> <p>On the other hand, in the United States, we have continued our efforts to grow our e-commerce business entity by aggressively investing in digital marketing. By improving the convenience of a digital fitting app, "Wacoal-mybraFit", which we introduced as a part of our initiatives to strengthen our e-commerce business, we are working with an aim to increase the ratio of e-commerce sales from the current 46% to 70% in the long term. We are also strengthening the logistics infrastructure and other systems that will support our future e-commerce growth. In China, in order to accelerate recovery from the impact of COVID-19, we have strengthened our organizational structure for product development and e-commerce sales. Although we have an approximately 20% share of sales at department stores in China, our share in the overall underwear market accounts for less than 1%. Therefore, in the e-commerce market, where middle class is the main purchasing group, we will continue to focus on acquiring new customers and converting existing customers into loyal customers while working to strengthen offline and online collaboration and CRM strategies. In Germany, India and other markets where the scale of our group's operation is still small despite the large number of middle-income consumers, we are making strategic investments because we see these markets as having a significant room for future expansion.</p> 	

➤ Risks related to securing and/or developing human resources	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details <p>If we fail to secure and/or foster personnel especially for manufacturing (planning and technical capabilities), IT and digital, sales representative, personnel specialized in the area of management of foreign companies, we may not achieve future growth or gain advantages against competitors, which may adversely affect our group's business performance. In addition, failure to efficiently allocate sales representative and post-retirement rehires may result in inefficient labor costs and reduced motivation, which may cause a downturn in our group's business performance.</p> 	
<ul style="list-style-type: none"> ● Countermeasures <p>Our group hires and retains necessary personnel by implementing new recruiting methods such as job-focused employment and develops human resources through group lectures and online professional expertise training, and enhances opportunities for onsite training through our on-the-job training, overseas training programs and cross-industry learning conducted jointly by other companies. In addition to expanding our focus on career hires, we are also focusing on referral hires in an effort to revitalize our group by securing a diverse workforce. On the other than, in response to changes in the market structure, the evaluation of sales representative is being reassessed to outcomes such as the number of customers served and satisfaction level from the customer's perspective, such as LTV. In addition, for those rehired after retirement, we are increasing the number of positions with higher responsibilities and roles, and promoting relocation of right personnel in the right position when they are rehired, and at the same time, we are working to improve motivation through the adoption of performance-based salary based on goal management evaluations.</p> 	

(2)-2 Operational Risks

➤ Risks related to information system availability failures	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none">● Risk details In the event business continuity becomes difficult due to errors or delays in system development, or failure of critical systems, we may lose the trust of all stakeholders, including our business partners and customers. If the core system or e-commerce website become inaccessible due to malicious attacks from outside or natural disaster damage, or if confidential information is leaked from file servers or employee's PCs, our business may be adversely affected.	
<ul style="list-style-type: none">● Countermeasures The Company prescribes "Basic Policies on Information Security" and "Regulations on Information Security Related Organizations and Responsibilities" to promote understanding of the necessity and responsibility of information protection among all employees. We have established the Subcommittee for Information Security under the Corporate Ethics and Risk Management Committee to understand and improve the current management system, and collect information, investigate and analyze the current status regarding data destruction or leakage due to unauthorized access to customer information and important technical information, as well as cyber-attacks aimed at disrupting business operations due to viruses and ransomware. At the same time, we formulate our group's activity policies and specific countermeasures, establish, revise or abolish related regulations, and discuss strategic investment projects, in an effort to reduce information security risks. In particular, we have introduced and begun operating security tools that monitor systems and devices in real time in preparation for unexpected system failures and malfunctions, while also ensuring that critical systems have appropriate hardware and network configurations, that cloud computing has been selected, and that appropriate maintenance of IT assets is being performed. In addition, we conduct periodic targeted e-mail drills for domestic consolidated subsidiaries and alert employees to information-related accidents, such as those recently reported in the media, in order to mitigate risks from both sides by raising employee awareness and establishing a framework.	

➤ Risks related to inadequate information management	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details In the event of leakage or loss of confidential information or personal information due to inadequate information management, we may be affected adversely in our business activities and suffer significant loss such as loss of social credibility and suspension of business operations. 	
<ul style="list-style-type: none"> ● Countermeasures The Company has established the “Regulations on Information Classification”, “Rules on Handling of Confidential Information”, and “Rules on Protection of Personal Information” to appropriately classify all information treated in terms of confidentiality, consistency and availability, as well as to protect and prevent leaks. In addition, to ensure thorough protection and management of material information, we have prepared a list of material information of our group and are working on countermeasures, citing specific examples of insider information in the categories of management, business and sales strategies, product development, in-house know-how, personal information, information system and other categories. We possess personal information of our various customers for business purposes. Looking to the future, Wacoal Corp. addresses CX strategies as the pillar of our growth and promotes business model using digital data including collected personal information. Overseas, we are also moving forward with plans to strengthen our e-commerce business, which directly obtains the personal information of customers, and to make it a pillar of our growth. The protection of personal information is becoming increasingly important in our group’s business activities, not only in response to the implementation of the Amended Act on the Protection of Personal Information in Japan. The Subcommittee for Information Security, established under the Corporate Ethics and Risk Management Committee, is responsible for strengthening the protection and management of personal information, complying with related laws and regulations, and educating our employees, and also conducts surveys on information management status and provides guidance and advice on countermeasures for our domestic and overseas affiliated companies, in order to protect personal information from external threats. 	

➤ Risks related to spread of new epidemic	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details The spread of the new epidemic, resulting in stay-at-home measures and temporary closings of physical stores implemented by government or local authorities, may cause a decline in sales and significantly affect our group’s business performance. In addition, the spread of number of positive cases within a business site may disrupt business operations by suspending employee from coming into the business site or closing the business site. 	
<ul style="list-style-type: none"> ● Countermeasures In response to the spread of COVID-19, our group established the COVID-19 Infection Control Committee under the Corporate Ethics and Risk Management Committee with our Representative Director, Vice President and Executive Officer and CFO acting as the General Manager, which implemented appropriate measures while keeping an eye on the worldwide conditions pertaining to COVID-19 in order to prioritize the safety of our customers, partner companies and employees and to reasonably continue our business activities. Specifically, we determined the work framework for physical stores, including the work and service methods of in-store sales representative, depending on the conditions pertaining to COVID-19, as well as allowing our back-office staff to have flexible work options (by encouraging work from home and web meetings, and restricting or allowing business trips and in-person conferences) by areas and depending on their status. In light of these responses, we are reviewing our guidelines and action plans to prepare for the spread of new epidemic. In anticipation of changes in personal consumption behavior that coexist with infectious diseases, we will strive to secure competitive advantage by enhancing services sought by customers and developing new products, such as the improvement of the convenience of our mail order services and proposing a wardrobe that expands the scope of activities while preventing infection. As a company handling daily necessities, we will fulfill our responsibility to protect hygienic and comfortable lifestyles and continue to provide our customers with peace of mind. 	

➤ Risks related to fluctuations in bond markets and interest rates	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details <p>The market value of listed equity securities and bonds held by the Company may decline, resulting in recording impairment charges. On the other hand, a decline in valuation and underfunding of plan assets may require additional contribution or provisions, which may affect our group's business performance.</p> ● Countermeasures <p>Please see “IV. Information on the Company – 4. Corporate Governance, etc. (5) 【Information on Shareholdings】 ” for information on shareholdings by the Company and Wacoal Corp., our specified wholly owned subsidiary.</p> <p>Under the current medium-term management plan, which started in the current fiscal year, we have decided to reduce our overall cross-shareholdings by over 15.0 billion yen by the end of the fiscal year ending March 31, 2025. The Board of Directors examined whether income realized from each stock holding exceeds the Company's capital cost, and whether such cross-shareholding contributes to the enhancement of our corporate value. Based on results of such examination, we disposed of and reduced a total of 7 stocks that had diluted value amounting to approximately 4.0 billion yen during the current fiscal year.</p> <p>On the other hand, costs and obligations for termination and retirement benefits are based on the actuarial assumptions that are used for the calculation of the expected rate of return on plan assets or projected benefit obligations for termination and retirement benefits. Such costs and obligations for termination and retirement benefits may increase if the actual results differ from the assumptions or if there is any change to the assumptions, due to fluctuations in the market for securities as well as the interest rate environment. Our approach to establishing the discount rate is based upon domestic corporate bond indices. For discount rates, please see “V. Financial Information - Notes to the consolidated financial statements 【3 Significant Accounting Policies】 and 【4 Significant Accounting Estimates And Judgments】 . ”.</p> <p>In order to fulfill the expected functions as an asset owner of a corporate pension plan, we have established the Pension Committee, composed of the heads of Finance, Human Resources and Accounting Divisions, to review asset management policy, policy asset composition, and other matters on a quarterly basis, while using an outside management consulting firm to supplement our expertise and knowledge.</p> 	

➤ Risks related to natural disasters and accidents	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Large
<ul style="list-style-type: none"> ● Risk details <p>Natural disasters such as earthquakes, fires, or explosions may cause damage to business and production sites, and our employees may suffer damages. In addition, closed traffic, energy outage, blocked communication lines, or damages to large retail stores, directly managed stores, e-commerce website or logistics networks may trigger confusion in our operation.</p> ● Countermeasures <p>In preparation for large-scale accident emergencies such as “earthquake directly beneath the Tokyo metropolitan area”, the Subcommittee for BCP and Disaster Control Measures, established under the Corporate Ethics and Risk Management Committee, is working on business continuity management from the perspectives of prevention/mitigation, emergency/first response, and recovery/restoration, including the sequential development of BCP plan in the event of damage to our major business sites.</p> <p>Specifically, in addition to the environmental improvements such as earthquake-resistant buildings, cloud computing for data-related servers, employee safety confirmation system in the event of a disaster, and mobile work, we are also working to reduce risks by establishing operational backup systems at sales offices and decentralized arrangement of production sites in times of emergency, in line with our social responsibility.</p> <p>During the current fiscal year, we also conducted a drill to verify whether our BCP would reasonably function in the event of a disaster caused by an earthquake directly beneath the Tokyo metropolitan area.</p> 	

➤ Risks related to perception of corporate ethics and compliance	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details <p>We may be pointed out and publicized by a third party on human rights, labor or environmental issues in our supply chain, which may affect our business activities or damage our corporate value. In addition, an increase in violations of corporate ethics and compliance, or problems with advertising expressions and statements, including those on social media or blogs, and other websites, could lead to a loss of public trust and may adversely affect our group's performance.</p> ● Countermeasures <p>In the event of any violation of laws and regulations in Japan and overseas applicable to our group, or any act in contrary to any social order, we may suffer an economic and/or social impact as a result of punishment or loss of trust from society. We have not only established the "Corporate Ethics: Wacoal Standards of Conduct" which were distributed to our employees to ensure that they are well informed of it, but also made efforts to strengthen legal compliance by expanding measures such as compliance awareness training for employees, an internal alert system, and compliance review by external experts through the activities of the Subcommittee for Compliance, which was established under the Corporate Ethics and Risk Management Committee.</p> <p>In particular, we focus on labor and human rights issues in our supply chain for our group's businesses. We faced concerns raised by a non-profit human rights organization in the past about working conditions and human rights issues at an overseas sewing factory with which our consolidated subsidiary had a contract. In Japan, it was discovered that there were unpaid overtime allowances for foreign technical intern trainees at a secondary manufacturing contractor. The "Subcommittee for CSR Procurement" which we established in April 2018 has now been transferred under the Sustainability Committee, and is proactively making efforts to conduct self-assessment and on-site audit at each of our manufacturing contractors from the perspectives of respect for human rights, harmony between environment and society, compliance with laws and regulations, labor practices and business practices, and to formulate and monitor correction and/or improvement plan. In addition, we plan to gradually expand the scope of CSR procurement activities beyond manufacturing contractors, and are disclosing a list of our suppliers.</p> 	
➤ Risk related to infringement or violation of intellectual property rights	
<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details <p>Infringement or violation of the intellectual property rights may result in litigation or economic loss. In recent years, there has been a proliferation of "spoof advertisements that lead to fake websites" on the Internet that spoof our brand names. Failure to take appropriate measures such as alerts to customers and elimination of such spoof advertisements and fake websites could lead to a loss of trust from consumers and markets, and failure to strategically protect or utilize intellectual property rights may affect our business.</p> ● Countermeasures <p>Our group recognizes that intellectual property rights are involved in all business activities and are important assets to ensure our competitive advantage.</p> <p>In order to protect and utilize intellectual property rights for our brands, proprietary technologies, designs and services as a source of competitiveness, while respecting and avoiding infringement of the intellectual property rights of other companies, we educate our employees by holding seminars and share information on trends of intellectual property in the industry to promote proper understanding. We are also enhancing the knowledge of the department in charge of intellectual property by strengthening cooperation with the outside experts to protect and utilize the intellectual property rights in DX and CX strategies and new businesses.</p> <p>In addition, we take strict measures against infringement of intellectual property rights in Japan and overseas, including counterfeit products and unauthorized use of our trademarks and patents by other companies, by asserting our rights against the infringing parties. In recent years, with regard to the deterioration of brand value due to the borderless nature of the e-commerce business, particularly the emergence of "spoof" advertising and sales that spoof our brands, mainly through social networking services ("SNS"), we are making efforts to protect our consumers and brands beyond Japan, by alerting our customers, tracking and monitoring sales channels and implementing elimination measures.</p> 	
➤ Risks related to appeal to express due to acceleration of digital marketing, labeling of quality and care instructions	

<input type="checkbox"/> Probability of occurrence: High	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details <p>In digital marketing, which is becoming mainstream, the content of messages on social networking services, including those involving employee participation, and appealing expressions based on concepts that go against international standards for sustainability, may cause social problems, including negative campaigns and defamation of the sender, which may adversely affect our business performance. On the other hand, violations of laws and regulations related to quality labeling and inappropriate expressions in functional labeling may damage public trust. We may suffer loss due to costs incurred to recall or change the labeling of products, or due to the discontinuation of sales.</p> 	
<ul style="list-style-type: none"> ● Countermeasures <p>We recognize that quality labeling, which helps the consumers to select and use products appropriately, covers a wide range of areas, including statutory labeling attached to the products themselves, in-store and media advertising and promotion, promotional expressions, and intellectual property protection labeling, and that this is a case in which risks are likely to become apparent. We are also aware of the risk of social criticism of our transmissions and the words and actions of our participants through our aggressive digital marketing activities involving influencers and employee participation, which in recent years have spread regardless of the truth of their content.</p> <p>Through the activities of the Quality Assurance Council and the Quality Control Committee under the Corporate Ethics and Risk Management Committee, we have established and are operating a rule-based system that includes a labeling confirmation system based on a double-checking at the department that determines the content of labeling, systemization of the labeling determination process to the extent possible, prompt response to labeling errors when they occur, and thorough investigation of the cause and implementation of countermeasures to prevent recurrence after a problem occurs. We also regularly conduct internal awareness raising activities and training for those in charge of quality labeling.</p> <p>At the same time, we have established SNS operation rules for each domestic and overseas affiliated company in light of their business environment to ensure that our employees are aware of such rules, and we are promoting trainings for our employees in marketing and communications departments to check the content of the transmissions in advance and judge whether they are appropriate or not.</p> <p>Furthermore, the Company is working to mitigate risks by formulating and revising various guidelines in connection with the Antimonopoly Act, Act against Unjustifiable Premiums and Misleading Representations, and the Pharmaceutical Affairs Law, and by providing training for employees through e-learning. In addition, with respect to functionality and efficacy expression, we are reorganizing the notation rules along with the collaboration among the commercialization planning department, the research department and the quality assurance department, and we are establishing a system to supervise evidence data with an outside institution.</p> 	

➤ Risks related to quality assurance in design and manufacturing	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details If we sell defective products or if our products harm our customers' health, we may suffer costs for product recalls and our reputation as a producer of high-quality products may be damaged and we may lose trust from society, which may adversely affect our business performance. 	
<ul style="list-style-type: none"> ● Countermeasures Our ability to provide high-quality products on a global basis is one of our strengths. We established the Quality Assurance Council as a subcommittee of the Corporate Ethics and Risk Management Committee, and while we maintain our safety guidelines, we are also working to ensure compliance with safety clearance rules upon product planning, design and development, thorough inspections during manufacturing, pursuing the causes of problems and formulating measures to prevent their recurrence. By horizontally deploying and sharing about these activities and information across our group's domestic and overseas affiliates, we are raising quality awareness and raising the level of the management system across our group as a whole. Under the direction of the Quality Assurance Council, we operate the Quality Control Committee, which is composed of members elected by each department responsible for commercialization plans, and which operates to follow up on individual issues and conducts internal training on quality control in general. In addition to thorough quality control and inspection as stipulated, the production sites are working to eliminate products that do not meet standards under the operation of product acceptance lock system (acceptance of only products that meet material standards), standardize the skills of inspection personnel, and increase employee motivation through a quality excellence award system. 	

➤ Risks related to social changes in emerging countries	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details Our group, which has production bases in emerging countries, may experience delays in materials procurement and production due to political instability, legal or institutional changes, the occurrence of strikes, or difficulties in securing human resources, which may affect our business performance. 	
<ul style="list-style-type: none"> ● Countermeasures At all times, we pay close attention to trends in laws and regulations in each country and region, and make efforts to collect and analyze local information. We are working to develop and implement measures to understand the actual situation in the community in cooperation with the local "risk control manager", and if necessary, with the support from an outside counsel, consultant and other specialized organizations. In addition to trends in laws and regulations, we pay close attention to the responses to human rights issues in Myanmar, which continues to be under the control of the military regime. We are working to mitigate geopolitical risks by appropriately diversifying our production bases. 	

➤ Risks related to management of tax matters	
<input type="checkbox"/> Probability of occurrence: Medium	<input type="checkbox"/> Degree of potential impact: Medium
<ul style="list-style-type: none"> ● Risk details <p>A large amount of taxation due to tax reform or investigation on transfer pricing may affect our group's financial position and business performance, in addition to reputational damage.</p> ● Countermeasures <p>According to our current accounting standards, deferred tax assets are recorded based on reasonable assumptions about our future taxable income. However, deferred tax assets may decrease due to changes in the estimated amount of future taxable income or changes in tax rates following tax reforms, which could have an adverse impact on our group's business performance and financial position. Based on this, the Company reviews, as appropriate, its estimates of future taxable income in light of changes in the business environment and other factors to make a reasonable judgment of collectability.</p> <p>In January 2021, we formulated and disclosed our "Tax Code of Conduct" with the aim of complying with the laws and regulations of countries and regions in which we operate, as well as international tax laws, managing taxes in a highly transparent manner, and gaining the trust of our stakeholders. The Tax Code of Conduct provides guidelines for domestic and foreign consolidated subsidiaries to establish a group tax system, including obtaining the latest information on taxation and awareness activities through training, dealing with uncertain tax positions, application of preferential tax treatment, transactions among group companies, prohibition of tax avoidance, and disclosure on tax matters. Starting from the current fiscal year, we have been providing regular tax training sessions for our domestic consolidated subsidiaries. At these training sessions, while confirming the appropriate responses to the current tax reform such as the invoice system, we made efforts to spread awareness of our Tax Code of Conduct. The status of application of guidelines described in the said Code is monitored by receiving reports from domestic and overseas consolidated subsidiaries at the end of each fiscal year, along with the status of the responses based on the IFRIC23 guidelines. In addition, we are working to improve our group's tax system by tracking the trends in international taxation, including BEPS, and sharing the latest information with our overseas consolidated subsidiaries as appropriate.</p> 	