

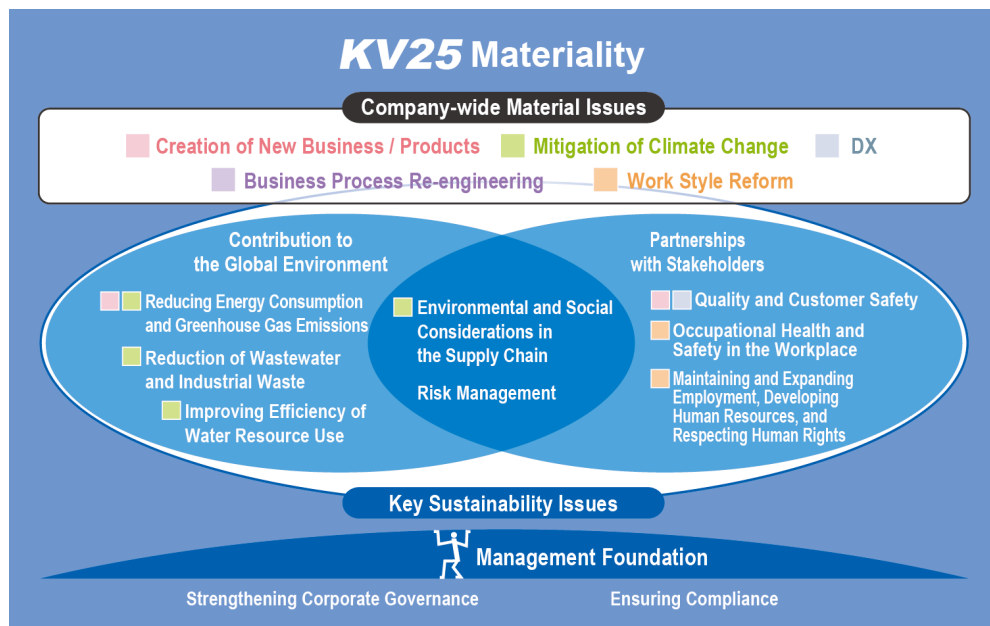
Materiality and Sustainability: Important Issues

Materiality

The quest to achieve our aim of being “a company with a strong presence that can consistently provide happiness and delight to the environment, society and all stakeholders under the **KAYAKU spirit**,” has seen us analyze the gap between future aspiration and present reality, and prioritize as our Five Important Groupwide Issues needing to be tackled: “Creation of New Business and Products, Mitigation of Climate Change, DX, Business Process Re-engineering and Work Style Reform.”

In addition, through promoting sustainable management have we appropriately grasped the important issues we face from internal and external standpoints, and defined them as our Key Sustainability Issues to be linked to corporate activities under our Sustainability Action Plan.

Our **KAYAKU Vision 2025** Medium-term Business Plan (hereafter: **KV25**) therefore seeks to contribute towards the realization of a sustainable society under our Sustainable Management Basic Policy through prioritizing the Important Groupwide Issues, and complementing those efforts with work on our Key Sustainability Issues. The umbrella term for the two sets of issues is “**KV25 Materiality**.”



* The colored boxes beside each sustainability issue signify its link(s) to an important groupwide issue.

Important Groupwide Issue Initiatives

In order to reach where we wish to be, the Nippon Kayaku Group has analyzed the gap between our aims and our present condition and, as a cross-cutting groupwide project, fixed the five key issues needing to be tackled (Creation of New Business and Products, Mitigation of Climate Change, DX, Business Process Re-engineering and Work Style Reform). The twin tasks of devising ways to instill the Five Important Groupwide Issues in our workforce and speed up the process towards their resolution fall to our Materiality Cross-Functional Team (M-CFT), comprised of members selected from multiple departments.

| Important Groupwide Issue | Initiative Details |
|---------------------------------------|--|
| Creation of New Business and Products | We will contribute to realizing our ideal form by linking the four fields of Mobility, Environment & Energy, Electronics and Life Sciences to our three business units, and cutting across existing boundaries to create new business and products. |
| Mitigation of Climate Change | We will set our targets for carbon neutrality and global warming prevention (through, for example, reducing greenhouse gas emissions), and unite every factory and research lab behind our climate change risk mitigation measures. |
| Digital Transformation (DX) | Our current target is to promote DX across the group, expand our sales through process innovation, and expand our business through cost-reductions. Our specific DX measures include: (1) IT education and raising IT consciousness, (2) strengthening our IT base through rebuilding our ERP & IT infrastructure, and (3) bringing DX to each working process in the areas of R&D, production, sales and marketing, and administration. |
| Business Process Re-engineering | We will reassess our methods for group, business and cost management, and eliminate various forms of waste while improving working methods and reducing costs through A3 Activities (KAIZEN)*, thereby boosting work efficiency and productivity, and upping both asset efficiency and earning power. |
| Work Style Reform | With our sights set on becoming a “vibrant, strong and good company,” we will reform our working practices and human resources system to increase employee vitality and engagement. |

* Our A3 Activities (KAIZEN) are based on cost-reduction consciousness, and designed to make the Nippon Kayaku Group a more vibrant community through strengthening both the individual and the group (through skills and expertise), and through culture-change activities that help cultivate autonomy.

Key Sustainability Issues: Specification Methods

In 2019, having appropriately grasped the issues it faces from an internal and external standpoint, the Nippon Kayaku Group specified its Important Medium-term CSR Issues in order to meet stakeholder expectations and demands. The launch of KV25 in April 2022 coincided with the switchover from CSR Management to Sustainability Management, causing the “Important Medium-term CSR Issues” to be renamed the “Key Sustainability Issues,” which were then reassessed in order to aid our responses to diversifying business environments and changing social issues.

STEP 1 Recognition of Issues

- Building on our previous Key Sustainability Issues (laid down in our **KAYAKU Next Stage** Important Medium-term CSR Issues), we have extracted themes from the GRI Standards on the demands of a diversifying society to serve as our base, and updated our issue items accordingly.

STEP 2 Converting External and Internal Opinions into Points

- A. Converting External Evaluations into Points
We have taken the evaluation standards of multiple international assessment bodies concerned with promoting responsible investment, as well as the SASB required standards for separate industries, linked them to our issue items, and assigned external evaluation point scores to them.
- B. Converting Internal Evaluations into Points
We have taken the key Medium-term Business Plan themes for each separate business and corporate division, linked them to our issue items, and assigned internal evaluation point scores to them.

* SASB: Sustainability Accounting Standards Board - An American non-profit organization which determines sustainability information disclosure standards for each separate industry.

STEP 3 Mapping of Important Issues

- Our important-issue mapping system has seen the issue items of “Strengthening Corporate Governance” and “Thorough Compliance” specified as most important to business continuity, while our other issue items have been assigned point scores according to internal and external evaluations. Our resultant point-based map has had threshold levels inserted, with anything exceeding those thresholds being specified as an important issue item.

STEP 4 Suitability Confirmation and Approval

- With intellectual input from our sustainability specialists taken into account, our specifying methods and specification results are reviewed by our company’s key decision-making institution, the Sustainable Management Meeting (formerly the CSR Management Committee), and approved after two rounds of discussions.

Important Sustainability Issues: Initiatives and KPIs

The Nippon Kayaku Group has now linked its specified Key Sustainability Issues to its Corporate Activities under the Sustainability Action Plan. We have additionally made use of the SDG Compass to link this plan to the 17 SDGs. Hence, by working towards achieving the Sustainability Action Plan KPIs will we contribute to a sustainable society as well as delivering on the SDGs.

Key Sustainability Issues

Our Key Sustainability Issues have been split into three groupings: Issues Most Important to Business Continuity, Most Important Issues, and Important Issues, with each being assigned its own action plan.



Sustainability Action Plan

The Nippon Kayaku Group's Sustainability Action Plan makes use of the SDG Compass to tie each important issue to one or more of the 17 SDGs. Through managing and disclosing our KPI progress reports on an annual basis, and promoting sustainability activities in general, does the Nippon Kayaku Group aim to create environmental, social and economic value, achieve the SDGs (hence the realization of a sustainable society) and improve corporate value.

| | Key sustainability issues | Corresponding SDGs | Action plans | Indicators (KPI) | FY2025 Targets | Results | | FY2023 Initiative-related Topics |
|--|------------------------------------|--------------------|--|---|--|---------------|--------|--|
| | | | | | | FY2022 | FY2023 | |
| Most Important Issues for Corporate Survival | Ensuring Compliance | | <ul style="list-style-type: none"> Exercise thorough compliance, which is a basic principle for conducting corporate activities, and engaging in fair business operations Maintain and enhance an open corporate culture with a high sense of ethics | Number of serious compliance violations ¹ Compliance training rate Percentage of group companies with compliance / whistleblowing hotlines | 0 | 0 | 0 | <ul style="list-style-type: none"> No serious compliance violations. This financial year's compulsory compliance training on Mental Flexibility delivered to all domestic Group companies. Discussions held and options explored with overseas Group companies yet to install a compliance whistleblowing consultation service. |
| | Strengthening Corporate Governance | | | <ul style="list-style-type: none"> Strengthen corporate governance of the entire group and manage in a highly transparent and sound manner | Number of times that the assessment on the effectiveness of the Board of Directors meetings is evaluated Number of times internal business audits are performed by the Audit Division | Once per year | 1 | 1 |

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|-----------------------|---|--------------------|---|--|------------------------|------------------------|------------------------|---|
| | | | | | | FY2022 | FY2023 | |
| Most Important Issues | Quality and Customer Safety | | <ul style="list-style-type: none"> Enhance our quality control and quality assurance systems by continuously improving our quality management system and ensuring thorough quality-related governance Implement quality management, improve production efficiency and reduce process abnormalities through digitalization | Number of serious complaints by customers ² Number of serious quality process abnormalities in processes ² | 0 | 1 | 0 | <ul style="list-style-type: none"> Quality Fraud Prevention-related seminar on Understanding the Essence of Quality Compliance developed for our Product Quality Month (November). The post-seminar survey (120 respondents) yielded good results. Satisfaction level: Extremely satisfied or satisfied: 78% Degree of understanding: Very easy to understand/ For the most part easy to understand: 90% |
| | Environmental and Social Considerations in the Supply Chain | | <ul style="list-style-type: none"> Practice supply chain management with consideration for environmental and social aspects, based on the Sustainable Procurement Guidelines | Response rate for confirmation of consent to Sustainable Procurement Guidelines Formulation and implementation of improvement plans using questionnaires to suppliers | (Non-consolidated) 90% | (Non-consolidated) 99% | (Non-consolidated) 91% | <ul style="list-style-type: none"> Sustainable Procurement Guidelines-based survey sent out to suppliers making up the top 90% of our purchases in FY2021 and all new suppliers in FY2022 and FY2023 (371 companies in total). 338 companies consented to the Guidelines. As the survey responses revealed no supplier problems with human rights and environmental issues, there was no need to send out Requests for Improvement. |

| Key sustainability issues | Corresponding SDGs | Action plans | Indicators (KPI) | FY2025 Targets | Results | | FY2023 Initiative-related Topics |
|---|--|--|---|----------------|--|------------------|----------------------------------|
| | | | | | FY2022 | FY2023 | |
| | | | | | Reducing Energy Consumption and Greenhouse Gas Emissions Reduction of Wastewater and Industrial Waste Improving Efficiency of Water Resource Use | | |
| VOC emissions | (Non-consolidated) Disclose results | (Non-consolidated) 38.7 tons | (Non-consolidated) 32.9 tons | | | | |
| COD emissions | (Non-consolidated) Disclose results | (Non-consolidated) 171.8 tons | (Non-consolidated) 210.9 tons | | | | |
| Total waste output | (Non-consolidated) Disclose results | (Non-consolidated) 27,621 tons | (Non-consolidated) 20,974 tons | | | | |
| Recycling rate | (Non-consolidated) 80% or higher | (Non-consolidated) 85.0% | (Non-consolidated) 83.8% | | | | |
| Zero emission rate | (Non-consolidated) 1% or less | (Non-consolidated) 0.8% | (Non-consolidated) 0.7% | | | | |
| Goal setting in line with SBT and consideration and implementation of specific measures | Disclose progress | Gained an A-rating on CDP (Climate Change) Scope 3 Calculations: Implementing improvements to accuracy | Medium-term Environmental Targets revised to 1.5°C scenario | | | | |
| Disclosure in line with TCFD recommendations | Disclose progress | Information disclosed | Information disclosed | | | | |
| Develop products and technologies with consideration for environmental issues | Disclose progress | Published in Topics | Published in Topics | | | | |

Most Important Issues

| Key sustainability issues | Corresponding SDGs | Action plans | Indicators (KPI) | FY2025 Targets | Results | | FY2023 Initiative-related Topics |
|--|---|--|---|----------------|---|--------|----------------------------------|
| | | | | | FY2022 | FY2023 | |
| | | | | | Occupational Health and Safety in the Workplace | | |
| Acquisition of certifications under the Certified Health & Productivity Management Outstanding Organizations Recognition Program (Large Enterprise category) | (Non-consolidated) Continued certification | (Non-consolidated) Gained FY2023 certification as a Health and Productivity Management Organization (Large Enterprise Category) | (Non-consolidated) Certified status renewed | | | | |
| Percentage of paid leave taken | (Non-consolidated) 70% or higher | (Non-consolidated) 63.7% | (Non-consolidated) 72.8% | | | | |
| Percentage of employees who take mental health training | (Non-consolidated) 100% | (Non-consolidated) 100% | Year 1 of our 3-year plan has proceeded as intended | | | | |
| Percentage of employees receiving regular health checkups | (Non-consolidated) 100% | (Non-consolidated) 100% | (Non-consolidated) 100% | | | | |
| Ascertaining and improving employee satisfaction through questionnaire surveys | (Non-consolidated) Disclose progress | - | Published in Topics | | | | |

Important Issues

| | Key sustainability issues | Corresponding SDGs | Action plans | Indicators (KPI) | FY2025 Targets | Results | | FY2023 Initiative-related Topics |
|------------------|---|--------------------|--|---|---|--------------------------------------|--|---|
| | | | | | | FY2022 | FY2023 | |
| Important Issues | Maintaining and Expanding Employment, Developing Human Resources, and Respecting Human Rights | | <ul style="list-style-type: none"> Promoting diversity and inclusion through the recruitment of diverse human resources, effective HR assignment and exchanges Pass down and strengthen technical capabilities in monozukuri (manufacturing) and achieve globalization in human resources through ongoing human resource development Engage in business operations that pay care and consideration to the human rights of employees and all other people involved in the supply chain | Percentage of female employees in management posts*4 | (Non-consolidated) 10% or higher | (Non-consolidated) 9.0% | (Non-consolidated) 8.8% | <ul style="list-style-type: none"> We have encouraged more women to challenge for managerial positions through promoting both training aimed at female managers and participation in career-support sessions. From the first conversations about work contents to the preparation of the workplace environment, we have incorporated specialist support in our quest to promote employment for people with disabilities and widen their job opportunities. Going forward, with one eye on future increases in statutory employment percentage rates, we will further expand work opportunities for the disabled, and establish a fixed support system as we advance our workplace preparations to help disabled employees succeed. Online training delivered on Business and Human Rights, and Risks Requiring Priority Measures as Identified by Nippon Kayaku Group Employees. Nippon Kayaku Group Human Rights Policy revised. The Top 3 Nippon Kayaku Group Risks Requiring Priority Measures have been identified by the Sustainable Management Meeting as: ① Power harassment, ② Excessive overtime and long working hours, and ③ Privacy rights. With respect to these three, we have collectively disclosed our efforts on preventing, reducing and correcting negative impacts on human rights. |
| | | | | Percentage of employees with disabilities | (Non-consolidated) Achieve legal minimum employment rate | (Non-consolidated) 1.98% | (Non-consolidated) 1.93% | |
| | | | | Amount invested in education and training per employee | (Non-consolidated) Disclose results | (Non-consolidated) 83,002 yen/person | (Non-consolidated) 76,565 yen/person | |
| | | | | Training hours per employee | (Non-consolidated) Disclose results | (Non-consolidated) 14.9 hours | (Non-consolidated) 17.7 hours | |
| | | | | Number of training sessions held on human rights | Once or more per year | 1 | 2 | |
| | | | | Human rights due diligence: human rights impact assessment rate | (Non-consolidated) FY2022: 100% (Consolidated) FY2025: 100% | (Non-consolidated) Incomplete | Human rights risk assessments and risks requiring priority measures identified in sessions laid on for Nippon Kayaku Group employees | |

| | Key sustainability issues | Corresponding SDGs | Action plans | Indicators (KPI) | FY2025 Targets | Results | | FY2023 Initiative-related Topics |
|------------------|---------------------------|--------------------|--|---|-----------------------|---------|--------|---|
| | | | | | | FY2022 | FY2023 | |
| Important Issues | Risk Management | | Respond to various business-related risks and ensure business continuity by maintaining production systems, ensuring the proper procurement of raw materials, and strengthening measures against disasters | Implementation rate of risk control activities for business, etc., and top five risk control activities | 100% | 100% | 100% | <ul style="list-style-type: none"> "Risk Controls for the Top 5 Risks" activities conducted at Nippon Kayaku plants and all Nippon Kayaku companies (based on trends of soaring raw material prices and increased supply disruption risks) Hearings conducted at domestic and overseas plants on the Top 5 Risks. BCP drills set up based on an earthquake scenario in the Kashima district, and a snow-damage scenario in the Joetsu region. BCP drills set up at China-based Group companies. |
| | | | | Number of BCP drills conducted | Once or more per year | 2 | 3 | |

*1 Number of serious accidents as judged by the Ethics Committee

*2 Losses of 10 million yen or more

*3 Accidents involving three or more people requiring time off work, or resulting in fatalities

*4 Targets for the end of FY2024

Key Sustainability Issues: Risks and Opportunities

Through recognizing the risks and opportunities associated with our specified Key Sustainable Issues, reducing those risks, and working on those opportunities connected to fresh business growth, the Nippon Kayaku Group will aim to realize a sustainable society and deliver yet further improvements to corporate value.

| | Important Sustainability Issues | Risks | Opportunities |
|--|---|---|---|
| Most important issues for corporate survival | Ensuring Compliance | <ul style="list-style-type: none"> Loss of public trust due to compliance violations Damage to corporate value Slump in business activities | Gaining stakeholder trust |
| | Strengthening Corporate Governance | Stagnation of business activities | <ul style="list-style-type: none"> Gaining stakeholder trust Increased capacity to gain public trust |
| Most important issues | Quality and Customer Safety | <ul style="list-style-type: none"> Alienation of customers due to discrepancies in product quality Loss of public trust due to illegalities in quality management and labelling | Gaining customer trust through supplying high-quality products |
| | Environmental and Social Supply Chain Considerations | Negative impact on corporate activities from illegal acts or compliance violations on the part of suppliers | <ul style="list-style-type: none"> Contributing to the realization of a sustainable society Increased long-term competitiveness |
| | Reducing Energy Consumption and Greenhouse Gas Emissions | [Switchover risks] <ul style="list-style-type: none"> Increased operational costs stemming from the effects of a strengthened emissions system Electricity and LPG price-hikes Increased raw material costs stemming from the effects of a strengthened emissions system Increased costs associated with disclosure of environmental information and LCA calculations | <ul style="list-style-type: none"> Expanded use of materials for semiconductor-related and low-energy consumption products due to the extension of smart city and Digital Transformation (DX) projects Expanded use of materials for next-generation storage batteries Expanded use of resin materials for lighter mobility vehicle bodies |
| | Reduction of Wastewater and Industrial Waste | [Physical risks] <ul style="list-style-type: none"> Increased costs stemming from flooding caused by typhoons, heavy rain and high tides Operational impacts of water shortages Decreased labor productivity due to temperature rises | <ul style="list-style-type: none"> Expanded use of optical materials for lighter EV cars and sensor materials for self-driving cars Expanded use of biostimulants to maintain and increase agricultural production in the face of expected temperature rises, and wider use of existing agrochemicals to combat new pest threats. |
| Important issues | Occupational Safety and Health in the Workplace | <ul style="list-style-type: none"> Loss of public trust as a result of accidents or scandals Decreased labor productivity, exodus of staff | <ul style="list-style-type: none"> Fostering of a safety culture Improved work engagement from employees |
| | Maintaining and Expanding Employment, Developing Human Resources, and Respecting Human Rights | <ul style="list-style-type: none"> Failures to normalize new ideas and lost new business chances owing to skewed human resource attributes and skills Loss of public trust due to human rights violations | <ul style="list-style-type: none"> Fostering of business climate with diverse values which gives rise to new ideas Contributing to the realization of a sustainable society and increased long-term competitiveness |
| | Risk Management | Increase in management-related risks | Guaranteed continuation of business during emergencies |