

Risk Management

Risks

Described below are matters related to the Group's business that are considered as the main sources of risks and that could significantly impact investors' decision-making. Should these risks materialize, they could impact the Group's overall business activities, possibly affecting its earnings performance and financial status.

Details of risks		Major initiatives		Key related topics*		
				I	II	III
Risks relating to the external environment						
Related to social conditions						
● Political or economic factors in each country			○	○		
● Impact of taxation and trade restrictions			○			
● Differences in commercial practices outside Japan			○			
● Social turmoil stemming from natural disasters (earthquakes, fires, floods, tsunami, etc.), wars, riots, terrorism, infectious diseases, strikes, and other factors		We are striving to prevent, avoid, and reduce the impact of risks related to changes in the external environment through the collection of information within the Group, contracts with external parties, and other initiatives.		○	○	
● Cyberattacks affecting the Company's products, services, and infrastructure			○			
● Incomplete understanding of regulations, sanctions, patents, etc., and new laws or revision of regulations, in countries where we operate, including those pertaining to the protection of the environment			○	○		
● COVID-19			○	○		
Related to fluctuations in foreign exchange rates, interest rates, and stock prices					○	
● Rapid/significant foreign exchange rate fluctuations		In connection with risks involved in the fluctuation of foreign exchange rates, interest rates, and stock prices, we are engaged in measures such as forex contracts to address the potential impact of foreign currency fluctuations.			○	
● Increase/decrease of interest earnings and impact on assets value due to interest rates fluctuations					○	
● Stock price movements					○	
Risks relating to strategy						
Related to markets/competitive environment		Regarding risks related to the market and competitive environments, we are working to increase the cost competitiveness of products and services that are required by the markets and to satisfy cost reduction requests. We are also endeavoring to create new value through digital transformation in a broad array of areas, mainly among our business partners, not to speak of our own company, in order to secure competitive advantages. Moreover, we are pushing ahead with the transformation of business models by, for example, seeking to establish a results-based business and a recurring business that emphasizes the offering of services. Regarding energy, initiatives to address environmental changes such as a shift in energy use from a long-term perspective are under discussion, and we are working to respond to such changes in the market environment.	○			
(1) Cost competitiveness			○			
(2) Establishment of competitive advantages by the use of digital technologies						
(3) Transformation of business models to match market needs			○			
● Loss of business opportunities						
(4) Changes in the market environment due to climate change initiatives						
● Loss of business opportunities and decline in corporate value					○	
Related to strategic investment		Regarding risks related to strategic investment, we are intensifying our focus on strategic growth investments, primarily for expansion into new businesses and new fields. Further, we are striving to steadily implement processes from project discovery to investment, to improve the accuracy of evaluation and verification, and to swiftly launch businesses after investment.	○	○		
● Assumed results not achieved due to unexpected environmental change						
● Assumed results not achieved due to delay in launching invested business			○	○		
Related to R&D		Regarding risks related to research and development, we are continuously pushing forward with the development of new technologies, with basic research of measurement, control and information, and the development of advanced technologies and digital technologies such as IIoT and AI as our topmost management priorities. We are strengthening initiatives to adapt to changes in international codes and standards, and to aid the realization of a sustainable society, as represented by SDGs. We are also continuing to invest in R&D for product technologies and service innovation to ensure we maintain our competitiveness while seeking to understand market trends in product and service areas with growth potential.	○			
● Nonconformance with market needs and targets			○			
● Conform to requirements but no innovative technology created, and assumed results not achieved			○			
● Allow other companies to take a lead			○			
Related to the recruitment and training of human resources		Regarding risks related to recruitment and the training of human resources, we have globally employed people with the ability to propose solutions, with project management and engineering capabilities, and with technology and knowledge regarding digital technology and new businesses. And we have educated and trained the people that we employ.	○			
● Unable to secure necessary human resources			○			
● Unable to complete training as planned						
Related to human rights		As for human rights-related risks, we have established the policy to respect human rights and expressed our support for the U.N. Global Compact. We have established guidelines for human rights initiatives in supply chains, and we undertake activities to ensure that internationally required human rights are respected.	○	○		
● Compensation liability incurred			○			
● Decline in corporate value						
Related to depreciation of owned assets		—		○		
● Decline in asset value stemming from a fall in market prices and profitability, etc.						
Risks relating to operations						
Related to product quality and supply		Concerning risks related to product quality and supply, we are accumulating technology and expertise while ensuring our strict quality management system stays in place. We are also endeavoring to achieve stable procurement by routinely collecting information on market trends impacting our main electronic components and other materials we procure, and to ensure thorough management of supplier information, including quality and delivery time, as we work to diversify our supply sources and avoid excessive concentration and dependence on particular suppliers.	○			
● Defects inherent in products or services			○	○		
● Loss arising from a defect						
● Product supply delayed or halted			○			
Related to project management		Regarding risks related to project management, we are striving to prevent the occurrence of unprofitable projects through efforts, including profit estimation in the process leading up to the receipt of orders, the improvement of the accuracy of profitability management until delivery time, and thorough control of production and quality.	○	○		
● Unexpected cost arises			○	○		
● Compensation liability incurred due to delayed delivery, etc.			○	○		
Related to intellectual property rights		Concerning risks related to intellectual property rights, we expend every effort to protect our intellectual property rights in the process of developing our products and services, and thoroughly manage intellectual property rights to prevent our infringement of other companies' rights.	○			
● Unable to use important technology			○	○		
● Compensation liability incurred			○			
● Decline in corporate value			○			
Related to information security		Regarding information-security-related risks, we are working to improve our information management system and providing training on the subject.	○	○		
● Compensation liability incurred			○			
● Decline in corporate value			○			

*Key related topics

- I. The risks that were the background behind the formulation and review of **the long-term business framework and the AG2023 medium-term business plan** were mainly examined from perspectives evaluating political, economic, social, and technological trends, customer trends, and trends in the process automation industry. The risks were reflected into Yokogawa's Purpose, Vision statement, and various strategies.
- II. On the **financial** front, risk scenarios are developed mainly from perspectives considering overseas and domestic economic crises, natural disasters, environmental and energy constraints, infectious diseases, and sluggish new businesses. These scenarios are utilized in the verification of safety, medium- and long-term balance sheet projections, M&A decision-making, and other activities.
- III. Assuming that there will be damage caused by **climate change** (physical risks) mainly due to natural disasters and that climate change will force changes (transition risks) mainly due to the decrease of businesses dependent on fossil fuel-based energy and the delay in climate change measures, we will accelerate our climate change initiatives including those recommended by the TCFD.

Risk Management

Risk Management Structure

To ensure effective risk management within the Group, we have established the Risk Management Committee chaired by the President and CEO, who is responsible for supervising all matters in relation to risk management. We identify the risks posed by uncertainties that may affect the Group's corporate value, including uncertainties in the external environment such as climate change, strategies, product quality, the internal environment, health and safety, crisis management, and corporate ethics. We also categorize and manage these uncertainties in terms of the external environment, strategies, and operations.

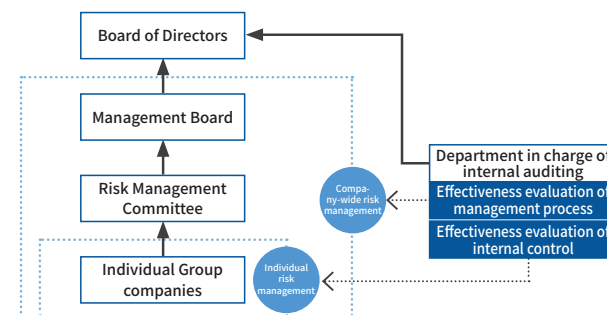
The department in charge of internal audits evaluates the effectiveness of the Group's risk management process and reports important findings to the Board of Directors and the Audit & Supervisory Board members twice a year.

In addition, in the event that a risk materializes, and a crisis occurs that may have a serious impact on the Group's management, the Crisis Management Committee, chaired by the President and CEO, will respond.

Promoting Risk Assessment and Risk Management

Each year, individual Group companies identify their own risks and measures, and the Risk Management Committee selects the risks to be intensively managed (priority management risks), taking into account management strategies, management issues, and the external risk environment. In selecting them, we evaluate the severity of risks in terms of their impact and likelihood of occurrence. The content and progress of measures to address priority management risks are reviewed quarterly, the status of risks is evaluated by the Risk Management Committee, and reports are made to the Management Board and the Board of Directors. We also implement a review of measures and identify areas for improvement. These are reflected in the selection of priority management risks for the following year.

In addition, individual Group companies autonomously conduct PDCA cycle to manage risks identified.



PDCA for Risk Management



Compliance

Yokogawa places the utmost priority on compliance and conducts its business activities in compliance with relevant laws, regulations, ordinances, and social norms while upholding the highest of ethical standards. Directors take the lead in the Group's adherence to and dissemination of business ethics. The Yokogawa Group Code of Conduct sets out the Basic Policy and Standards of Conduct, which employees should observe to realize Yokogawa's corporate philosophy, while the Yokogawa Group Compliance Guidelines prescribe the specific actions each and every employee should take.

Yokogawa aggressively promotes management practices built upon a foundation of compliance through the establishment of a business ethics department that is responsible for developing a compliance promotion structure and identifying and addressing issues pertaining to it. Yokogawa's goals are to be healthy and open, with both a culture that encourages and enforces proper ethical conduct and a system that prevents misconduct and scandal. In so doing, Yokogawa will meet the expectations of investors and other stakeholders.

PDCA Cycle for promoting Compliance



Yokogawa Group Compliance Guidelines

The United Nations Global Compact

Yokogawa signed the United Nations Global Compact in 2009 and expressed its support for the Compact's 10 principles addressing human rights, labor, the environment, and anti-corruption. We are working with our stakeholders to uphold the 10 principles through efforts.

ISO26000

The ISO26000 standard published by the International Standardization Organization in November 2010 is an international standard relating to the social responsibilities of organizations. Yokogawa is a company active in the global marketplace, and it adheres to the ISO 26000 standard and regards corporate governance as a foundation for corporate management. As such, we are committed to the implementation of socially responsible activities to meet our stakeholders' expectations, including contributing to communities through our business operations, environmental conservation, and respecting human rights.

Internal Control

Yokogawa has established and is operating an internal control system to promote management efficiency while ensuring the appropriateness of business operations, and to achieve continuous growth and increase corporate value.

The Group Management Standards were established as the most important regulations within Yokogawa Group, clarifying the roles and responsibilities of each business process, and implementing an internal control system based on autonomous control activities. Among the internal control systems, processes that are particularly important from the perspective of operational appropriateness are consolidated into a deployment system consisting of business ethics, decision-making, operations management, crisis management, and corporate auditing infrastructure. The system of overall responsibility for the Group has been established and is being operated. The person responsible for each process is responsible for providing supervision and guidance to ensure (i.e., maintain and improve) the effectiveness and efficiency of internal controls at each Group company.

In operating the internal control system, relevant result indicators and action indicators are clearly defined and PDCA is followed. The department in charge of internal audits conducts an internal audit of the effectiveness of the internal control system and reports important matters to the Board of Directors and the Audit & Supervisory Board Members.

Respect for Human Rights

Yokogawa Group Human Rights Policy

All of our business activities for value co-creation are based on respect for human rights. By deepening our understanding of the various human rights issues in the countries and regions where we conduct our business, and by being actively involved in resolving them, we must strive to ensure that people's dignity is protected and respected. We have established the Yokogawa Group Human Rights Policy as a commitment to fulfill this responsibility. The Policy is disclosed on the Group's website.

<https://www.yokogawa.com/about/sustainability/humanrights/>

Human Rights Management

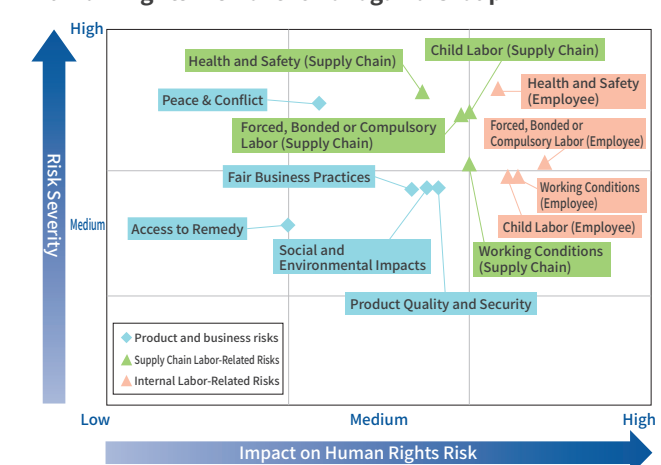
We have established an internal system in which the President and CEO have the highest responsibility for human rights in the Group, and we are implementing ongoing efforts. The Human Rights Working Group, whose members are selected from the departments related to human rights, is working on specific human rights initiatives.

Human Rights Due Diligence

Yokogawa is committed to implementing human rights due diligence to identify, prevent, and mitigate any potential negative impacts on human rights throughout our business and the supply chain and to achieve accountability for our activities.

We have set up whistleblowing hotlines for everyone working at Yokogawa as a means to prevent human rights violations. We accept reports from and listen to the problems of our customers, business partners, community members, and all stakeholders about human rights violations through the inquiry function (Contact Us) of our website. We have a system that allows the department in charge of business ethics to resolve any reported issues regarding human rights in cooperation with human resources, procurement, legal, and other departments.

Human Rights Risk of the Yokogawa Group



Major Human Rights Initiatives in FY 2022

Internal human rights risk assessment activities	Following our assessment of manufacturing sites in fiscal year 2021, we implemented a Self Assessment Questionnaire (SAQ) concerning issues such as "forced, bonded, or compulsory labor," "occupational health and safety," and "working conditions" at 33 engineering sites in Japan and overseas. Although there were no high-risk sites requiring immediate action, we will continue to communicate with them to reduce the risk of human rights violations.
Conducted human rights due diligence for critical suppliers	We conducted human rights due diligence on important business partners using a SAQ. We identified high-risk business sites and engaged in communication to bring about improvements.
Revised Sustainable Procurement Guidelines	Implemented revisions in line with the amendment of international procurement standards.
Education and awareness-raising programs on respect for human rights	We are working to encourage employee participation through measures such as the provision of educational materials in multiple languages. We distributed awareness-raising content to all employees on World Human Rights Day.
Human rights helpline and remedy procedures	In line with the partial revision of the Whistleblower Protection Act in Japan, the related internal rules have been revised and communicated to employees.
Update risk map	We reevaluated risks internally based on changes in the external environment, the progress of internal initiatives, and future continuity, and renewed the risk map to reflect these.