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(Key Sustainability Issues)
Risk Management

Policy and Basic Approach

In a time when the surrounding business environment changes from day to day, leading to increased complications and uncertainty, we are facing a multitude of risks. By maintaining its production system, ensuring suitable access to natural resources, and strengthening disaster prevention measures in order to secure business continuity, the Nippon Kayaku Group is taking preventative measures against risks before they surface, and putting plans in place to mitigate their effects.

In order to "restore business operations within a specified timeframe" in times of disaster or emergency, we are not only promoting the establishment of a BCP Manual for our head office and all business units, but also the preparation of BCP Manuals for every overseas workplace.

System

In order to take preventative measures against risks before they appear, thereby minimizing their effects, we have set up a Crisis Management Committee to serve as an advisory body to the Sustainable Management Meeting. This committee convenes twice a year, and on an ad hoc basis when required.

The committee, chaired by an Executive Director with an official post nominated by the President, consists of representatives from each business unit's planning department and every section of our General Administration Department, which is unattached to any particular business unit. It is tasked with constructing and administering a crisis management system designed to take preventative measures against the most damaging risks to corporate management and business activities, and to respond to emergencies and conduct damage recovery activities once normal service has been resumed. The most important matters discussed by this committee are reported to the Sustainable Management Meeting and even the Board of Directors, who then provide relevant feedback.
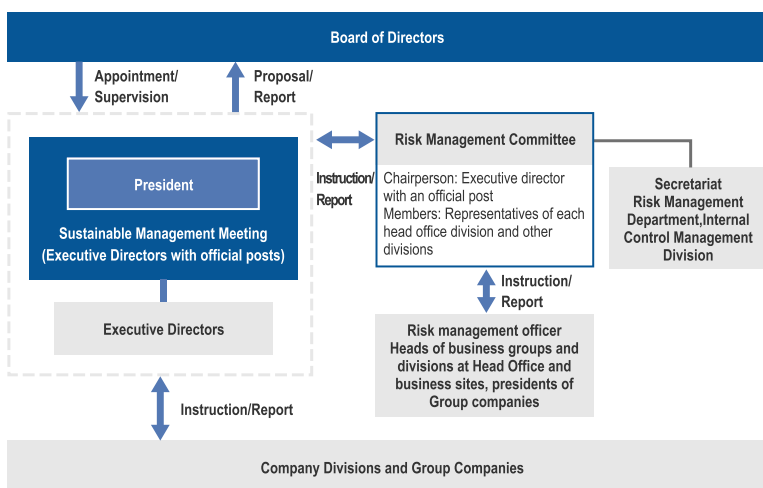
Indicators

Key sustainability issues	Action plans	Indicators (KPI)	FY2025 Targets	Results		FY2023 Initiative-related Topics
				FY2022	FY2023	
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%	• "Risk Controls for the Top 5 Risks" activities conducted at Nippon Kayaku plants and all Group 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	

Initiatives

Risk Prevention

◆ "Business Unit Risk Control Activities" and "Top Five Risk Control Activities"

In order to identify significant risks and enact the requisite controls, the Nippon Kayaku Group undertakes the following "Business Unit Risk Control Activities" and "Top Five Risk Control Activities" on an annual basis.

Business Unit Risk Control Activities cover our three business units, our R&D Department, and our Head Office Administration Department. They involve extracting the risks most impactful to each business unit and department from a managerial perspective, and examining ways to deal with them.

The Top Five Risk Control Activities, meanwhile, cover our factories and research labs, medical branches, business offices, and group companies including overseas subsidiaries. They involve extracting the particularly impactful risks from an on-the-ground perspective within each business site, and exploring ways to respond.

Risks and response measures identified for each business unit and site are reported to the Internal Control Management Division, which serves as the office for the Crisis Management Committee. The Internal Control Management Division comprehensively grasps and analyzes risk trends, passes on its findings to the Crisis Management Committee for discussion and final decision on the major risks and responses, then makes twice-yearly reports on initiatives and progress updates to the Sustainable Management Meeting and Board of Directors.

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◆ Responses to ESG Risks

The Nippon Kayaku Group believes in the necessity of appropriately grasping the risks and opportunities associated with sustainable management, and linking the acts of reducing those risks and gaining new business opportunities to further business growth. FY2022 saw us disclose the risks and opportunities related to our Key Sustainability Issues as well as information based on the TCFD proposals. By working towards resolving environmental and social issues through our business activities are we aiming to achieve a sustainable society and additional corporate value.

In order to continue our appropriate responses to the diversification of business activities and changing social and environmental issues, we will periodically review these risks and opportunities, and work towards disclosing information of substantial quantity and quality.

> Key Sustainability Issues: Risks and Opportunities
> Information Disclosure based on TCFD Proposals

◆ Education and Training

As part of our PDCA Cycle activities designed to plan for greater risk awareness and minimization, we provide risk management training to all our executives, employees (including contracted and part-time employees), and temp staff. We also implement separate risk management education and training for new hires, new managers, and employees transferring overseas.

> Education and Training

Responses to Emergencies, and the Structure and Administration of our Crisis Management System

◆ Crisis Management System Preparation

In preparation for risks with the potential to significantly damage business activities, we have drawn up Crisis Management Regulations and a BCP Manual as part of our overall Crisis Management System.

The Crisis Management Regulations fixed in 2022 are an update on our Crisis Management Manual of 2000, and are designed to help precisely manage and respond to the various risks surrounding Nippon Kayaku Group business.

◆ Business Continuity Plan (BCP)

Preparation of BCP Manuals

To help achieve our policy of "restoring business operations within a specified period" following disasters or emergencies, we launched a companywide BCP Project which involved establishing a BCP Manual for every domestic business division and factory. We are also moving ahead with preparations for a BCP Manual for our overseas group companies to help the overall Nippon Kayaku Group respond to global-level risks.

BCP Drills

We believe it is crucial for us to continuously undergo BCP drills so we can swiftly get organization functioning again once a business continuity risk occurs. Our President, Executives and Audit Board members undergo such drills on an annual basis. FY2023 saw us launch a BCP drill built around a Great North Eastern Earthquake-style scenario and focusing on a coordinated initial response between Headquarters and the Kashima region. Such a drill allowed the President, Crisis Management Committee and participants from our Agrochemicals Business the chance to gather, aggregate and share information to take immediate and appropriate decisions, and thereby confirm the effectiveness of our Business Continuity Plan. Any observations or matters that arise during such drills are confirmed in detail and consequently fed into the next BCP drill.

Kayaku Safety Systems (Huzhou), meanwhile, underwent a drill based on a typhoon approaching and then passing through the area, causing damage along the way. Issues and points of concern confirmed during this drill will be fed into future drills, and have also triggered improvement actions such as rewrites of BCP Manual text. Furthermore, WUXI POLATECHNO OPTICS, KAYAKU CHEMICAL (WUXI) and WUXI ADVANCED KAYAKU CHEMICAL all held BCP Seminars with the aim of raising employee awareness of business continuity issues.

Going forward, we will continue to stage BCP drills based on a number of different scenarios.

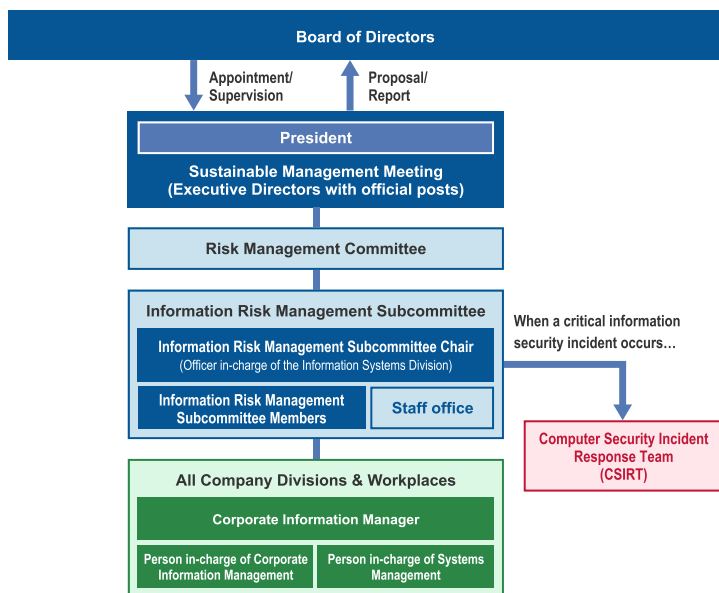# Information Security

◆ Policy and Basic Approach

We are promoting Digital Transformation (DX) in order to make working practices more efficient, improve productivity and diversify working styles. However, we are doing this against a backdrop of heightening cybersecurity risks, with cyberattacks and unauthorized access incidents growing by the year and with increasing levels of skill and sophistication. The Nippon Kayaku Group perceives information leaks and computer system shutdown as risks related to business continuity, and in order to repay the trust of customers, suppliers, investors, employees and various other stakeholders, protects business information daily, and sets up information security initiatives continually, based on its Charter of Conduct and Code of Conduct.

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◆ System

In order to minimize information security risks (a key element of crisis management), we have set up an Information Risk Management Subcommittee with the aim of constantly maintaining risk-proof conditions, continually reviewing responses based on changing situations, and diffusing and integrating best practice throughout company operations. This subcommittee meets, in principle, twice a year, but on a further ad hoc basis if necessary. It is chaired by the Officer in-charge of Information Systems, and comprises representatives of every business unit's planning department plus representatives from general administrative departments unattached to any particular business unit. It also coordinates with the Corporate Information Officer, Person in-charge of Corporate Information, and System Administrator assigned to every business site.

The most important matters discussed by this subcommittee are forwarded to the Sustainable Management Meeting and even the Board of Directors, who provide relevant feedback.

Furthermore, to deal with security incidents that could either heavily damage management and business operations or lose us the trust of our business partners and suppliers, such as cyberattacks and unauthorized access to confidential information, we have set up a Computer Security Incident Response Team (CSIRT) as our core policy unit under the leadership of the Information Risk Management Subcommittee Chair. Depending on the assumed extent of damage, the President may also step in to lead CSIRT. CSIRT works on limiting the spread of damage, and once containment activities are over, on restoration of operations and recurrence prevention measures.

International Certificates Gained

❯ [Business Sites Certified by the Trusted Information Security Assessment Exchange (TISAX), (concerned with the global automotive industry supply chain)](#)

◆ Initiatives

Information security measures

Classification of measures	Details
(1) Organizational measures	• Information security system maintenance • Periodic reviews of information system-related regulations • Implementing mail audits
(2) Personal & legal measures	• Information system security and IT literacy education, incident response drills, setting up educational activities • Concluding confidentiality contracts with external service providers • Duty of confidentiality enforcement for hires and retirees
(3) Physical measures	• Access management for facilities, buildings and areas etc. • Management of PCs and external storage devices taken outside of company premises • Taking key confidential information outside of company premises; locking management, access management
(4) Technical measures	• Measures against information device malware; hard disk encryption • Unauthorized outside access; detection structure for data alteration attacks

Education and Training

At the Nippon Kayaku Group, all executives, employees (including contracted and part-time employees) and temp staff are made fully aware of information security rules, and receive regular information security training as well as drills on dealing with malicious emails.

Training title	Main contents	Mainly aimed at	FY	Training format	No. of times	Take-up rate
Information System Security Training	• Information System Security: basic knowledge, response methods, preparedness • Incident response	• Executives, employees (including contracted and part-time employees), temp staff • Persons outside the company involved in loaning PCs connected to the Nippon Kayaku network	2023	E-learning Distribution of materials, group session	2	Averaga of 89%