

[Important Issues] Risk Management

Policy and Basic Approach

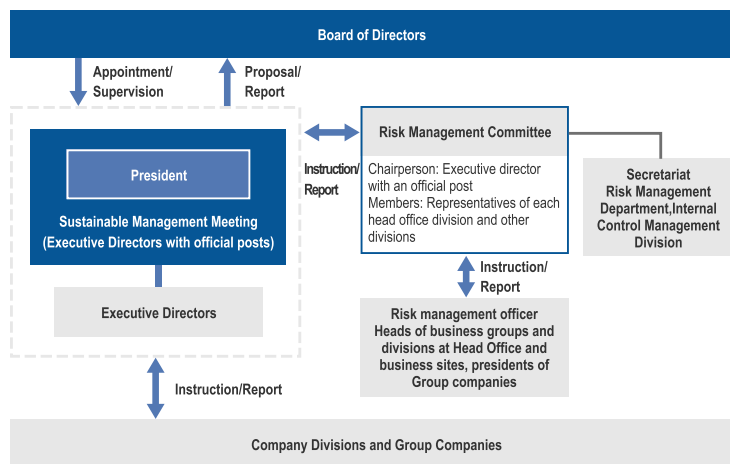
We are facing many different risks amid the continuously changing business environment and the growing complexity and uncertainty. The Nippon Kayaku Group works to prevent the manifestation of many different operational risks and seeks to minimize impact of risks by maintaining its production structure, properly securing raw materials and strengthening anti-disaster measures to ensure the continuity of business.

To ensure the restoration of operations within the targeted period after a disaster or large emergency occurs, our head office, divisions and plants have created BCP manuals and pushed forward with the development of BCP manuals for overseas offices.

System

The Nippon Kayaku Group established the Risk Management Committee to be a specialized committee under the Sustainable Management Meeting with the goals of preventing the manifestation of risks and minimizing the impact of risks. The Committee meets twice a year and as necessary.

Chaired by an Executive Director with an official post nominated by the President, the Risk Management Committee consists of representatives from business units' planning divisions and from departments of general administration divisions that do not belong to a business unit. The committee builds and manages a crisis management structure to prevent risks that may cause the Nippon Kayaku Group's corporate management and business activities to incur enormous damages, respond to emergencies and recover from damage after an emergency occurs. Important topics discussed by the Risk Management Committee are reported to the Sustainable Management Meeting and the Board of Directors for feedback.



Indicators

Key sustainability issues	Action plans	Indicators (KPI)	FY2025 Targets	FY2022 Results	FY2022 Topics for initiatives
Risk Management	<ul style="list-style-type: none"> Respond to various business-related risks and ensure business continuity by maintaining production systems, ensuring the appropriateness of raw materials, and strengthening measures against disasters 	Implementation rate for business, etc., risk control activities and top five risk control activities	100%	100%	<ul style="list-style-type: none"> Implemented Top 5 risk control activities at each factory of Nippon Kayaku (non-consolidated) and all Group companies (trends include increasing risks such as rising geopolitical risks, sharply rising raw material prices, and disruptions to the supply of raw materials) Conducted interviews regarding points considered to be important for the top 5 risks at two domestic factories and four overseas Group companies Domestic Group companies continued to use an emergency communication system introduced in FY2021 as a BCP drill in preparation for the occurrence of earthquakes BCP drills were conducted under local consulting and guidance of Chinese Group companies
		Number of BCP drills conducted	One or more per year	2 times	

Initiatives

Preventing Risks

◆ Risk Control Activities by Business Groups and Top Five Risk Control Activities

To identify and control important risks, the Nippon Kayaku Group implements division risk control and the top five risk control activities throughout the year as follows.

The division risk control activities encompass seven groups. From the perspective of the operation of business, these groups identify risks that may significantly affect business activities and discuss measures to address these risks.

The top five risk control activities cover the companies of the Nippon Kayaku Group, including plants, laboratories, pharmaceuticals branches and offices and overseas affiliates. For the activities, five risks that are especially important from the perspectives of the offices and business sites are selected and measures are discussed.

The risks identified by the groups and sites and measures to address them are reported to the Internal Control Management Division, the administrative office of the Risk Management Committee. The Internal Control Management Division comprehensively understands and analyzes risk trends. Decisions regarding important risks and measures to address them are made after discussion by the Risk Management Committee. Progress and activities are reported biannually to the Sustainable Management Meeting and the Board of Directors.

◆ Handling ESG Risks

The Nippon Kayaku Group sees a need to accurately understand the risks and opportunities involved in its sustainable management to mitigate risks, seize new business opportunities and leverage these opportunities for the growth of the business.

In 2022, the Nippon Kayaku Group disclosed information based on risks and opportunities relating to key sustainability issues and TCFD recommendations. We will seek to resolve environmental and social problems through our business operations in pursuit of the realization of a sustainable society and the continued improvement of corporate value.

We will continue to review risks and opportunities on a regular basis and seek to improve our information disclosure both qualitatively and quantitatively in an effort to properly keep up with the diversification of business activities and the changes in environmental and social issues.

➤ [Risks and Opportunities for Key Sustainability Issues](#)

➤ [Information Disclosure Based on the TCFD Recommendations](#)

◆ Information Security Initiatives

Nippon Kayaku usually protects corporate information and continues to implement information security initiatives in compliance with the Code of Conduct for information handling in the Nippon Kayaku Group Charter of Conduct and Code of Conduct. We strengthen information security throughout the Company by controlling and monitoring information security across the board on an ongoing basis and devising programs to prevent data leaks and illegal data acquisition by third parties. Based on the company-wide Corporate Information Management Regulations, all employees are periodically provided with information security training and each of our offices designates a corporate information manager to establish its own rules and regulations. In this way, we strive to increase every employee's awareness of information security.

As a measure against cyberattacks, all employees participated in two drills for defending against quasi-targeted e-mail attacks in FY2022. Subsequently, feedback about the results was provided to employees who also received tips for how to identify targeted e-mail attacks and to avoid risky behaviors like opening attached files to increase their awareness of information security. There were no cases falling under specific complaints concerning customer privacy violation or the loss of customer data in FY2022.

◆ Education and Training

As part of the activities to increase risk awareness and implement the PDCA cycle to mitigate risk, the Nippon Kayaku Group provides risk management education to all of its executives and employees (including contract employees and part-time employees) and temporary employees. Also, a separate risk management training session is organized for new hires, newly appointed managers and Japanese expatriate employees being assigned overseas.

› [Education and Training](#)

Actions to Take in the Event of an Emergency and Developing and Managing a Crisis Management System

◆ Risk Management System

We have established our Risk Management Regulations and BCP Manuals, among others, in preparation for risks that could have a serious impact on corporate activities in an effort to enhance our risk management system.

The Risk Management Regulations were set forth in FY2022 by modifying the Risk Management Manual, which was formulated in FY2000 with the aim of appropriately managing and addressing all kinds of risks surrounding the Nippon Kayaku Group.

◆ Business Continuity Plan (BCP)

Preparing BCP Manuals

As part of its policy, the Nippon Kayaku Group will work to restore the operations of its businesses within the target period after a disaster occurs. The Group instituted a cross-sectoral BCP project and all of its divisions and plants in Japan established BCP manuals. The overseas companies of the Nippon Kayaku Group are developing and improving their BCP manuals with the goal of facilitating the Nippon Kayaku Group's efforts to handle global risks.

BCP Training

Enabling an organization to quickly function as written in its BCP manual in the event of the materialization of a business continuity risk requires continuous training. In Japan, we conduct annual BCP drills and all executives and Audit & Supervisory Board members including the President participate in them. In FY2022, the Himeji Plant implemented a BCP drill mainly consisting of actions to address equipment damage and save lives in the event of an earthquake. The president, the chairperson of the Risk Management Committee, the manager and the employees of the Himeji Plant and the members of the Safety Systems Group participated in the BCP drill. They properly gathered information and made quick decisions, verifying the effectiveness of the business continuity plan. We will examine the findings and problems identified by the BCP drill and work to address them ahead of the next BCP drill.

A Group company in Wuxi, China conducted a BCP drill assuming the approach and passing of a typhoon that caused damage to the area. The BCP drill was guided by an outside consultant. The problems identified by the outside consultant have been provided via feedback for future training and improvements have been made accordingly, such as the correction of the BCP manual.

We will be holding more BCP drills based on various scenarios.