

VII. Risk Management and Compliance

Risk Management

To avoid losing enterprise value and the trust of the public, the azbil Group strives to accurately understand and minimize risk factors with the potential for serious impact on operations, including unpredictable events and uncertainties.

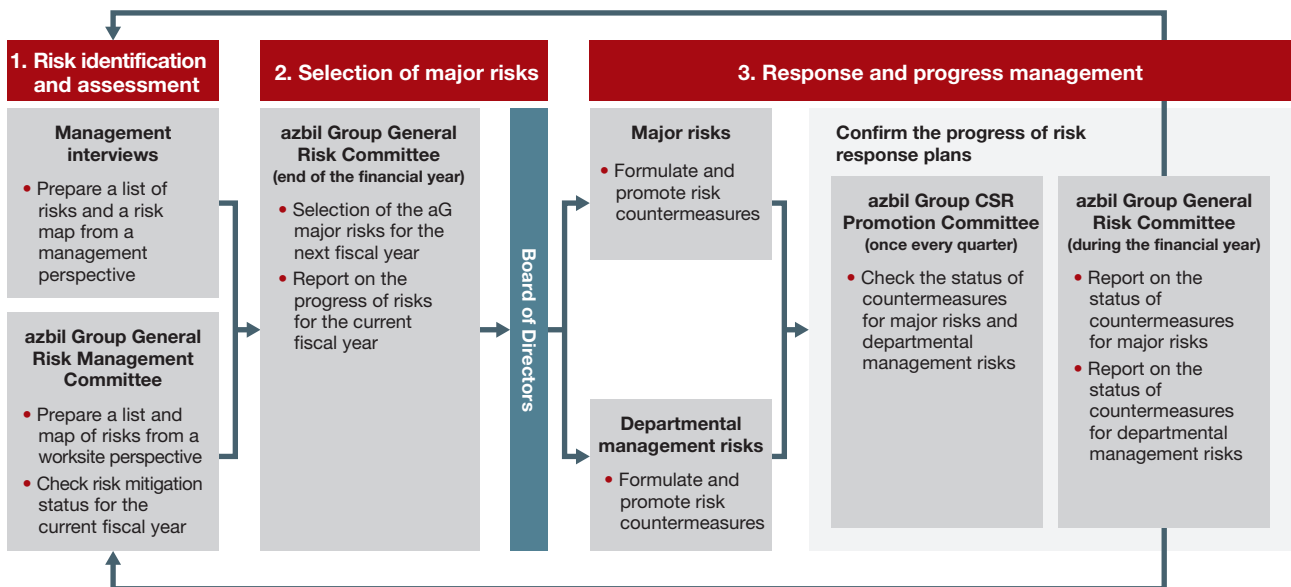
The azbil Group risk management

To minimize risk from possible future events, we carefully review risks every year. Starting from FY2023, we have selected major risks based on new criteria, judging that risk management must integrate bottom-up and top-down approaches. We have changed the procedure to ensure that top management has a full understanding of the

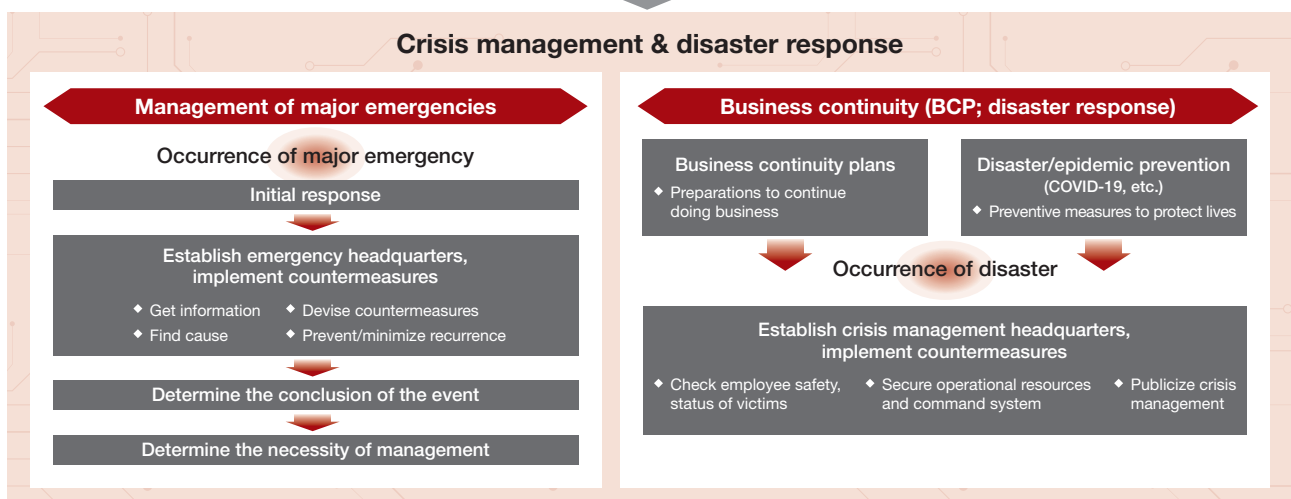
information from the bottom (departments handling onsite work), enabling more informed decision-making. The officer in charge of major risks and the head of the department in charge of departmental management risks implement strategies to mitigate the risks.

We have also established a crisis management response system to help us respond to crises and emergencies, with the aim of minimizing the impact of any crisis that occurs. We are also building and strengthening our response system for major emergencies. Furthermore, we have formulated many kinds of detailed business continuity plans (BCPs) as we continuously strive to improve our systems as part of our business continuity management.

Risk management process



Crisis management and disaster response (handling of major incidents)

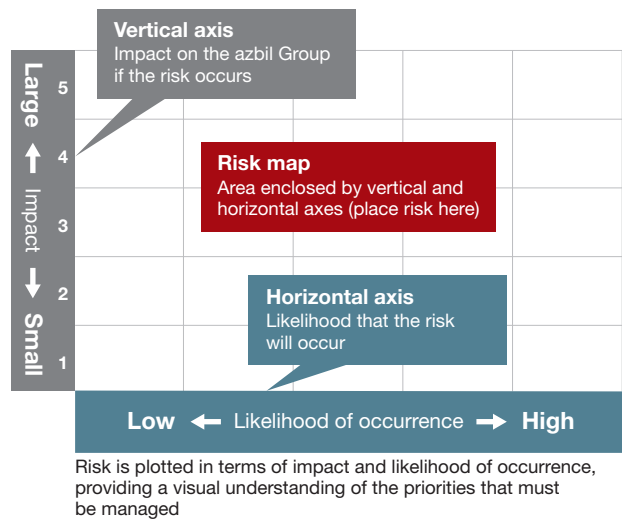


Risk management system

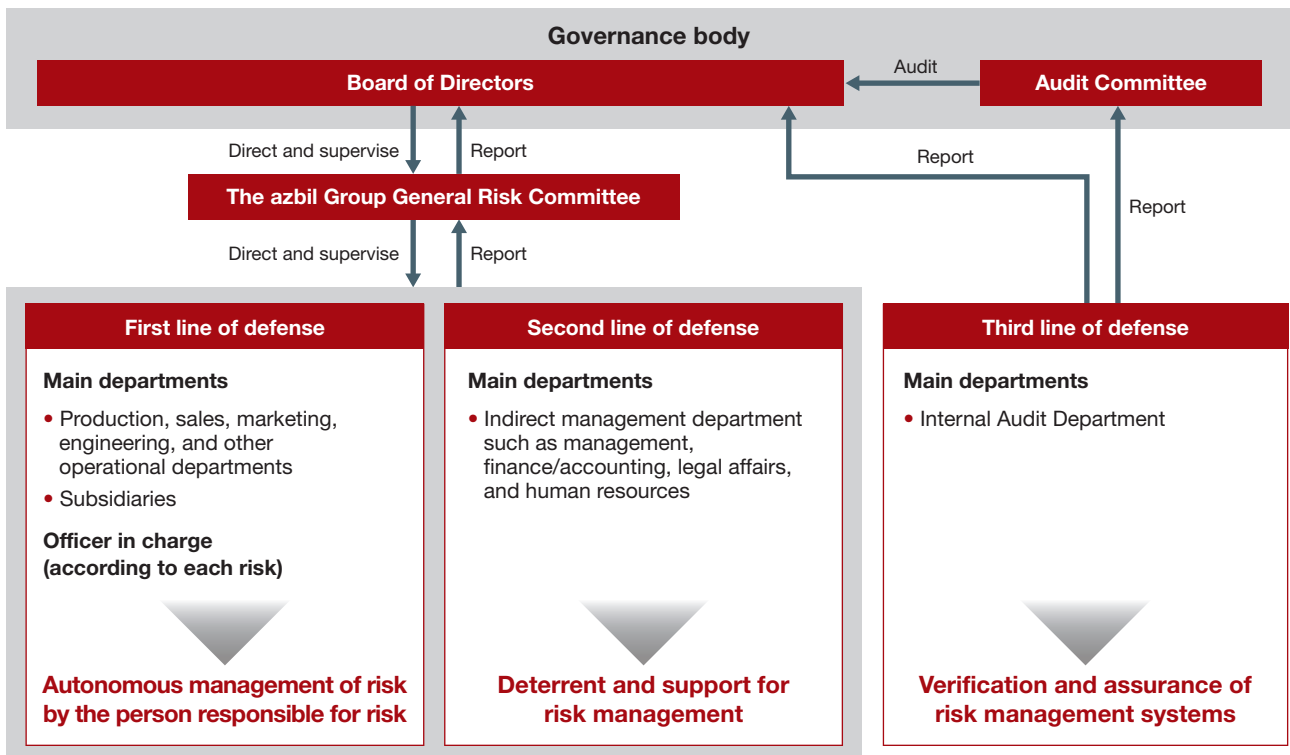
The company manages risk based on three lines of defense. In the azbil Group's overall activities, we are working to improve the organization's internal control and risk response functions through three lines of defense, with clearly defined responsibilities. As the first line of defense, we are strengthening autonomous management by clearly identifying an officer responsible for each risk. As the second line of defense, departments with indirect management are primarily responsible for developing and managing countermeasures and providing support for risks that should be addressed by the entire organization, thereby functioning to deter risk and support risk management. As the third line of defense, the Internal Audit Department verifies and ensures the risk management systems of the first and second lines of defense. We conduct a comprehensive identification of risks that may have a significant impact on management and assess their degree of impact and likelihood of occurrence. Interviews are conducted with management to identify and evaluate risks from management's perspective. The azbil Group General Risk Management Committee identifies and evaluates risks from the perspective of work sites and compiles the results of these two activities into a list of risks with evaluations and a risk map (a document in which risks are arranged in a 5 × 5 matrix based on impact and likelihood of occurrence).

Moreover, we have established quantitative evaluation criteria for evaluating the magnitude of impact and the frequency of occurrence of risk so that we can objectively compare and integrate the results of our evaluations. Based on these data, management deliberates in the azbil Group General Risk Committee and selects the aG major risks and also departmental management risks. These are then deliberated and finalized by the Board of Directors.

Risk map



Risk management system based on three-line defense



Risk Management

Business-related and other risks

Risks that may affect the business results and financial position of the azbil Group are summarized below. These risks are deliberated on by the azbil Group General Risk Committee and the Board of Directors, and are managed

comprehensively. In addition to this overall management, related departments also take measures to mitigate risk. Information in the table that pertains to the future was judged by the Group to be valid as of the end of FY2022.

Major Risks	Countermeasures
1. Risks to quality	<ul style="list-style-type: none"> To reduce the occurrence of non-conforming products, implement standards related to the development process and safe design, implement standard procedures at each production work site, using an inspection system to provide safe products, manage and improve production lines to maintain proper inspection work processes, and work on business process inspections Standardize processes for checking regulations on chemical substances in products and checking product safety-related regulations and standards at the product development and mass production stages
2. Risks to information security	<p>Ensure confidentiality of important information and comply with laws on personal information protection</p> <ul style="list-style-type: none"> Install PC storage encryption and email mis-delivery prevention add-in software Restrict access to the internet from inside the company Education through azbil Group information security training <p>Cyber-attack countermeasures</p> <ul style="list-style-type: none"> Periodic training to create a strong IT environment and improve employees' information literacy (ability to use information) Network protection and monitoring Separate production facilities and office networks Malware countermeasures for the system and the PCs that use it
3. Risks to technology and product development	<p>Delay in responding to technological innovation</p> <ul style="list-style-type: none"> Understand trends in relevant technology, among competitors, and in international standards Check the status of initiatives in AI, cloud computing, telecommunications, custom ICs, etc., at development-related meetings, etc. <p>Lack of technology and product development themes</p> <ul style="list-style-type: none"> Needs and seeds matching activities for theme identification Address the creation of an ecosystem through collaboration with technology development partners both in Japan and abroad Strengthen the system for enhancing the competitive advantage of our technology in sensing devices (MEMS, etc.), actuators, and cloud computing in order to enhance our product-provision capabilities <p>Development delays, lack of human resources</p> <ul style="list-style-type: none"> Implement countermeasures against development delays due to inadequate management of R&D processes (improve development process standards) Secure resources through strengthened cooperation among development departments and proper allocation of human resources Create strategies for optimal allocation, training, and mobility of development personnel (introduce a talent management system)
4. Risks related to change in the international situation	<p>Collect information on changes in geopolitical risks in each country and region where the company operates</p> <ul style="list-style-type: none"> Assess risk by country and develop a manual for human safety Create BCPs that take into account changes in international conditions, etc. Focus consideration on events with lethal impact, such as scenario planning for specific regions Take note of changes in export control-related laws and regulations, international circumstances, and related domestic and overseas laws and regulations, and collect information and properly manage exports (conduct internal operational system reviews, etc., with respect to export transaction screening)
5. Risks related to natural disasters	<ul style="list-style-type: none"> Make major facilities and buildings, such as factories, etc., earthquake-proof, set up power and communication networks for emergencies, and stockpile emergency supplies. Implement an employee safety confirmation system, create initial response guidelines to ensure safety at each location, and conduct periodic disaster drills and initial firefighting drills Formulate and continuously refine BCPs to address business interruptions and impediments Secure necessary funds and inventories of products and parts, and establish alternative locations and systems for continuing the highest priority operations Reduce the risk of concentration by dispersing production bases through reorganization of production and R&D divisions and transferring major production items to other regions in Japan and to overseas factories in China and Thailand Formulate a production response plan that assumes a situation similar to a lockdown, such as restrictions on activities in the Tokyo metropolitan area, etc.
6. Risks related to human resources	<ul style="list-style-type: none"> Reassign and reskill the workforce in response to changes in business structure Survey the transfer intentions of all employees, introduce an open challenge program (a program for transferring employees to the department of their choice) and assign the right people to the right jobs Implement a succession plan for veteran employees with advanced skills and knowledge levels so that they can pass on their skills and know-how Strengthen recruiting activities based on a workforce plan that integrates the business and HR departments in response to changes in the recruiting environment Improve productivity by using DX for business restructuring, allocating workload appropriately using outsourcing, extending the employment of those aged 65 and above, re-skilling veteran employees, and introducing a system of shorter days and shorter working hours In addition to hiring new graduates and mid-career hires, hire persons recommended by employees, rehire experienced employees, and hire personnel from overseas as 10% of new graduate hires to secure the human resources needed to develop business overseas and new business Develop recruitment methods and know-how at the head office and acceptance of interns at home and abroad as measures to strengthen recruitment at overseas subsidiaries and affiliates

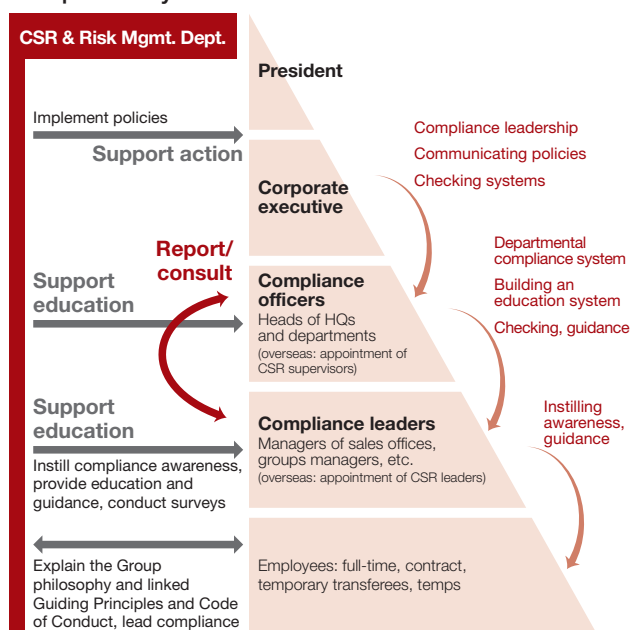
Compliance and Internal Control

As part of our efforts to fulfill our basic responsibilities as a member of society, we strive to establish a compliance and internal control system for the entire azbil Group in all our operations in Japan and abroad.

Promotion system, initiatives Compliance system

The azbil Group has built a compliance system in which a corporate executive is appointed to drive and oversee compliance efforts in Japan and overseas, as well as a compliance officers (overseas called CSR supervisors who are responsible for CSR including compliance), as shown in the chart below. Compliance leaders (overseas called CSR leaders = CLs) are responsible for spreading compliance in the workplace, identifying problems, and reporting to compliance officers.

Compliance system



Building internal control systems and complying with J-SOX

We have established the Basic Policy on Internal Control System Architecture, which officers and employees must comply with, and disclose the status of its operation. In FY2022 we revised the basic policy in line with our transition to a three-committee Board structure. In addition, we are working to improve our accounting standards and strengthen our internal controls with a view to complying with the Financial Instruments and Exchange Act and the internal control reporting system (J-SOX), and voluntarily applying the International Financial Reporting Standards (IFRS). In FY2022, we implemented internal control measures in preparation for the change in the fiscal year of

some overseas subsidiaries starting in FY2023. (Instead of December 31, their fiscal year will end on March 31, the same end date as Azbil Corporation).

Maintaining and increasing compliance awareness

We conduct annual training for officers and department heads, led by an external lecturer, and the management and department heads spearhead efforts to improve awareness throughout the Group. In FY2022, 266 people received this training. Training for compliance officers and leaders with in-house instructors was conducted with 753 participants. Overseas, “Regional CL meetings” are held regularly to raise the level of CLs. E-learning on compliance was implemented for employees (6,601 participated). There were 6,531 employees who learned about the Guiding Principles and Code of Conduct via e-learning, and a group discussion was also held, attended by 3,035 people. Additionally, we conduct an annual survey of all Group employees about the status of compliance within the Group. The results help us to understand problems that need to be tackled so that we can implement the necessary countermeasures.

Consultation service for early detection of internal problems and workplace environment problems

The azbil Group has established a reporting and consultation service for all officers and employees (including temps) working at Azbil Corporation and Group companies as well as business partners to prevent violations of laws and regulations, human rights problems, harassment, and other problems that may damage the workplace environment, or to detect them early and take appropriate action.

For this purpose, we are continuously working to improve the reliability of the reporting and consultation service and promote its use by enhancing education and by disclosing the number of reports and consultation cases in various languages.

In Japan, we are properly handling reports and consultations to comply with the revised Whistleblower Protection Act, which came into effect in 2022. Overseas, we are improving the convenience of the CSR Hotline (a dedicated contact point for overseas subsidiaries) and expanding the regions where it can be used in compliance with the personal information protection laws of each country.

We will continue working to further increase confidence in the reporting and consultation service as a means of receiving feedback from our stakeholders.