



# Management material issues

The Sansha Electric Manufacturing Group has been contributing to the establishment of a sustainable society through its businesses. In our CF26 medium-term management plan, we identified seven important elements by evaluating stakeholders' interests and degree of impact. These elements have been integrated into our business strategy. We will formulate specific measures and address issues, enabling us to not only pursue growth and profit but also help achieve the SDGs. We use our technologies and innovations to address social issues and contribute to the establishment of a sustainable society.

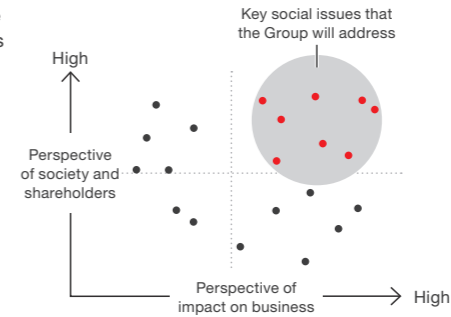
## Process of identifying material issues



We selected the social issues that the Sansha Electric Manufacturing Group will focus on by referencing the Sustainable Development Goals (SDGs) and other international initiatives, the code of conduct in the industry the Group is a part of (the Responsible Business Alliance (RBA) Code of Conduct\*), major guidelines (the Global Reporting Initiative (GRI) and ISO 26000) and megatrends.

\* The RBA Code of Conduct is guidance formulated for electronics industry and electric equipment-related industry supply chains.

We analyzed and assessed how significantly the selected social issues interested stakeholders, the size of their impact and how significant they are to the Group to create a draft set of material issues.



We determined the priority material issues to be addressed after the management team assessed the appropriateness of the draft. The Board of Directors adopted a resolution regarding them concurrently with the medium-term management plan. Going forward, each time a new medium-term management plan is formulated, we will revise them in consideration of changes in business circumstances and society.

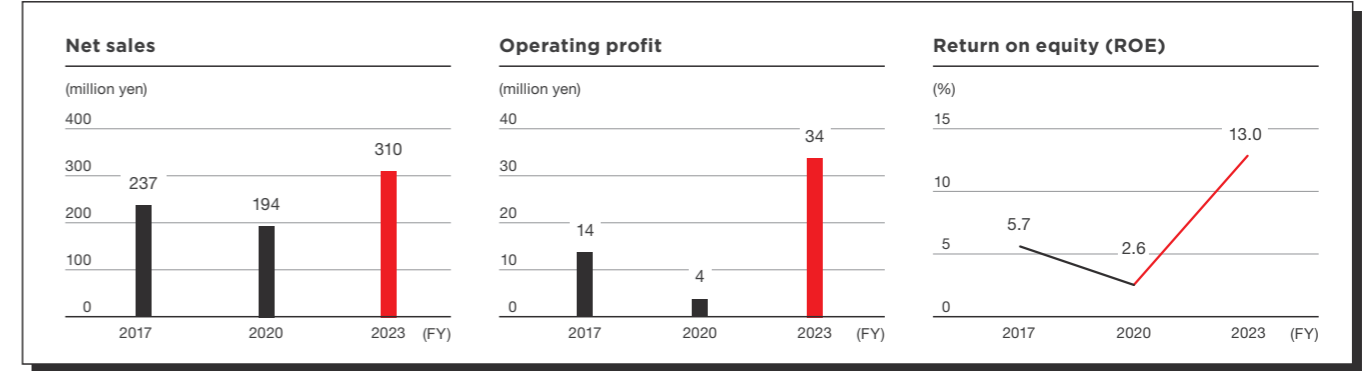
Social issues	Risks	Responses and opportunities	Material issues	Medium-term management plan (priority measures)	What we aspire to be ten years from now	Related SDGs
<b>1</b> Rise of renewable energy and new energy	<ul style="list-style-type: none"> <li>Instability of electricity supply</li> <li>High cost of power generation</li> </ul>	<ul style="list-style-type: none"> <li>Increase in business opportunities</li> <li>Development of technologies and products compatible with new and renewable energy</li> </ul>	<b>Contribution to a carbon-free society and environmental conservation</b>	<ul style="list-style-type: none"> <li>Expanding the SiC device lineup</li> <li>Developing high-performance devices</li> <li>Developing high-efficiency products</li> <li>Providing solutions that enhance customers' added value</li> </ul>	We will reduce energy consumption and facilitate the shift to a decarbonized society by developing high energy-efficiency products. We will also support the popularization of environmentally friendly and sustainable energy, ensure the stable supply of power, and contribute to the development of industry and the improvement of quality of life.	7, 13
<b>2</b> Rapid urbanization of emerging countries	<ul style="list-style-type: none"> <li>Inadequate quality control</li> <li>Intensifying competition</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of the areas in which we operate</li> <li>Response to infrastructure development associated with urbanization</li> </ul>	<b>Constructing a robust infrastructure and contributing to industrial development</b>	<ul style="list-style-type: none"> <li>Focusing efforts on the infrastructure market (mobility, renewable energy and energy storage, and data centers)</li> <li>Expanding sales of power supplies for surface treatment with a focus on global expansion</li> </ul>	We will contribute to realizing sustainable infrastructure and the development of industry by improving the stability of the power supply through high-performance power semiconductors and power conversion technologies.	9, 11, 13
<b>3</b> Provision of safety and peace of mind	<ul style="list-style-type: none"> <li>Fierce competition due to market expansion</li> <li>Impact on global environmental problems</li> </ul>	<ul style="list-style-type: none"> <li>Earning customers' trust</li> <li>Increasing competitiveness</li> </ul>	<b>Provision of safety, peace of mind, and new value</b>	Improving quality, cost and delivery (QCD) and providing added value to customers	We will provide safer products by using latest technologies and innovations. For maintenance services, we will push forward with building a product management system using smart features and AI so that products' conditions and the status of operation can be monitored in real time.	12
<b>4</b> Technological progress	<ul style="list-style-type: none"> <li>Threats to cybersecurity</li> <li>Emergence of new competitors following technological innovation</li> </ul>	<ul style="list-style-type: none"> <li>Development of technologies and expansion of services using AI</li> </ul>	<b>Strengthening of manufacturing</b>	<ul style="list-style-type: none"> <li>Promoting the improvement of production efficiency and reduction of labor through automation</li> <li>Promoting modularization and unitization</li> </ul>	We will improve productivity through activities such as automating production processes, using AI, and using other advanced technologies, streamline production processes, and improve quality, enabling us to cater to diverse customer needs.	12
<b>5</b> Climate change	<ul style="list-style-type: none"> <li>Suspension of business activities due to natural disaster</li> <li>Tight electricity supply-demand balance</li> </ul>	<ul style="list-style-type: none"> <li>Development of technologies and products for stable power supply</li> <li>Development of environmentally friendly products</li> <li>Investment to replace aging equipment</li> </ul>	<b>Reduction of the environmental impact of production activities</b>	<ul style="list-style-type: none"> <li>Installing solar (PV) power generation system at the Okayama Plant</li> <li>Replacing the gas air-conditioning system at the headquarters with an electric system</li> <li>Replacing the air-conditioning system at the Okayama Plant</li> </ul>	We will maximize energy efficiency and promote the reduction and recycling of waste, minimizing the environmental impact of our production processes as a whole. We will establish environmentally friendly, optimal logistics for transporting and delivering our products, contributing to the establishment of a sustainable society.	7, 12, 13
<b>6</b> Demographic change	<ul style="list-style-type: none"> <li>Decline in international competitiveness due to a labor shortage</li> <li>Decline in technological strengths caused by difficulties in acquiring human resources</li> </ul>	<ul style="list-style-type: none"> <li>Cultivating new markets</li> <li>Use of a diverse labor force</li> </ul>	<b>Promotion of diversity and personnel in action</b>	<ul style="list-style-type: none"> <li>Developing diverse human resources for value creation and increasing the percentage of managers that are women</li> <li>Improving per-capita net sales and operating profit</li> </ul>	We will establish a vibrant corporate climate by developing human resources who create value to provide new ideas and innovations, to differentiate ourselves and achieve sustainable growth.	5, 8
<b>7</b> Fragmentation of the world and cyberattacks	<ul style="list-style-type: none"> <li>Supply chain disruption</li> <li>Information leakage, system stoppage</li> </ul>	<ul style="list-style-type: none"> <li>Digitalization and use of technology</li> <li>Inter-company partnerships</li> </ul>	<b>Enhancement of business continuity management (BCM)</b>	<ul style="list-style-type: none"> <li>Reviewing business continuity plans (BCPs)</li> <li>Making improvements related to information security issues and reviewing the system for handling incidents</li> </ul>	We will establish strong business continuity capabilities and high-level information security to be ready to respond to incidents promptly and effectively. By doing so, we will earn the trust of customers and business partners and achieve sustainable growth and greater competitiveness.	11, 12, 17

■ Semiconductor business ⚡ Power supply business

# Review of past medium-term management plans

We have reviewed past medium-term management plans and evaluated the growth strategies that were implemented through global expansion and the launch of new products.

We have specifically analyzed net sales, operating profit, and return on equity (ROE) trends. The issues faced by the Sansha Electric Manufacturing Group, solutions to them and future prospects are detailed below.



	FY2018 to FY2020	FY2021 to FY2023 <b>CG23</b>
Long-term vision	<b>Global Power Solution Partner</b>	
Policy	Developing new fields by proposing solutions based on technology	
Priority measures	<ul style="list-style-type: none"> <li><b>1</b> Expansion of SiC modules (higher resistance to heat and higher speed)</li> <li><b>2</b> Expansion of the transfer mold product lineup</li> <li><b>3</b> Increase of activity in growing industrial sectors such as servos, inverters for industrial use, and welding machines</li> <li><b>4</b> Increase of efforts for products related to new energy and electric vehicles</li> <li><b>5</b> Strengthening of the solution business</li> <li><b>6</b> Further global expansion</li> </ul>	<ul style="list-style-type: none"> <li><b>1</b> Contribution to a carbon-free society and environmental conservation                             <ul style="list-style-type: none"> <li>• Developing high-efficiency products</li> <li>• Development of products related to new energy and renewable energy</li> </ul> </li> <li><b>2</b> Contribution to a carbon-free society and environmental conservation                             <ul style="list-style-type: none"> <li>• Developing uninterruptible power supplies</li> <li>• Stable supply of power supplies for surface treatment</li> </ul> </li> <li><b>3</b> Providing safety and security, and improving services by offering new value                             <ul style="list-style-type: none"> <li>• Creation of proposals for systems rather than selling standalone products</li> <li>• Reinforcement of the remote maintenance system</li> </ul> </li> <li><b>4</b> Strengthening manufacturing                             <ul style="list-style-type: none"> <li>• Implementation of IP strategy</li> <li>• Investment in streamlining and automation</li> <li>• Design standardization</li> </ul> </li> <li><b>5</b> Reduction of the environmental impact of production activities                             <ul style="list-style-type: none"> <li>• Setting up projects to reduce CO<sub>2</sub> emissions</li> <li>• Replacement of aging equipment</li> <li>• Procurement of power from renewable energy sources</li> </ul> </li> <li><b>6</b> Promotion of diversity and development of human resources                             <ul style="list-style-type: none"> <li>• Reviewing human resource development systems and increasing education and training programs</li> <li>• Promoting diversity</li> <li>• Improving work environments</li> </ul> </li> </ul>
Achievements and issues	<p>In the semiconductor business, sales of products with new applications increased in China, but demand declined due to trade friction between the U.S. and China. In the power supply business, the Group obtained a foothold to contribute to hydrogen society by providing fuel cell equipment.</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>• Development of power conditioners for the evaluation of fuel cells</li> <li>• Expansion of sales of uninterruptible power supplies (UPS)</li> <li>• Expansion of the semiconductor transfer mold product lineup</li> <li>• Chubu Sales Office and the Hokuriku Office opened</li> </ul> </div> <div style="width: 45%;"> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>• Failure to fulfill performance targets</li> <li>• Lack of development of new products that are cost competitive</li> </ul> </div> </div>	<p>In an adverse business environment, our development, manufacturing, and sales teams worked as one to implement initiatives to keep delivery times and carry out thorough price revision activities, which resulted in the achievement of the net sales and operating profit targets for the three years.</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>• Establishment of capital and business alliance partnerships</li> <li>• Development of SiC supply chains</li> <li>• Development of a power supply for grid connection simulators</li> </ul> </div> <div style="width: 45%;"> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>• Accelerating contribution in the new energy sector</li> <li>• Developing a new market that is less likely to be affected by business confidence</li> <li>• Continuing to promote standardization and unitization</li> <li>• Global strategy implemented through company-wide cooperation</li> <li>• Continuing to implement the PDCA cycle for human resource development</li> </ul> </div> </div>

Social situation	<p><b>2018</b></p> <ul style="list-style-type: none"> <li>• The United States imposes import restrictions, intensifying trade friction between the U.S. and China.</li> <li>• An earthquake measuring 7 on the 7-level Japanese seismic intensity scale hits Hokkaido, stopping the supply of electricity throughout Hokkaido, the first blackout in Japan.</li> </ul>	<p><b>2019</b></p> <ul style="list-style-type: none"> <li>• The imperial era changes from Heisei to Reiwa.</li> <li>• Democracy demonstrations in Hong Kong.</li> <li>• The consumption tax rate is increased from 8% to 10%.</li> </ul>	<p><b>2020</b></p> <ul style="list-style-type: none"> <li>• The World Health Organization (WHO) declares the COVID-19 outbreak has become a pandemic, lockdowns occur in Europe and a state of emergency is declared in Japan.</li> <li>• The United Kingdom leaves the EU.</li> </ul>	<p><b>2021</b></p> <ul style="list-style-type: none"> <li>• A new variant of COVID-19 increases the infection rate.</li> <li>• Joe Biden takes office as the President of the United States.</li> <li>• A major Chinese real estate developer runs into financial difficulties.</li> </ul>	<p><b>2022</b></p> <ul style="list-style-type: none"> <li>• Russia's invasion of Ukraine</li> <li>• Xi Jinping's administration enters its third term in China.</li> <li>• A rush to increase prices is triggered by the weakening of the yen and rising resource prices.</li> </ul>	<p><b>2023</b></p> <ul style="list-style-type: none"> <li>• The World Health Organization (WHO) declares an end to COVID-19 as a public health emergency. In Japan, COVID-19 is reclassified as a class five infectious disease.</li> <li>• The Israel-Hamas war intensifies.</li> </ul>
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