Risk management

Management System

Panasonic's founder, Konosuke Matsushita, coined numerous aphorisms which are still used at the company: "Hardship now, pleasure later," "There are signs before all things," and "Small things can create big problems; one must be alert to signs of change and act accordingly," among many others. Using these ideas as the cornerstone of our thinking, we, as Panasonic Group, conduct Groupwide risk management activities covering our operations around the world, with the aim of taking pre-emptive actions to eliminate any factors that could impede the accomplishment of business goals.

The Panasonic Group has always actively undertaken risk management activities aimed at reducing the impact of risks that threaten the Group's achievement of our business objectives. Additionally, since October of last year, we have been treating uncertain matters that may at some point present opportunities or pose threats to the achievement of our business objectives as "strategic risks" and have integrated them into the risk management activities we undertake when establishing operational or business strategy and decision-making. Our objective is to elevate the quality of the Group's planning and decision-making related to operations and business strategy by both promoting the taking of appropriate risks based on the severity of the risk, and revising the countermeasures against risks at the appropriate times.

Risk management works in parallel with the development and execution of management strategies. We believe that combining these two functions makes us better positioned to accomplish business objectives and to increase our corporate value. To that end, we have created our own Rules for Risk Management for the Group, which are informed by international standards and frameworks for risk management systems including ISO31000 and COSO-ERM (2017).

Furthermore, by disclosing appropriate risk information to the public, improving management transparency, and reducing risks through pre-emptive measures, Panasonic gives its customers and other stakeholders—as well as local communities and the public as a whole—greater confidence in its organization.

Risk Management

Role of Risk Management in Business Management

As an internal system for promoting risk management, the Group has established the PHD Enterprise Risk Management Committee ("PHD ERM Committee"), which is chaired by the Group CRO and comprising individuals representing PHD Legal, HR, Accounting, and other functions, with the Enterprise Risk Management Office handling the committee's executive office functions. The PHD ERM Committee's role is to both manage risks related to the advancement of Groupwide functions and to confirm that risks that have the potential to impact the Group as a whole are being addressed. In keeping with the Group's principle of autonomous responsible management at each Operating Company, we have also established Operating Company ERM Committees at each Operating Company, through which each Company works with PHD to manage risks that affect the entire Group while simultaneously managing risks that arise due to the business or work of that Company.

The activities of the PHD ERM Committee are regularly reported on at management meetings and Board of Director meetings, and Corporate Auditors also observe and oversee monitoring alongside the Board of Directors. These activities are also reported on regularly at each meeting of the Board of Directors or other corporate boards of Operating Companies.

Policy

Risk management for the entire Panasonic Group is undertaken in accordance with the Panasonic Group Basic Rules for Risk Management ("Basic Rules"). The Basic Rules are premised on autonomous responsible management on the part of each Operating Company and define the objective of risk management as increasing the certainty with which business goals and sustainable, stable growth can be achieved. More specifically, the Basic Rules list three goals:

ensure safety and peace of mind on the part of stakeholders and compliance in our business activities; bolster business competitiveness through risk management that treats both aspects of risks appropriately, as both opportunities and threats to the achievement of our business goals; and continuously offer products and services by maintaining operating resources and ensuring work effectiveness while fulfilling our social responsibility. In addition to providing guidelines for the conduct of executives and employees toward the achievement of the objectives above, the Basic Rules also clearly define the share of responsibilities between and organizational structures of Panasonic Holdings Corporation ("PHD") and the Operating Companies.
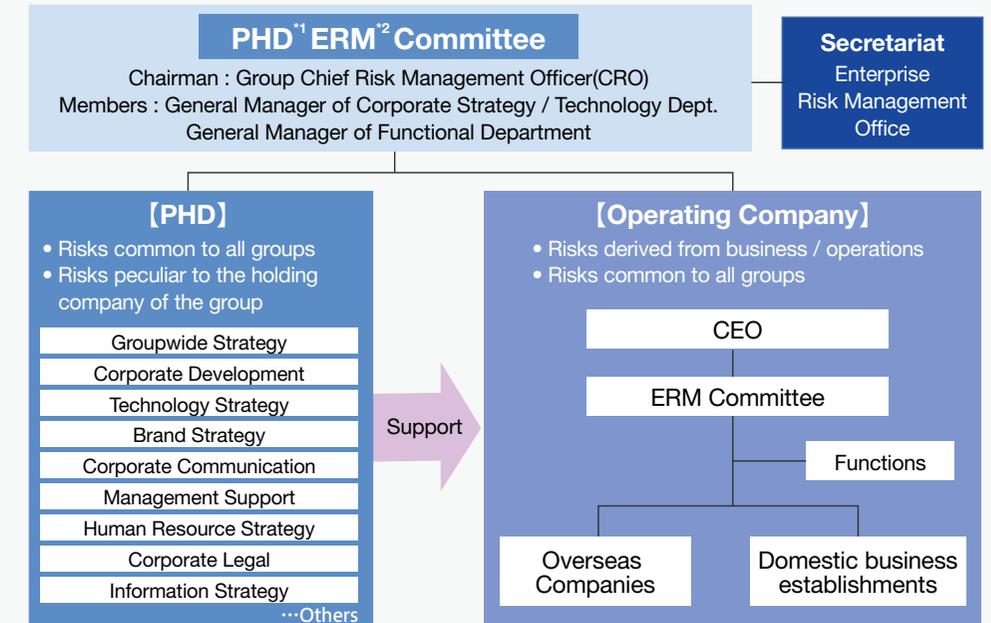
Responsible Executive and Framework

The executive vice president serves as the Group Chief Risk Management Officer (Group CRO) and is the individual responsible for risk management for the Panasonic Group (August 2022).

The Panasonic Group's Promoting Organization for Global & Group Risk Management

*1 PHD: Panasonic Holdings Co., Ltd. *2 ERM: Enterprise Risk Management

Risk Management

Basic Framework

At Panasonic Group, risk management is divided into three levels: PHD, the Operating Companies, and business divisions. The same processes and cycles are used at all levels, and once each year the Group identifies all risks (attributable to either internal or external factors) that may have an impact on business activities to create a comprehensive inventory of risks. The Group then conducts an assessment of this list to select any Major Risks.

The process begins with a risks assessment conducted by each function at PHD, with specialists from each using expert knowledge to assess and select candidates for Major Risks for the Group. Then a similar process is undertaken at each Operating Company to select candidates for Major Risks for that Company, which are then decided on by the Operating Company ERM Committee. Major Risks that have been decided on in this way are reported to the PHD ERM Committee and the final determination regarding which will be considered Major Risks for the Group is made holistically based on assessments from PHD functions and the assessments of the Operating Companies. The departments responsible for the areas relevant to the selected risks form the core of the teams that draw up and execute plans, monitor the status of countermeasures, and execute initiatives for continuous improvement related to those risks. In addition to Major Risks for the Group, each Operating Company also implements countermeasures against risks that have been selected by that Company in an effort to reduce their impact on management, sales, and the like.

Furthermore, while the level of importance had conventionally been determined based on financial impact and frequency of occurrence, due to the recent more extreme impacts of the pandemic and other disasters, these assessments now also take human lives into account. This selection process also now includes risk assessment items and evaluation standards for risks that can impact society (including risks related to human rights and labor) to be more aligned with calls for greater corporate social responsibility (CSR) as well as societal demands related to SDGs, ESG, and the like. The Panasonic Group is working especially hard on the latter of these in our risk management activities, approaching this as an opportunity for the Group to serve society while simultaneously striving to bolster compliance with laws, regulations, and the like.

The items below have been selected as the Major Risks for the Group for FY2023 and has been drafting and implementing plans for countermeasures against them.

Trade regulation and economic sanctions

Because laws in countries around the world change rapidly, the Group has identified these changes as a Major Risk, and are working to understand as soon as possible what impacts new trade restrictions and sanctions may have on the Group's business. Once we have this understanding, we respond by updating our global policies and guidance as needed and assess whether our goods or technologies are in fields subject to new restrictions. We also work to make this all well-known within the Group, including by sending out information on how to avoid transactional risks, for the development of our employees both in Japan and abroad.

Fewer airlines and ships and higher fares

Recently, in addition to the higher prices of raw materials and fuel, there have also been other ongoing issues including increased prices on container shipping and driver shortages both in Japan and elsewhere. The Group is working to decrease the overall number of containers we use through more efficient loading, using multiple maritime shipping routes, and securing container space for the mid to long term.

Cyberattacks

In the interest of achieving a more advanced level of information security, the Group is further expanding our abnormality monitoring to include not only the Group within Japan but also to networks, servers, computers, and other equipment for subsidiaries outside of Japan, and we are also working toward strengthening our global, centralized security monitoring system.

Antimonopoly Act violations/Any bribery involving government officials

Due to a high level of risk in the unlikely event that this situation occurs, we will continue to approach this as a Major Risk and we have thorough countermeasures in place. The Panasonic Group Code of Ethics & Compliance stipulates that Panasonic must conduct business fairly as a public entity and states clearly that we must adhere to both laws and our corporate ethics, and we make comprehensive efforts to ensure that this basic stance of the Group is shared with and carefully observed by all executives and employees. We are also working to ensure thorough compliance based on our global regulations. Panasonic implements compliance programs throughout the year to enable employees to address each risk item in an effort to enhance awareness of ethical and legal compliance issues among employees.

Any wrongdoing and/or scandals involving suppliers and/or outsourcing contractors

The Panasonic Group makes purchases from roughly 13,000 suppliers globally. In recent years, the calls for social responsibility on the part of corporations with regard to their supply chains have grown stronger with each passing day, and this trend can also be seen in legal regulations with new regulations being drafted and going into effect. The Panasonic Group's countermeasures are informed by this perspective and place a special focus on information security, product security, environmental protections, and compliance related to human rights.

The initiatives described above are aimed at reducing losses and threats to operation, but since October of last year, we have also been treating uncertain matters that may at some point present opportunities or pose threats to the achievement of our business objectives as "strategic

risks" and have integrated them into the risk management activities we undertake when establishing operational or business strategy and decision-making. Our objective is to elevate the quality of the Group's planning and decision-making related to operations and business strategy by both promoting the taking of appropriate risks based on the severity of the risk, and revising the countermeasures against risks at the appropriate times.

We have designated climate change response and geopolitical risks as the most critical strategic risks for fiscal 2023. With regard to climate change response in particular, we are working to focus on the introduction and expansion of environmental regulations and policies, making the most of the opportunities born of changes in demand for certain products and services as global warming progresses and the growing awareness of environmental issues while simultaneously reducing losses by bolstering our responses to these issues as threats.

With the development of circular economies due to shortages and restrictions on resources, we are seeking to expand our opportunities for improving corporate value through our proactive use of renewable energy, while at the same time anticipating greater demand for low-carbon products that use circulative resources. Meanwhile, there is also the possibility that higher production costs and production delays will become frequent or constant due to the increased costs and short supply of circulative resources (recycled materials and raw materials to be recycled). The Panasonic Group is aiming to expand our business by responding appropriately to both the opportunities and threats presented by the situation.

Basic Framework for Risk Management
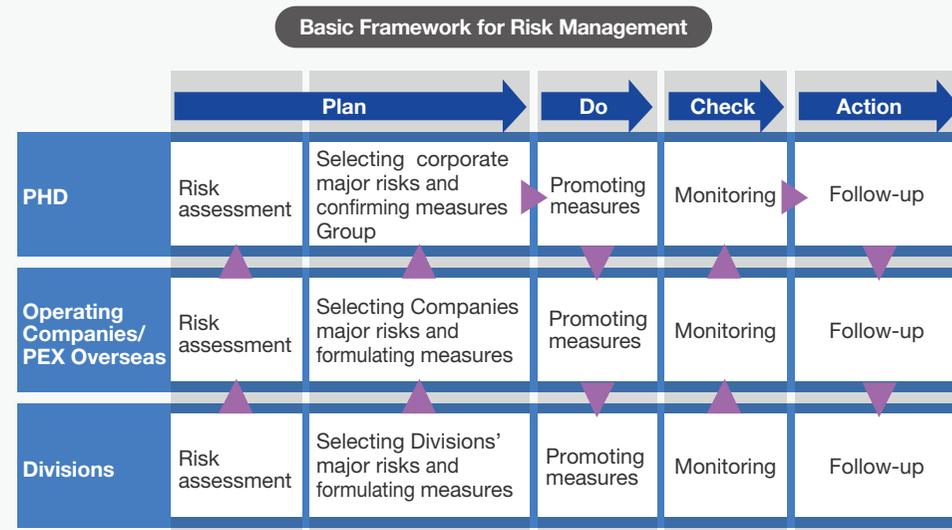
FY2023 Group Major Risks

Operational Risks
- Earthquakes, tsunamis
- Floods and landslide disasters
- Trade regulations/Economic sanctions
- Fewer airlines and ships and higher fares
- Antimonopoly Act violations
- Any bribery involving government officials
- Cyberattacks
- Any wrongdoing and/or scandals involving suppliers and/or outsourcing contractors (Information leakage, product security, environmental protections, human right compliance)

Strategic Risks
- Climate change response
- Geopolitical risks

Training

The Panasonic Group has also established the Panasonic Group Operational Rules for Risk Management ("Operational Rules"), which are subordinate to the Basic Rules and define the standard procedures for the Group with regard to driving risk management. The Group aims to achieve centralized, sophisticated risk management by defining concrete procedures for identifying and assessing risks and selecting Major Risks, drafting and implementing measures in response, and monitoring processes. During the initial phase of risk assessment, the Group hold briefings on guidelines for those responsible for or involved in risk management at each Operating Company and work to improve their skills in the interest of executing risk management even more effectively while at the same time informing them of points for improvement in management processes.

In addition to the above, in Japan, new employees, new executives from subsidiaries outside Japan, and employees who will be dispatched to locations outside of Japan undergo training on the fundamentals of risk management and how to respond to risks in an effort to improve their ability to respond to risks when working outside of Japan.

In addition to the above, new employees, newly assigned CEOs at subsidiaries outside Japan, and those staff who are going to be assigned to overseas locations, will undergo training in Japan on the fundamentals of risk management and how to respond to risks in an effort to improve their ability to respond to risks when working outside of Japan.

Reporting/whistleblowing mechanism (external and internal)

The Panasonic Group also maintains a global hotline for reporting issues related to compliance violations, any type of harassment, procurement, and the like as a means for employees to report hidden risks. For more details, refer to the Fair Operating Practices section P121).

Risk Management

Policies on BCM and BCP

Since 2005, Panasonic Group has been keenly aware of the necessity of activities relating to business continuity—one of the company's duties to society. The company thus engages in business continuity management (BCM), the goal of which is to prevent stoppages of the provision of products or services when contingencies such as disasters occur, or, in the rare event that these have been stopped, to restart operations as quickly as possible. Specifically, if disasters or other incidents were to occur within our supply chain, they would impact the production or sales of our Group Companies. In the case of B-to-B operations, this impact would also affect the production and sales of companies to which we deliver. Therefore, Panasonic Group believes it is critical that our BCM includes not only our Group Companies but our supply chain as well.

■ Major Efforts

The Panasonic Group has established Corporate Emergency Management Rules wherein we define policies for emergency response, the organizations that should respond, initial response, reporting routes, and the like. We have established the Guidelines on Business Continuity Management (The Guidelines) and have formulated BCPs for each business site. The Guidelines rest on the three pillars: Business Continuity Management Policies (business covered by BCM and business recovery steps), Emergency Responses (initial responses and recovery responses), and Disaster Prevention & Mitigation Responses. We have established a BCM (Business Continuity Management) development guideline and established BCP for each business unit. Based on these BCM Guidelines, each business site reassesses BCPs as needed and works to bolster its resiliency. We also work to strengthen BCPs across the entire Group by creating BCP guidelines for each function based on the Guidelines for matters like supply chains, logistics networks, and IT security through their respective functions (procurement, logistics, IT, etc.). In particular, we have conducted a hazard survey about various risks posed by natural disasters such as earthquakes, floods, tropical depressions, tsunamis, naturally occurring fires, landslides, tornadoes, and volcanic eruptions. We have also shared these findings with each of the Operating Companies and have put priority measures in place, both within our own Group and in our supply chain. Disaster and Accident Countermeasure Committee has also been created for the Group as a whole has to help both bolster our readiness before contingencies arise, and transition rapidly to emergency response systems when some contingency does arise. The Disaster and Accident Countermeasure Committee has subcommittees for earthquakes, tsunamis, and floods that work to strengthen the specific response to each particular disaster type. In particular, given the strain that has been placed on the power supply by disasters in the past, we have incorporated emergency power supply equipment into BCPs to ensure business continuity. The Group also runs our Corporate Emergency Headquarters drill based on disaster scenarios every year, and in January of 2022 we conducted a Group-wide disaster drill, which was our Corporate Emergency Headquarters drill based on a scenario in which there is an earthquake in the Nankai Trough. Since the spread of coronavirus infections in particular, we have been promoting remote work to prevent infections among employees, so we also rehearsed using remote meetings during the drill for FY2022, based on the assumption that many employees may be working from home when disaster strikes. Coordinating with local municipalities, group companies and business divisions conduct annual disaster preparedness and emergency evacuation training drills at each business site as needed.

We also actively work to both prevent incidents and prepare for emergencies when it comes to fires as well, based on the Global Fire Prevention Rules, which govern fire risk assessments, fire prevention and fire extinguishing equipment, fire brigades and firefighting, recurrence prevention, autonomous inspections, fire prevention drills, awareness raising, auditing, and more.

■ COVID-19 Response

When the World Health Organization (WHO) declared COVID-19 a public health emergency on January 31, 2020, the Panasonic Group created a Group-wide Emergency Response Headquarters. We have assembled a team of individuals with job functions primarily in management, procurement, PR, and the like, and are working hard to ensure that our business can continue safely through the application of the team's specialized knowledge to different issues involved. We have also set up a response headquarters at each Operating Company engaged in business to work together in cooperation with the Group-wide Emergency Response Headquarters in addressing issues. Even now that the initial response period is behind us, in the interest of both maintaining the health of our employees and business continuity, we are undertaking a variety of measures based on infection conditions in Japan and elsewhere and the guidelines issued by each country's government, including providing detailed updates and communication to the Group.

We have also had a workplace vaccination program in operation since June 2021 in Japan, not only to ensure the safety and peace of mind of employees within the Group and maintain the systems that allow us to operate our businesses safely, but also to accelerate the rate of vaccination within Japan overall as part of our social responsibility to prevent the spread of infection. As of August 2022, we have rolled out three rounds of workplace vaccinations and will continue to respond going forward based on infection conditions and government guidelines.