

Risk management

Basic view

Murata has established a risk management system to properly manage various risks both internal and external in relation to business activities in order to continuously increase the corporate value of the Group as a whole. In addition, Murata regularly classifies and evaluates each risk in relation to business operations as a whole and takes proactive measures depending on the priority, thereby mitigating risks that may have significant impact on business activities.

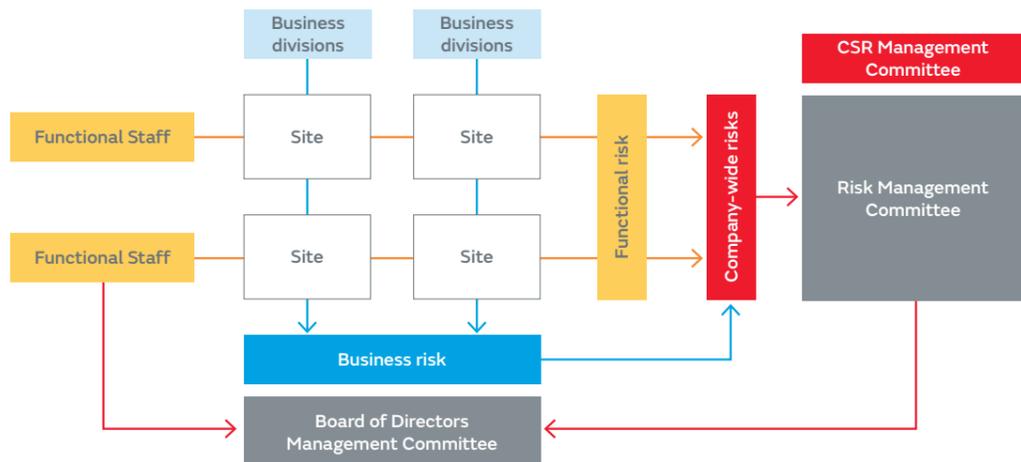
Promotion structure

Murata has established a Risk Management Committee as a subordinate body of the CSR Management Committee chaired by the President. This committee is chaired by a Member of the Board of Directors and Executive Vice President and comprises Directors from departments including General Affairs, Personnel & Industrial Relations, Accounting, Finance, Corporate Planning, Corporate Communications, Intellectual Property, Environmental Affairs, Information Systems, and Legal Affairs. Together, the committee members study ways to address risks company-wide. We have also established the Data Security Subcommittee and BCM* Subcommittee as subordinate organizations to study and take measures to address particular risks.

- ▶ p.91 Business continuity management (BCM)
- ▶ p.92 Data security

* BCM (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 preventive measures, and to conduct, check, and continually improve education and training for permeating initiatives.

Company-wide risk management system



Understanding risks

The Key Functional Staff Department and the Business Division responsible for implementation, which are responsible for risks, extract the risks that the Murata Group 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.

Risks associated with business, etc.

Factors that may potentially have significant influence on investor decisions include the following. For more details about each risk, refer to the Annual Securities Report (the date of submission: June 29, 2021) (URL: <https://corporate.murata.com/ja-jp/ir/library/financial>; in Japanese).

Classification of risks	Details of risks	Main measures
Risks regarding external environment		
Risks associated with business expansion in overseas markets	<ul style="list-style-type: none"> Impact on our business due to rapid changes in various factors including political situation, foreign exchange, taxation, legal systems, regulations regarding finance and import/export, status of the development of social capital and other region-specific matters in the countries or regions where Murata operates. 	<ul style="list-style-type: none"> Thorough risk assessment before expanding overseas Promotion of multiple production bases Establishment of alternative production systems Establishment of a system to gather information on international affairs from various sources
Risks related to foreign exchange	<ul style="list-style-type: none"> Impact of fluctuation of exchange rate on business activities such as production and sales 	<ul style="list-style-type: none"> Appropriate pricing based on the assumptions of exchange rate fluctuations Conclude forward exchange contracts for a certain percentage of the foreign currency-denominated transaction amount
Risks related to financing and fund management	<ul style="list-style-type: none"> Lack of internal funds required for investments for business growth and working capital Impact of deterioration of financial market conditions on owned assets 	<ul style="list-style-type: none"> Financing through borrowing from banks or issuance of straight bonds in Japan Diversified investments in highly secure financial products
Risks related to environmental regulations	<ul style="list-style-type: none"> Increased cost to respond to the changes of environmental regulations in Japan and abroad 	<ul style="list-style-type: none"> Continuous efforts to reduce waste Promotion of environmental measures by establishing the Environmental Committee chaired by a vice president in charge (▶ p.81 Use of sustainable resources) ▶ p.83 Pollution prevention and chemical substance management
Risks related to climate change	<ul style="list-style-type: none"> Increased energy costs such as introduction of carbon tax (transition risk) Interruption of major factories and procurement of materials due to extreme weather such as typhoon and heavy rain (physical risks) 	<ul style="list-style-type: none"> Implementation of measures for energy conservation and reduction of CO₂ emissions Execution of internal carbon pricing system Improvement of measures to meet TCFD and SBT guidelines (▶ p.75 Strengthening Murata's response to climate change) ▶ p.77 TCFD
Risks of suspension of business activities due to natural disasters, infectious diseases, etc.	<ul style="list-style-type: none"> Long-term suspension of business activities due to major natural disasters or outbreak of infectious diseases in the areas where Murata's offices are located 	<ul style="list-style-type: none"> Placement of production facilities in diversified locations in and outside of Japan Regular emergency drills and other drills for business continuity Implementation of measures for COVID-19 (▶ p.84 Safe and worry-free workplaces and health management) ▶ p.91 Business continuity management (BCM)
Strategic risks		
Risks associated with fluctuation in demand for our products	<ul style="list-style-type: none"> Surplus asset or loss of sales opportunities due to rapid changes in global economy 	<ul style="list-style-type: none"> Risk diversification through business expansion in automobile market, in which product life cycles are relatively long Appropriate adjustment of production capacity and placement of required human resources based on the medium- to long-term demand forecast Continuous improvement of productivity by actively utilizing IT Flexible adjustment of production capacity and the number of operating days
Risk associated with product competitiveness (market share)	<ul style="list-style-type: none"> Decreased market share of the company due to loss of competitiveness 	<ul style="list-style-type: none"> Continual introduction of new products with high added value Continuous and proactive promotion of cost reduction Maintenance of supply capability to meet customer needs in a timely manner Maintenance and growth of market share leveraging the company's comprehensive capabilities including sales network
Risks associated with reliance on certain suppliers or products	<ul style="list-style-type: none"> Decline in sales due to decreased product sales for a certain supplier Decline in sales due to reduced demand for particular products 	<ul style="list-style-type: none"> Diversification of customers Diversification of revenue by new business expansion
Risks related to M&A, business tie-ups or strategic investments	<ul style="list-style-type: none"> Significant changes in market environment or competitive environment, conflict of interest between parties, additional cost associated with outflow of human resources, impairment losses of goodwill or other long-lived assets 	<ul style="list-style-type: none"> Thorough risk analysis of the target market or business, or business conditions of potential partners, regular review on the particular project, making adjustment as required and improvement of effectiveness of collaboration
Risks with business foundation		
Risks related to data security	<ul style="list-style-type: none"> Information leakage due to internal fraud and suspension of business activities due to cyberattack Impact of leakage of personal information and violation of regulations 	<ul style="list-style-type: none"> Personnel, technical and physical measures based on data security management (▶ p.92 Information security)
Risks related to public regulations and compliance	<ul style="list-style-type: none"> Punishment from regulatory agencies, lawsuits, suspension of business activities, damage to the corporate brand or loss of social credibility due to violation of regulations such as antitrust laws and import/export restrictions 	<ul style="list-style-type: none"> Establishment of the Compliance Promotion Committee, formulation of the Corporate Ethics Policy and Code of Conduct and implementation of compliance promotion activities (▶ p.72 Compliance)
Risks related to intellectual property	<ul style="list-style-type: none"> Restriction on production or sales of Murata's products or payment obligation for damages or license fee due to intellectual property dispute with the third party 	<ul style="list-style-type: none"> Establishment of global portfolio of intellectual properties Research and verification on intellectual properties of other companies at appropriate timing in design and development phase (▶ p.22 Murata's intellectual property)
Risks related to taxes	<ul style="list-style-type: none"> Payment obligation for additional tax and accompanying damage to our reputation Double taxation due to transfer pricing 	<ul style="list-style-type: none"> Implementation of tax treatment complying with Global Tax Policy Establishment of an organization specialized in taxation Securing and training personnel with expertise and experience
Risks related to hiring or retaining personnel	<ul style="list-style-type: none"> Intensifying competition in recruiting personnel with excellent expertise 	<ul style="list-style-type: none"> Enhancement of recruitment activities of human resources for new markets, or for DX Expansion of training system for human resources development, appropriate staffing focused on skills and capabilities of employees, and other initiatives to improve employees' motivation (▶ p.86 Respect for human rights and diversity)

Classification of risks		
Risks associated with business operations	Details of risks	Main measures
Risks related to development of new technologies or products	<ul style="list-style-type: none"> ● Shrinkage of existing markets due to technological innovation ● Impact of shortened lifecycles of existing products 	<ul style="list-style-type: none"> ● Continuous and active investment in R&D for new technologies and new products (▶ p.49 Message from the Director of Corporate Technology & Business Development Unit)
Risks related to procurement	<ul style="list-style-type: none"> ● Disruption to procurement and increased cost of materials due to suppliers' operational problems, deterioration of public security conditions, pandemic of infectious disease, disasters (man-made/natural), depletion of resources, etc. 	<ul style="list-style-type: none"> ● Ensuring appropriate level of inventory based on material inventory policy, implementation of multi-vendor, prior confirmation of suppliers' BCP status ● Operating databases on suppliers' source locations of materials, developing ways to quickly implement responses by designing initial response frameworks
Risks related to customer credit	<ul style="list-style-type: none"> ● Uncollectible trade account receivables due to customer bankruptcy 	<ul style="list-style-type: none"> ● Diversification of customers ● Establishment of terms and conditions considering continuous credit risk assessment
Risks related to quality	<ul style="list-style-type: none"> ● Payment obligations for damages and damage to credibility due to accidents, recalls or suspension of production resulting from the quality of products 	<ul style="list-style-type: none"> ● Development of quality control system to comply with product compliance ● Audit or training for suppliers and other business partners ● Ensuring perfect quality in every phase of production from design to shipping (▶ p.22 Quality control at Murata)

Initiatives to combat COVID-19

Amid the global pandemic of COVID-19, Murata has played its role to globally supply electronic components that support society and maintain supply chains while focusing on the safety and health of employees and suppliers as well as the security of local communities as a priority.

At Murata, the Crisis Response Team set up at the headquarters has decided on and carried out various measures to prevent infection, control the spread of infection and ensure business continuity, and with employees' strong sense of responsibility and their behavior to prevent infection, we have endeavored to continue our business activities.

Specifically, we have introduced measures to prevent employees from being infected, including introduction of telecommuting and staggered working hours, restrictions on business trips, keeping logs of employee movement in company properties, partitions set up in canteens and workplaces, and requesting employees to use self-restraint in their private behavior, and designed BCPs to be prepared for potential infection of employees. We thus have worked to minimize potential impacts on employee health and our business activities from COVID-19. (▶ p.84 Safe and worry-free workplaces and health management)

Message from Outside Director

Murata has taken measures for risks that may affect its business activities depending on the significance. However, to further improve its effectiveness, the company started new initiatives by taking a broader view of risks. Recently, the internal and external business environments have been changing rapidly, and expectations from stakeholders are rising. In response to these trends and stricter requirements for disclosure, the company is shifting from individual risk management to a new risk management system with a group-wide perspective, considering the value creation process and vision for 2030 and the Murata Philosophy. Specifically, Murata takes a broader view of risks that may affect realization of the Murata Philosophy or the achievement of the strategy, thoroughly examines risk scenarios from functional and business points of view, and

classifies the risks into four categories depending on the risk source; external environment, strategy, business foundation, business execution, which make it easier to comprehend.

In the rapidly changing business environment, for the company to identify the priority issues in management balancing between sustainability management and taking appropriate risks, it is important to not only determine risk tolerance but also assess the significance of risks from various perspectives including scope of impact, timeframe, etc. Regarding these new initiatives, as an Outside Director, I would like to contribute to increasing corporate value by overseeing whether the company is improving organizational risk sensitivity, promptly responding to the changes, and whether it is improving its overall risk management.



Outside Director and Audit and Supervisory Committee Member

Hyo Kambayashi