

# Risk management

## Basic view

In order to sustainably improve the enterprise value of the entire Group, Murata is building a risk management system to appropriately manage the various internal and external risks related to its business activities. Moreover, we are engaging in activities to reduce loss when risks are discovered that have a significant impact on our business. Examples of these activities include regularly classifying and evaluating each risk concerning our overall business activities and implementing countermeasures in advance according to the priority, etc..

## Promotion structure

Murata has established the “Risk Management Committee” as a subcommittee of the CSR Management Committee, which is chaired by the President. This committee is chaired by a Vice President in charge and is composed of Directors in charge of each function including General Affairs, Human Resources, Finance, Corporate Planning, Corporate Communications, Intellectual Property, Environmental Affairs, Information Systems, and Legal Affairs departments to discuss countermeasures concerning company-wide risk matters. We have also established the Information Security Subcommittee and BCM\* Subcommittee as subordinate organizations to study and take measures to address particular risks. (▶P.79 Business continuity management (BCM)) (▶P.80 Information security)

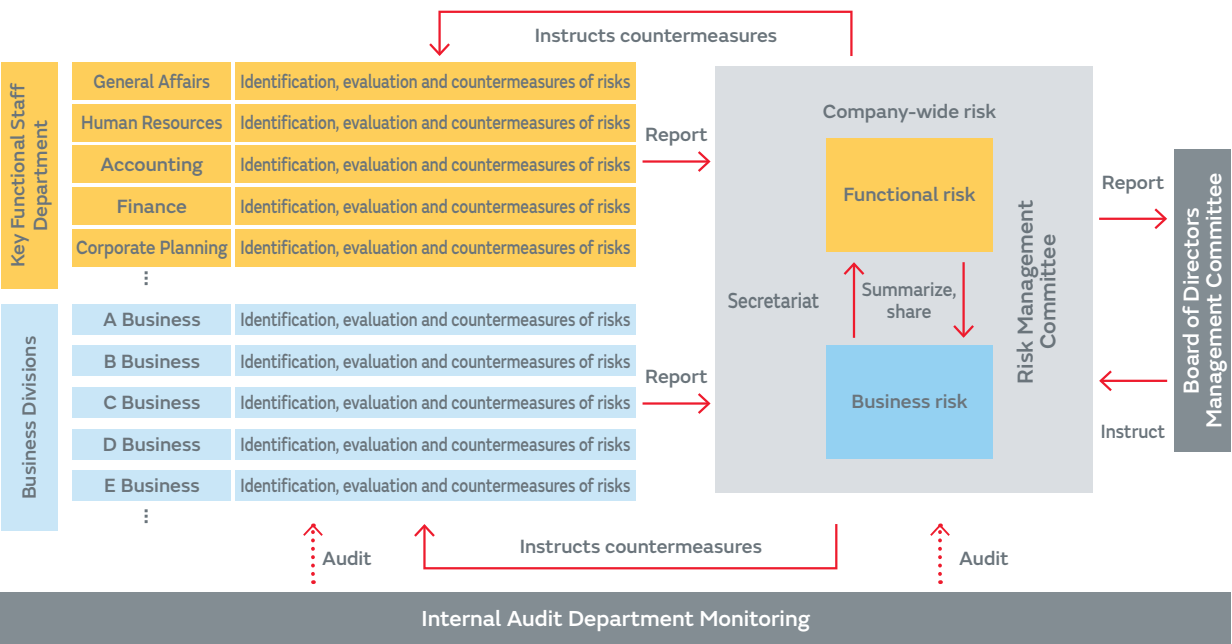
\* Business Continuity Management  
Management activities that are operated on an ongoing basis to formulate, maintain, and renew the BCP (Business Continuity Plan), to allocate budget and resources for business continuity, to take preventative measures, and to conduct, check, and continually improve education and training for permeating initiatives.

## Understanding risks

The Key Functional Staff Department and the Business Division responsible for implementation, which are responsible for each risk, extract the risks that Murata is currently facing or risks that are expected in the near future. The Key Functional Staff Department prevents the omission of risk identification by correctly recognizing: (1) risks which must be identified as company-wide risks from among the risks extracted by the Business Division responsible for implementation and (2) risks that the Key Functional Staff Department and Business Division responsible for implementation must mutually share and cooperate on. Further, the department is building a system that can appropriately respond to company-wide risks. (Refer to the figure below) Moreover, the extracted risks are comprehensively identified and managed by evaluating the importance based on the frequency of occurrence and impact and then displaying those risks on a risk map.

The Risk Management Committee reviews the details of risks with a high degree of importance and urgency from among the risks which are extracted in this manner and issues instructions for added countermeasures as needed. In addition, the departments which are responsible for each risk report on those risks with a high degree of importance and urgency to management within the Board of Directors and Management Committee. This enables management to identify the corresponding risks and take the appropriate risk countermeasures.

## Company-wide risk management system



## Business and other risks

Risks that may have a material impact on the company include the following.

The frequency of occurrence and the degree of impact of residual risk remaining after implementing each risk countermeasure, are classified into the three categories – “High,” “Medium,” and “Low.” With regard to the degree of impact, an indicator is selected from the five indicators of “Organizational impact,” “Impact on production activities, etc.,” “Regulatory/administrative impact,” “Impact on business transactions,” and “Media/reputational impact” and classification is made based on the criteria that has been set in advance for each indicator. For more details about each risk, refer to the Annual Securities Report (date of submission: June 29, 2022)\*

\* For more information, please see here.  
<https://corporate.murata.com/-/media/corporate/about/newsroom/news/irnews/irnews/2022/0629d/murata86gorep.ashx?la=ja-jp&cvid=20220629015325000000> (in Japanese)

Risk categories	Risk description	Primary response	Frequency of occurrence	Degree of impact
External environmental risks				
Risks relating to overseas business development	<ul style="list-style-type: none"> <li>Political situation in the corresponding country and region that we are entering, exchange rates, taxation and other legal systems, various regulations pertaining to finance and import/export, the status of social capital development, other special regional characteristics, and the impact of sudden changes in these factors</li> </ul>	<ul style="list-style-type: none"> <li>Thorough risk assessment before starting operations overseas</li> <li>Promote the multipolarization of production sites</li> <li>Build an alternative production system</li> <li>Build a system for gathering information about the international situation on multiple fronts</li> </ul>	Medium	High
Risks relating to exchange rate fluctuations	<ul style="list-style-type: none"> <li>Impact of exchange rate fluctuations on production, sales, and other business activities as well as the company's performance and financial condition</li> </ul>	<ul style="list-style-type: none"> <li>Configure the appropriate sales prices which anticipate exchange rate fluctuations</li> <li>Implement exchange contracts for a certain percentage of foreign currency denominated transaction amounts</li> </ul>	Medium	High
Risks related to financing	<ul style="list-style-type: none"> <li>Lack of internal funds for investment aimed at business growth and capital requirements for working capital</li> </ul>	<ul style="list-style-type: none"> <li>Fundraising through borrowing from banks and the issuing of domestic straight bonds</li> </ul>	Medium	Medium
Risks related to fund management	<ul style="list-style-type: none"> <li>Impact on portfolio assets due to deteriorating conditions in financial markets</li> </ul>	<ul style="list-style-type: none"> <li>Hold funds that are distributed across highly safe financial products</li> </ul>	Low	Medium
Risks related to environmental regulations	<ul style="list-style-type: none"> <li>Costs increase in order to adapt to domestic and overseas environmental regulations</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing initiatives to reduce waste</li> <li>Form an environmental committee chaired by the vice president in charge and promote the undertaking of environmental measures (▶p.71 Use of sustainable resources) (▶p.72 Preventing pollution and managing chemical substances)</li> </ul>	Low	Medium
Climate change related risks	<ul style="list-style-type: none"> <li>Introduction of a carbon tax and other energy cost increases (transition risks)</li> <li>Complete shutdown of major plants and raw material supply disruptions due to typhoons, heavy rainfall, and other abnormal weather (physical risks)</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of energy-saving measures and expanding the adoption of renewable energy for the reduction of CO<sub>2</sub> emissions</li> <li>Utilization of internal carbon pricing system</li> <li>Strengthen each initiative in accordance with TCFD and SBT guidelines (▶P.65 Strengthening Murata's response to climate change) (▶P.67 TCFD)</li> </ul>	Medium	Medium
Risks related to the suspension of business activities due to disasters and infectious disease, etc.	<ul style="list-style-type: none"> <li>Long-term suspension of business activities due to the occurrence of large-scale natural disasters and the spread of infectious disease, etc. at business locations</li> </ul>	<ul style="list-style-type: none"> <li>Place production sites in a distributed manner in domestic and overseas locations</li> <li>Implement disaster drills and business continuity drills on a regular basis</li> <li>Implement various measures to handle the novel coronavirus infection (▶p.73 Secure and safe workplace and health management) (▶p.79 Business continuity management (BCM))</li> </ul>	Low	High
Strategic risks				
Risks related to fluctuations in the demand for our products	<ul style="list-style-type: none"> <li>The occurrence of surplus assets, etc. or the loss of sales opportunities due to sudden changes in the global economic situation</li> </ul>	<ul style="list-style-type: none"> <li>Diversify risks through business development in the automotive market which has a comparatively long product life cycle</li> <li>Arrange for the appropriate production facilities and necessary staff based on medium to long-term demand forecasts</li> <li>Continuously improve production efficiency through the proactive utilization of IT technology</li> <li>Flexibly adjust production capacity and the number of working days</li> </ul>	Medium	High
Risks related to product competitiveness (market share)	<ul style="list-style-type: none"> <li>Decrease in the company's market share after a loss of competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Continuously release new, high value-added products</li> <li>Continuously and proactively promote cost reduction</li> <li>Develop a supply capability that is able to meet customer demand in a timely manner</li> <li>Maintain and expand our share through sales networks and other overall strengths</li> </ul>	Medium	Medium
Risks related to dependencies on specific partners and products	<ul style="list-style-type: none"> <li>Sales decline in the event that product sales of a specific partner stagnate</li> <li>Sales decline in the event that the demand for a specific product decreases</li> </ul>	<ul style="list-style-type: none"> <li>Partner diversification</li> <li>Earnings diversification through new businesses and other forms of expansion</li> </ul>	Medium	Medium
Risks related to M&A, business alliances, and strategic investment	<ul style="list-style-type: none"> <li>Notable changes in the market and competitive environments and conflicting interests between business partners or incurring additional costs due to the loss of human resources and the impact of the impairment loss of goodwill and long-term assets</li> </ul>	<ul style="list-style-type: none"> <li>Carry out a thorough risk analysis of the target market and business or the financial status of the partner company and regular verification of the corresponding matters, make course corrections as needed, and improve the effectiveness of collaboration</li> </ul>	Medium	High

Risk categories			Frequency of occurrence	Degree of impact
Management foundation risks	Risk description	Primary response		
Risks related to information security	<ul style="list-style-type: none"> <li>Information leaks due to internal fraud and the suspension of corporate activities due to cyber attacks</li> <li>Impact of the exposure of private information and the violation of legal and regulatory matters</li> </ul>	<ul style="list-style-type: none"> <li>Implement measures in terms of the three human, technical, and physical aspects based on information security management (▶P.80 Information security)</li> </ul>	High	High
Risks related to public regulations and compliance	<ul style="list-style-type: none"> <li>Disposition by a supervisory authority due to violations of the Antimonopoly Act, export and import regulations, and other public regulations, filing of a lawsuit, suspension of business activities, and other risks, damage to the corporate brand value, and loss of social trust</li> </ul>	<ul style="list-style-type: none"> <li>Install a Compliance Promotion Committee, enact a "Corporate Ethics Policy and Code of Conduct," and carry out compliance promotion activities (▶P.104 Compliance)</li> </ul>	Low	High
Risks related to intellectual property	<ul style="list-style-type: none"> <li>The outbreak of an intellectual property dispute with a third party that results in restrictions on the production and sale of the Group's products, compensation for damages, licensing consent fees, and other payments</li> </ul>	<ul style="list-style-type: none"> <li>Build a global intellectual property portfolio</li> <li>Survey and confirm the intellectual property rights of other companies at the appropriate time during design development (▶P.61 Strengthening technological capabilities for the future and underpinning)</li> </ul>	High	Medium
Risks related to taxation	<ul style="list-style-type: none"> <li>Payment of back taxes and the resulting damage to our credit worthiness</li> <li>Dual taxation due to taxation under transfer pricing regulations</li> </ul>	<ul style="list-style-type: none"> <li>Implement tax processing in accordance with "global tax policies"</li> <li>Establish a specialized tax organization</li> <li>Secure and train human resources with specialized knowledge and extensive experience</li> </ul>	Medium	Medium
Risks related to the hiring and securing of human resources	<ul style="list-style-type: none"> <li>Intensified competition to acquire human resources who possess superior expertise</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen our activities to hire human resources for new markets and outstanding human resources for DX</li> <li>Implement various measures to increase employee motivation such as expanding the education system to support capability development and personnel placement emphasizing capability and aptitude (▶P.59 Murata's human capital - Strengthening human resources base and organizational capabilities -)</li> <li>(▶P.75 Respect for human rights and diversity)</li> </ul>	Low	Medium
<b>Business execution risks</b>				
Risks related to the development of new technologies and products	<ul style="list-style-type: none"> <li>Contraction of existing markets due to technology innovation</li> <li>Impact of the shortening of the lifecycle of existing products</li> </ul>	<ul style="list-style-type: none"> <li>Continuous and proactive implementation of the research and development investment required for new technologies and new product development (▶P.23 Message from the Director of Corporate Technology &amp; Business Development Unit)</li> <li>(▶P.61 Strengthening technological capabilities for the future and underpinning intellectual property activities)</li> </ul>	Low	High
Risks related to procurement	<ul style="list-style-type: none"> <li>Suspension of the supply of material products and price increases due to problems in the business management of a supplier, deterioration of public order, spread of infectious disease, disasters (man-made and natural), depletion of resources, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Secure adequate stock based on a material product inventory policy, shift to multiple vendors, and confirm Business Continuity Planning (BCP) by suppliers in advance</li> <li>Create a database of the production locations of material suppliers and develop a rapid recovery and response system by formulating an initial response flow</li> </ul>	Medium	Medium
Risks relating to customer trust	<ul style="list-style-type: none"> <li>Unable to collect account receivables due to customer bankruptcy, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Partner diversification</li> <li>Configure transaction conditions that take continuous credit risk evaluation into consideration</li> </ul>	High	Low
Risks related to quality	<ul style="list-style-type: none"> <li>The occurrence of compensation liability and loss of trust due to accidents caused by product quality, market recalls, and production suspension, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a quality assurance system to observe product compliance</li> <li>Audit and provide guidance to suppliers and other collaborators</li> <li>Build in quality during every stage from development to shipping (▶P.31 Murata's monozukuri (manufacturing) which creates core competencies)</li> </ul>	Medium	Medium

## Measures for COVID-19

Amid the repeated resurgence and containment of the COVID-19, Murata has continued operations at the Group's locations around the world while focusing on the safety and health of its employees and business partners as well as provide peace of mind to everyone in the community. In response, in addition to monitoring the status of new infections, we carried out various measures to prevent infection, control the spread of infection and ensure business continuity, and with the employees' strong

sense of responsibility and their behavior to prevent infection, fulfilled our responsibility to globally supply electronic components that support society and connect the supply chain.

Going forward, Murata will continue to carry out measures based on the latest status of infections and medical knowledge and engage in initiatives to minimize the impact of COVID-19 on the health of the employees and Murata's business activities.