Risk management system and operation

We have adopted risk management rules aimed at preventing risks from occurring and at minimizing damage when they do occur. We have also established under the CSR Committee a Risk Management Committee chaired by the CEO to continuously oversee the Group's risk management and to respond to risks that occur.

The Risk Management Committee has a Risk Monitoring Subcommittee and a BCP Preparatory Subcommittee to select and evaluate risks and to monitor risk reduction efforts, as well as to advance Group-wide business continuity planning. A Hotline Contact has also been established within the Committee to develop whistleblowing channels and respond to whistleblower reports.

The Risk Management Committee reports these initiatives at the CSR Committee's semiannual meetings, and the CSR Committee reports them to the Board of Directors. The Risk Management Committee can directly report important events such as whistleblower reports to the Board of Directors as necessary, assuring that risk information is properly conveyed to the management.

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            CSR Committee
                 |
      Risk Management Committee
      |            |            |
Risk Monitoring  BCP Preparatory  Hotline Contact
Subcommittee     Subcommittee
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Business continuity planning

The Risk Management Committee's BCP Preparatory Subcommittee was established to advance business continuity planning to prepare for earthquakes and other natural disasters, which represent high-risk events for our Group. This team develops our BCP and the basic policies and initial action flows for disaster response, in coordination with manufacturing department and factories.

In addition, we map out the initial actions to be taken by each emergency task force member in a disaster, and create manuals and checklists for guiding those actions. We also routinely review our disaster countermeasures, and use the corporate intranet to communicate information for raising the disaster prevention awareness of all employees.

Our BCP approach

Business continuity planning involves maintaining a BCP to ensure that business operations can continue to function in the event of a disaster or other emergency. The IDEC Group goes a step further by also defining the initial actions to be taken in a disaster prior to the BCP implementation phase, and by routinely developing disaster countermeasures. In line with our basic human resource policy of cherishing our people, we have established a basic policy for crisis response that places top priority on the safety of our employees and their families at all times.

In the BCPs formulated for each manufacturing site, the second priority after safety is to ensure that our products can continued to be delivered to customers following a disaster. These plans are designed to limit shipment stoppages to no more than one week.

Other ongoing actions include creating manuals outlining step-by-step procedures for the entire flow of emergency response actions, and maintaining disaster-resilient communications infrastructure, systems for checking the welfare of our employees and supplier staff, and stocks of emergency supplies.

	Normal times	Emergency actions Immediate post-disaster actions	BCP	
			ETF actions	Recovery/continuation of business operations
All employees	Basic BCP policy Disaster prevention/ mitigation measures	Initial action plan		Created for each worksite and major operation
		Evacuation procedures		
Emergency task force (ETF) members		ETF organization		BCP
		Initial action flow		
BCP action coordinators				Local ETF organization
				Recovery action flow

Our basic policy on crisis response

- In line with the basic human resource policy of respecting people, we will place top priority on the safety of our employees and their families.
- As part of our commitment to realizing a safe and sustainable society, we will establish measures and systems for continuing to meet customer needs during crises by maintaining our supply of safe, reliable products and services, at the expected level of quality.
- We recognize the importance of carrying out crisis preparation/ training on a regular basis, and will develop strategies and organizations for this and crisis countermeasures.

In order to limit damage in the event of a disaster, we will routinely implement measures for preventing furnishings from overturning and parts/products from falling, such as joining cabinets together and installing retainer bars.

Internal reporting system

The IDEC Hotline has been established as a contact venue that allows users to select external and internal contact and anonymously or with real names in accordance with the users' situation. We have established internal reporting and operation rules to protect the confidentiality of consultation and reporting, and to prohibit unfavorable treatment of users.

When a report is made, the Hotline Contact established within the Risk Management Committee will promptly respond to the report, and work at resolving the problem and preventing recurrence. The report is also promptly communicated to the top management, and regularly reported to the Board of Directors so as to share risk information. In a case wherein the management may be involved, a system exists to ensure independence and to liaise with an outside lawyer firm.

In order for the system to function globally, we are preparing for establishing the "Global Hotline" in sequence, which enables overseas group company employees to report directly to the head office contact venue.

Number of internal reports

FY2021	FY2022	FY2023
5	8	6

Internal reporting system diagram
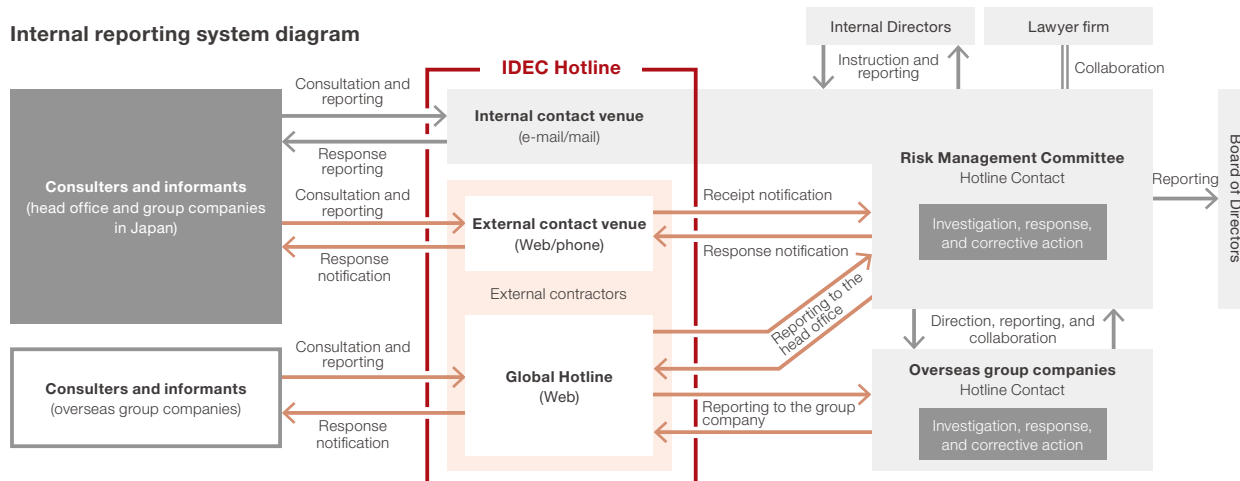
Corruption prevention

We carry out the following actions to prevent bribery and other forms of corruption, and to ensure compliance.

- We have established and disseminated the IDEC Group Code of Conduct to clarify basic guidelines for the conduct of business activities.

- We have signed the UN Global Compact, which calls for corruption prevention. We have made it our policy to prevent corruption by prohibiting all forms of bribery, corruption, robbery, and embezzlement, and we clearly declare and make known our prohibition of such acts.

- We have conducted compliance training to deepen employees' understanding of the IDEC Group Code of Conduct and policies.

- Our internal audits examine whether Group companies comply with laws, regulations, and rules.

- When a report has been received through our hotline, the Risk Management Committee sends the report to the Board of Directors, which reports on risk monitoring activities twice a year through the CSR Committee and is supervised by the Board of Directors.

Follow this link for more information on our anti-corruption commitments.

https://us.idec.com/governance/compliance

Risk map and identification of high-risk events

The Risk Monitoring Committee regularly identifies and evaluates risks based on the assumed risk events that may negatively impact the IDEC Group's continued business expansion and corporate value enhancement. Concerning each risk event, an evaluation questionnaire is conducted using the "probability of occurrence," "magnitude of damage" and "impact" as measures, and the results are plotted on the risk map relative to the assessment.

The risk events evaluated include climate change risks that the Environmental Strategy Committee has judged to be significant issues. Also, risk events that have a high probability of occurrence are considered high-risk events. Each department responsible for a particular high-risk event is assigned a risk reduction target, and gauges its progress toward the target on a semiannual basis.
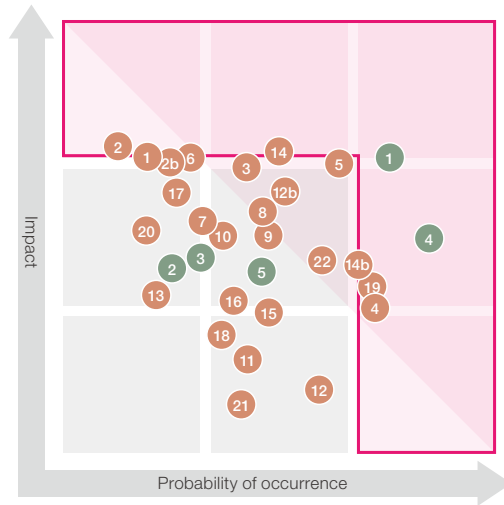
Major responses to high-risk events in FY2023

No	Risk event	Actions
1	Damage to IDEC's sites in Kansai region sites by an earthquake with a seismic intensity of lower 6 or higher	• Formulated business continuity plan and improved manufacturing site's emergency response capabilities • Reduced risk by taking out an appropriate insurance policy • Developed an emergency contact network and a means of checking employee safety
6	Occurrence of a serious product accident that could affect the human body	• Instituted system for monitoring complaints/failure reports from the market to enable early detection of and response to major complaint-generating issues • Evaluated risks in new product development and implemented measures to prevent issues during production
19	Leakage of critical corporate information, third-party confidential information, and personal information	• Identified types of critical internal information and formulated rules for managing each type • Increased our knowledge of how to prevent information leaks

* Item numbers correspond to risk event numbers on the following page.
* See the following page for explanations of the risk map and high-risk events.

Introduction

Value Creation Story

Business Strategy

Foundation For Value Creation

Governance

Data

Governance

Risk map

Risk map: Impact (vertical axis) vs Probability of occurrence (horizontal axis)

* Climate change risks reflect events that the Environmental Strategy Committee assessed as high-risk.

* Risks are evaluated on a short to medium-term basis. Long-term climate risks have been re-evaluated on a short to medium-term basis.

* Risks inside the red box are judged to be high-risk events.

Risk category	No	Risk event	FY2023 risk assessments	FY2023 risk asessments
External factor risks	1	Damage to our Kansai region sites by an earthquake with a seismic intensity of lower 6 or higher	Although this risk can be slightly reduced with business continuity planning, it was assessed as a high-risk event because the probability of occurrence was judged higher than in FY2022 based on Nankai Trough earthquake forecasting	—
	2	Conflict or terrorist attack in the local area of IDEC sites	Assessed as a high-risk event, as in FY2022	—
	2b	Impact on our overseas staff and site operations due to interstate affairs or public disorder	The business impact of local conflicts, anti-Japanese demonstrations, and other disturbances was recognized as a risk event and added as a risk derivative to ②	New
	3	Occurrence of cluster infections at our sites	Impact was assessed as lower due to changes such as implementation of infection prevention measures and change of awareness on viral infection	⬇
	4	Product specification change caused by external factors (part obsolescence, procurement difficulty)	Assessed as high-risk because its impact and probability of occurrence were deemed higher based on our having faced a product specification change due to difficulty in procuring electronic parts	⬆
Internal factor risks	Business strategy risks	5	Difficulty to procure parts, leading to long delays in delivery times	Assessed as high-risk because its impact and probability of occurrence were deemed higher based on our having faced a delivery delay due to difficulty in procuring electronic parts	⬆
		6	Occurrence of a serious product accident that could affect the human body	Assessed as a high-risk event with considerable impact, as in FY2022	—
		7	Fraudulent representation of quality through falsification of product performances and data	Assessed as having a slightly lower probability of occurrence due to implementation of risk-mitigating measures	⬇
		8	Distribution of products containing prohibited substances	Assessed as having a higher risk versus FY2022 in light of the potential impact on standards of the risk that parts procured contain prohibited substances	⬆
		9	Strategic investment risk (financial impact of M&A, corporate alliances, and other strategic investments)	Assessed as being at a level similar to FY2022	—
	Resources and infrastructure risks	10	Occurrence of a severe or more industrial accident	Probability of occurrence was lowered slightly by actions taken by the Health & Safety Committee	⬇
		11	Sabotage, strike-related business outage	Probability of occurrence increased versus FY2022 due to inclusion of Group companies	⬆
		12	More than half a day of infrastructure outages caused by system and network failure, etc.	Cyberattack was redefined as a separate, derivative risk and the impact of outages due to other reasons was deemed to be lower	⬇
		12b	Long-term network outage due to cyberattack	Assessed as having greater impact due to the likelihood of longer outages	New
	Compliance risks	13	Suspension of sales and claims for damages due to infringement of other companies' intellectual property rights	Assessed as being at a level similar to FY2022	—
		14	Inaction on human rights issues (child/slave labor, etc.)	Assessed as having considerable impact because inaction could lead to boycotts and reputational risks in a global business environment where human rights awareness is growing	—
		14b	Decline in employee morale due to harassment	Now seen as a risk following our review of risk event definitions	⬆
		15	Tax penalty due to improper handling of accounting and tax affairs	Assessed as having higher risk due to inclusion of Group companies	⬆
		16	Large-amount embezzlement, malpractice, and bribery by employees	Assessed as being at a level similar to FY2022	—
		17	Insider trading by senior executives	Assessed as having slightly higher probability of occurrence due to potential effect of business performance	⬆
		18	On-site inspection by the Fair Trade Commission due to violations of the Anti-Monopoly Act and the Subcontract Act	Assessed as being at a level similar to FY2022	—
		19	Leakage of critical corporate information, third-party confidential information, and personal information	Assessed as having higher risk due to inclusion of Group companies	⬆
		20	Business suspension due to improper license and approval	Assessed as having greater impact, including with regard to certification, etc.	⬆
	Accounting and financial risks	21	Difficulty to collect sales receivables, loan loss	Assessed as being at a level similar to FY2022	~
		22	Asset impairment risk	Assessed as higher versus FY2022 due to factors such as business performance, inventory, etc.	⬆
Climate change risks	Transition risks	1	Increase in raw material costs	Assessed as high-risk because it could have a direct impact on production/procurement costs and lead to higher costs due to difficulty in procuring parts	—
		2	Changes in customer behavior	Assessed as not posing significant risk on a short to medium-term basis	—
		3	Technology gap with competitors	Lags in eco-friendly technology were assessed as leading to future business risks	—
		4	Trends in carbon pricing	Assessed as having a growing impact from regulation driven by rising global movement to reduce CO_2 emissions	—
	Physical risk	5	Temperature fluctuations	While temperature fluctuations could lead to various risks such as natural disasters, this was assessed as having a lower probability in the short and medium-term	—