

Risk management

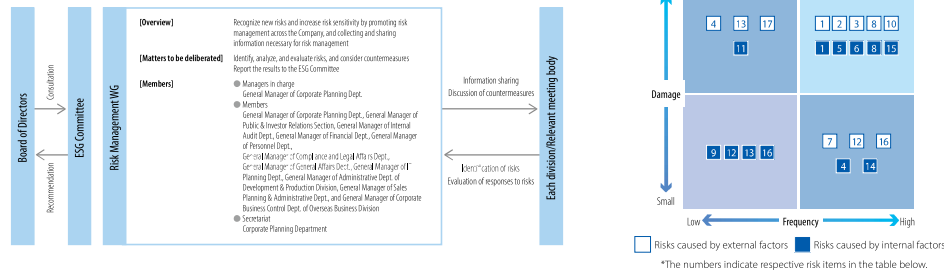
Basic Policy (Fundamental concept)

- Our risk management regulations define factors potentially leading to physical, economic and reputational losses and disadvantages as risks. The aim of our risk management is to prevent risks from manifesting and minimize losses, and to contribute to smooth business operations, soundness of assets and maintenance of corporate credit.
- We identify and evaluate risks surrounding the Group and take appropriate measures, such as putting in place management standards and regulations, as well as monitoring and response mechanisms.

Risk management system

The Risk Management Working Group (WG) periodically identifies and evaluates risks, reevaluates magnitude of damage and frequency of occurrence, and examines countermeasures to foreseeable risks, in accordance with the risk management regulations to minimize the risk of causing damage or disadvantage to ISEKI Group under the supervision of Corporate Planning Department.

Risk management system diagram



Typical risks and mitigation measures

Major risks that could affect ISEKI Group's future financial performance are as shown below. We recognize the possibility of the occurrence of such risks and strive to avoid their occurrence and take proper measures should they occur.

Risk item	Risk description	Response to risks	YoY change
1 Changes in economic conditions and the environment of agriculture	<ul style="list-style-type: none"> Risks unique to the agricultural machinery market • Aging of farm workers • Decreasing number of farm households due to labor shortage • Weakening of purchasing sentiment due to price volatility of agricultural products ● Reduced demand for agricultural machinery due to weak economy 	<ul style="list-style-type: none"> ● Build sales network and formulate strategies while anticipating changes in the market • Divide prefecture-based sales areas into blocks and optimally allocate business bases and personnel within the blocks • Establish core bases within the blocks to deal with large-scale farmers ● Keep pace with the government's Strategy for Sustainable Food Systems, MIDORI • Propose solutions for farm business, as well as products that contribute to the introduction of organic agriculture 	➔
2 Exchange rate fluctuations	<ul style="list-style-type: none"> ● Appreciation of Japanese yen resulting in decreased price competitiveness of export products ● Influence of exchange rate fluctuations in converting financial statements of our foreign subsidiaries to Japanese yen 	<ul style="list-style-type: none"> ● Conduct export transactions in both foreign currencies and Japanese yen ● Procure raw materials and parts from overseas ● Mitigate short-term risks by taking advantage of buying forward contracts 	➔
3 A price hike of raw materials, difficulty in procurement, and confusion in the supply chain	<ul style="list-style-type: none"> ● Risks associated with procurement from suppliers • Higher manufacturing costs due to rapid increases in procurement prices • Decreased production caused by prolonged tightening of supplies • Undiminished trust in and reputation of our products caused by supplied goods ● Risk of delayed shipment in shipment and transportation of products • Shortage of shipping containers and trucks (Japan's 2024 logistics problem) 	<ul style="list-style-type: none"> ● Pass on soaring raw material prices to product prices ● Use multiple suppliers in both procurement and shipment, and ensure multiple transportation means, etc. ● Order early and secure sufficient inventories when the supply of parts, etc. are expected to be delayed ● Conduct supplier credit checks, as well as CSR procurement questionnaires that include items on respect for human rights ● Optimize transportation means such as truck, vessel, and railroad containers and shorten freight waiting time 	➔
4 Dependency on specific customers or suppliers	<ul style="list-style-type: none"> ● Change of business policy, business depression or bankruptcy of our specific customers or suppliers 	<ul style="list-style-type: none"> ● Keep stable partnership and sustain sound partnership through the following measures • Communicate regularly with suppliers • Strengthen top-level relationship 	➔
5 Competition with other companies	<ul style="list-style-type: none"> ● Risk of losing competitive advantage against competitors in obtaining intellectual property rights in Japan and competing in other matters • Develop products with high functionality and in compliance with smart agriculture • Reduce prices following the decreased demand for decreases in agricultural materials ● Risk of losing competitive advantage in responding to changes in the business environment, such as diversifying needs and increasing environmental awareness in overseas countries 	<ul style="list-style-type: none"> ● Add higher value in Japan to maintain competitiveness and obtain intellectual property • Propose solutions along with selling products • Increase future-oriented development themes, such as ICT, automation, and other themes related to smart agriculture, as well as themes that contribute to carbon neutrality ● Increase presence in overseas markets • Launch electrification products for the European market • Supply large-sized products and products equipped with cutting-edge technology to East Asia, where market characteristics are similar to those in Japan 	➔

Risk item	Risk description	Response to risks	YoY change
6 Serious defects in products and services	<ul style="list-style-type: none"> ● Claim for a large amount of damages, etc. caused by our services or products developed and manufactured by us • Occurrence of serious defects • Loss of trust in the Group and our products 	<ul style="list-style-type: none"> ● Establish quality control and quality guarantee systems to offer products that satisfy customers • Strictly adhere to set processes, such as the process to examine whether to move on to the next stage for commercialization (design review) ● Carry product liability insurance, etc. 	➔
7 Stock market fluctuation	<ul style="list-style-type: none"> ● Impairment loss, loss on valuation, or loss on sale associated with significant decline in stock and market prices 	<ul style="list-style-type: none"> ● Reassess the significance of cross-holding of shares every year at the Board of Directors' meetings, based on the risks and benefits of holding each stock 	➔
8 Price decline in land and other fixed assets	<ul style="list-style-type: none"> ● Decline in profitability associated with significant deterioration of business environment, or impairment loss caused by market price decline, in relation to other fixed assets owned by the Group 	<ul style="list-style-type: none"> ● Promote and follow up on "Project Z" initiatives • Operational efficiency improvement and cost reduction through integrating the operations of factories (Matsumoto and Kumamoto) • Integrate sales subsidiaries in Japan to streamline indirect operations and review distribution systems to lower distribution costs • Keep track of the progress of the above measures at departments in charge of performance management, and discuss countermeasures if an incident that leads to declined profitability is detected 	➔
9 Government regulations on environmental issues, etc., and occurrence of related difficulties	<ul style="list-style-type: none"> ● Cost burdens in case of escalated public regulations of environmental issues or market demand in Japan and overseas ● Correctional measures undertaken against environmental issues, lawsuits, and other troubles 	<ul style="list-style-type: none"> ● Reduce environmental burden of business activities • Production: Monitor regulated substances and other data on environmental burden, and engage in production activities that contribute to the reduction of environmental burden • Other than production: Develop products compliant with environment regulations in Japan and overseas, and promote the sale of eco-products, which contribute to the reduction of environmental burden ● Properly handle waste at consolidated subsidiaries in Japan and overseas, in accordance with laws and regulations 	➔
10 Risks derived from international business	<ul style="list-style-type: none"> ● Risk of hampered product supply due to restrictions on the supply chain and production and sales activities • Unexpected changes in each country's tax systems, laws and regulations, and trade policies • Conflict over Taiwan, in Ukraine, Middle East region, etc. ● Risks that hinder business development mainly in Asia • Immature level of technologies • Unstable labor-management relationships 	<ul style="list-style-type: none"> ● Collect and analyze the following information from local subsidiaries and share and review such information with concerned parties • Each country's employment situation, as well as changes in their tax systems, laws and regulations, and trade policies • Media coverage and government directives concerning geopolitical risks ● Review operation forms and supply chains as necessary, based on the information obtained through the above channels and the results of analysis of such information 	➔
11 Risk of legal violation	<ul style="list-style-type: none"> ● Loss of ISEKI Group's credibility and impediment to its business activities if any of executives or employees of the Group should conduct any acts that violate laws and regulations 	<ul style="list-style-type: none"> ● Ensure thorough compliance by formulating ISEKI Group Code of Ethical Behavior • Ensure compliance • Ensure overall management by Director in charge of Compliance • Promote and follow up on initiatives under the leadership of the Compliance WG ● Establish relevant systems, such as the group-wide whistle-blower system (Ethical Hotline) and internal and external third-party help desks 	➔
12 Risk of natural disasters, unexpected accidents, spread of infectious disease, etc.	<ul style="list-style-type: none"> ● Risks that directly or indirectly affect ISEKI Group's business activities • Natural disasters including earthquakes, typhoons, and floods • Unexpected accidents • Outbreak of infectious diseases 	<ul style="list-style-type: none"> ● Diversify risks associated with natural disasters and establish business continuity plans • Take out various insurance against fire, wind and flood damage • Continue to discuss support and alternative ways to carry on with important operations • Establish a response headquarters led by the President, collect information, and give instructions promptly, if a contingency occurs ● Reduce impact on business activities in the event of contingency • Adopt flexible workstyles, such as working from home and staggered attendance • Take advantage of the internet for meetings and event administration 	➔
13 Business alliances, joint ventures and strategic investment with other companies	<ul style="list-style-type: none"> ● Risk of the occurrence of a conflict of interest between the parties concerned in business alliances or joint ventures, hindering the maintenance of the alliances ● Risk of not obtaining the expected results and/or effects or needing more-than-expected time and expenses with regard to strategic investment including acquisitions 	<ul style="list-style-type: none"> ● Ensure close cooperation at each level, from the top management to the working level • Deliberate and discuss in proceeding with business alliances, investment, and lending • Deliberate at the Board of Directors and Directors' Operation Committee meetings • Deliberation and monitoring by investment management committee • Discuss measures to minimize the financial impact when intended effects are considered unlikely to be achieved 	➔
14 Debt	<ul style="list-style-type: none"> ● Increased borrowing costs due to a hike in interest rate ● Increase in borrowings caused by increased inventories ● Obligation to pay back loans early if financial covenants in contracts with financial institutions are triggered 	<ul style="list-style-type: none"> ● Reduce interest-bearing debt • Enhance the capability to create cash flows by improving profitability and reducing inventories • Secure credit to diversify financing methods ● Reduce inventories through efficient stock management following management integration of wide-area sales subsidiaries in Japan • Prepare for rapid fluctuation of interest rates • Combine various loan conditions such as fixed interest rates 	➔
15 Ensuring of human resources, shortage of human resources	<ul style="list-style-type: none"> ● Decrease in the Group's competitiveness due to failure in securing and developing human resources necessary for business 	<ul style="list-style-type: none"> ● Recruit and develop human resources • Strengthen mid-career recruitment and introduce referral recruitment and a return-to-job system • Strengthen programs to develop global talent, human resources for DX, etc., in line with business strategy • Provide support for career development through the Group's open recruitment system ● Create a sound, employee-friendly workplace environment • Enhance employee engagement by using the talent management system 	➔
16 Information security	<ul style="list-style-type: none"> ● Stagnation of operations and decline in credibility due to information leakage or system halt/breakage, etc. caused by the following incidents • Unauthorized access due to cyberattack • Computer virus infection 	<ul style="list-style-type: none"> ● Continuously improve the information security management system • Establish management regulations (electronic information security, management of information infrastructure) • Enhance security measures by using a data center and cloud service • Use a service that monitors unauthorized external access ● Take out cyber insurance to prepare for contingencies 	➔
17 Climate change	<ul style="list-style-type: none"> ● Changes in supply and demand arising from changes in system of crops and a reduction in agricultural land, as well as impacts on the Group's overall business activities including product lineup and sales volume ● Scenario where temperature rise is expected to be below 2°C • Increase in operation costs due to stricter regulations imposed by the government, etc. • Increase in procurement costs due to the progress in decarbonization • Loss of business opportunities due to failure to meet the demand associated with decarbonization ● Scenario where temperature rise is 4°C • Damage to production and sales bases, including supply chains, due to intensifying typhoon and flood damage • Decrease in demand for agricultural machinery for rice farming, in response to deterioration in rice quality and decline in the area of land available for rice production 	<ul style="list-style-type: none"> ● Take the following measures under the 2°C scenario [Impact reduction] • Utilize renewable energy, such as solar power • Power boilers with waste heat from in-house power generation facilities [Business opportunities] • Electrify agricultural machinery • Introduce smart agricultural machinery and robotic agricultural machinery that improve the efficiency of farm work • Promote farming methods that contribute to the reduction of methane emissions from rice paddies • Business alliances with other companies regarding J-Credit initiatives ● Take the following measures under the 4°C scenario [Impact reduction] • Continuously review business continuity plans • Review product lineup and sales channels [Business opportunities] • Introduce technology to replace agricultural work with robotic agricultural machinery • Perform autonomous analysis of weather data and growth data using AI 	➔