



**Akinori Adachi**

Executive Officer

### Message from the Executive Officer in charge of the Internal Control Dept., Legal Dept., Administrative Dept., and Secretary Dept.

The Denka Group is strengthening its risk management system to appropriately control risks to minimize capital costs in the face of increasing uncertainty surrounding its business, including rapid changes in the business environment and the full-scale transformation of its business portfolio. Specifically, in order to strengthen our risk management activities in normal times, Denka has renamed the former “Risk Management Committee” to the “Denka Group Risk Management Committee” and launched enterprise risk management (ERM)

activities, a continuous risk management that covers the entire Denka Group, to replace the conventional individual risk management. We strive to conduct strategic risk management that includes identifying risks that affect corporate activities and strengthening response to major risks through this initiative while also thoroughly managing systemic crisis management against natural disasters, terrorism, cyber-attacks, and other major threats to improve corporate value in mid- to long-term for the stakeholders.

### Denka’s approach to sustainability and risk management

Denka’s Board of Directors recognizes that responding to the various social issues related to sustainability is an important management issue that leads to reductions of risks and to profit opportunities. To that end, we formulated the “Denka Group ESG Basic Policy” to put the four areas and ten principles of the United Nations Global Compact into practice and is taking appropriate responses according to the risks, such as strengthening a group-wide compliance system and taking

on the challenge of creating new businesses to solve social issues. Furthermore, the Sustainability Committee chaired by the President also strives to manage the progress of various sustainability initiatives as well as share good practices. Denka strives to improve corporate value in the mid- to long-term through these activities related to sustainability.

### Denka’s risk management structure

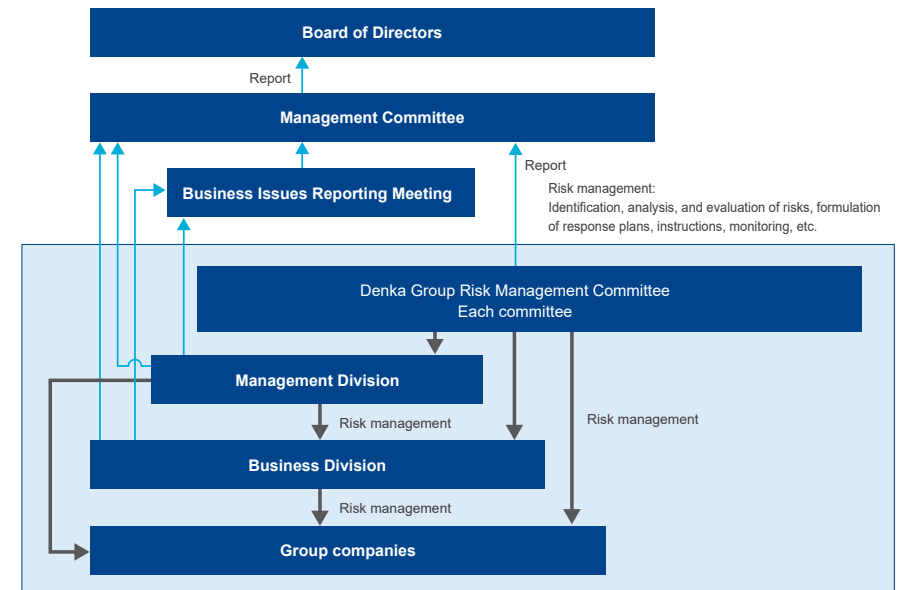
Denka’s Board of Directors recognizes that risks and strategy are inseparable and is working to develop and improve an environment in which each executive officer can take risks, while at the same time developing and improving Denka’s risk management structure for the entire Group.

To achieve these purposes, the Management Committee and the Business Issues Reporting Meeting, both of which are held monthly, discuss the identification and evaluation of each risk that may affect the Group’s management and measures to control risks while considering profitability and other economic values. In addition, each risk in the business divisions, including the status of achievement of the business plan, is continuously tracked.

Each cross-organizational committee conducts specialized risk management depending on the type of risk, such as legal matters, capital investment, the environment, health and safety, quality control, startup investment, and more. Furthermore, Denka’s management divisions are striving to manage the Group’s risks, which they are in charge of based on the Group’s common rules. In addition, while business divisions manage their risks, we dispatch directors to each Group company for them to discuss with our management divisions and manage the business risks of each company.

Denka is working to further strengthen the risk management system of the entire Group based on the concept of Enterprise Risk Management. The Denka Group Risk Management Committee selects and identifies group management-level risks and opportunities as priority risks and evaluates their level of impact, formulates policies, and manages progress to enhance response to such priority risks. We published the Denka Group Management Handbook, a booklet that describes the ideal vision for each operation based on the concept of group internal control policy, to continuously work on strengthening a group-wide internal control system and conducting appropriate operations.

Risk management structure during normal times



## Enterprise Risk Management initiatives

The Denka Group is working to strengthen its cross-organizational enterprise risk management system in the face of increasing uncertainties surrounding its business.

The Denka Group Risk Management Committee chaired by the President identified priority risks by visualizing, analyzing, and evaluating risks that require cross-organizational management based on impact, frequency, and other factors. Management policy is determined based on these priority risks and various year-round monitoring activities, such as implementing measures to enhance the communication network during disasters and conducting real-time disaster response training participated by the management team from the Head Office and senior managers of plants. By increasing the effectiveness of countermeasures through trial and error, Denka will strive to improve corporate value for stakeholders over the medium to long term by reducing impacts of risk exposure on its business performance and minimizing its capital costs.

Denka Group has been continuously improving its enterprise risk management system but is currently working on risks related to safety and quality assurance in response to such issues that occurred in 2023. The Group is engaged in addressing organizational and operational systems, ensuring psychological safety, and reforming the corporate culture with the Environmental & Safety and Quality Assurance departments taking the lead.



### List of priority risks and their risk owners

Major category	Subcategory	Sub-subcategory	Risk ownership
Business risks	Disasters	Earthquake disasters (earthquakes and tsunamis)	Administrative Dept.
Business risks	Accidents/crimes	Major crimes to the Company by third parties (terrorist attacks, arsons, threats, etc. in Japan)	Administrative Dept./Environment and Safety Dept.
Management risks	Business environment (social, economic, political)	Inability to export, operate business, or other actions due to geopolitical risks	Corporate Planning Dept.
Management risks	Business environment (social, economic, political)	Economic crises, economic shifts, and changes in exchange rates	Accounting Department/Finance Dept.
Management risks	Related companies (Group companies, etc.)	Failure of group governance	Internal Control Dept.
Business risks	Disasters	Climate change risks (cold and heat waves, forest thinning, long rains, irregular climates, etc.)	Sustainability Promotion Dept.
Business risks	Accidents/crimes	Operational accidents (fires, explosions, etc. at plants)	Environment and Safety Dept.
Business risks	IT/information management	Overall information system error due to cyber-attacks and unauthorized access	Digital Strategy & Innovation Dept.
Business risks	Products/services	Troubles due to quality issues of products or services (product accidents, drug-induced injuries, large-scale food poisoning, foreign matter contamination, large-scale product recalls, etc.)	Quality Assurance Dept.
Business risks	Violation and non-conformance of laws and regulations	Encapsulation, falsification, and false reporting of information (product counterfeiting, falsification of quality and performance, encapsulation of labor accidents, etc.) Violation of laws and regulations, violation of contracts and internal regulations Global compliance	Legal Department/Internal Control Dept.

## Denka's risk management activities

Denka Group has established the Basic Guidelines for Crisis Management as a basic rule for responding to emergencies in the event that a risk that could have a significant impact on the management of the Denka Group materializes. Based on this guideline, each management department develops appropriate initial response rules, rules for the centralized aggregation of information, and rules for communication with the internal and external stakeholders as well as formulating countermeasures according to crisis scenarios in preparation for such crises. In order to minimize risks that could affect business continuity, such as information leaks caused by cyber-attacks, Denka has established common Group policies such as the Denka Group Information Security Policy, and the Group is implementing initiatives related to information security, including the protection of personal information.

Also, with regard to risks in connection with product quality, which is important for a manufacturer, to minimize risks that may affect business continuity, Denka has established the Denka Group Quality Issue Response Policy and is implementing initiatives across the entire Group. If, in case a crisis does occur, the CEO is to decide whether to establish a crisis task force in accordance with the seriousness of the incident based on the Basic Guidelines for Crisis Management. The relevant departments work closely together and, when necessary, obtain the advice of outside experts to conduct various investigations, analyze causes, and formulate various countermeasures to prevent recurrence. Since fiscal 2023, Denka has been working to strengthen the risk management system of the entire Group based on the concept of Enterprise Risk Management.

## Denka Group Management Handbook

Denka distributes the Denka Group Management Handbook to Group companies in Japan and overseas to strengthen overall risk management and internal control of the Group.



### List of risks and locations of articles describing our response

Category	Summary of major risks	Page number for articles
Business management	Awareness of social and sustainability issues	P2- Message from the President, P17- Talk with the President, P15- Important Management Issues (Materiality)
	Execution of management plans and financial strategies	P23- Management Plan "Mission 2030" P29- Financial strategy
	Corporate governance	P65- Governance [Sustainability Site] "Solid corporate governance/Corporate conduct deserving of stakeholder trust" Improve corporate governance
Risk management & compliance	Risk management	P76- Risk management [Sustainability Site] "Solid corporate governance/Corporate conduct deserving of stakeholder trust" Maintain strict compliance with laws, regulations and corporate ethics, risk management
Environmental management	Climate change, abnormal weather, reduction of environmental impact, and biodiversity	P55- Social
HR strategy	Recruitment, nurturing human resources, health management, diversity, workplace harassment and other human rights issues	P61- Social [Sustainability Site] "Solid corporate governance/Corporate conduct deserving of stakeholder trust" Whistle-blowing system, Denka Group Helpline, response to human rights risks
Quality & product liability	Product safety & quality control, and chemical substance control	P54 Quality assurance management
Accidents & disasters	Safety, health and disaster prevention	P52 Placing the utmost priority on safety
Communication	Responsible dialogue with stakeholders	P82- Dialogue with stakeholders [Sustainability Site] "Products and technologies" Customer satisfaction improvement activities
Information systems & security	System security maintenance and promotion of DX	P78 Denka's risk management activities [Sustainability Site] "Solid corporate governance/Corporate conduct deserving of stakeholder trust" Information asset management
Protection of Intellectual property & privacy information	Protection of intellectual property & privacy information	P34 Activities related to intellectual property Denka website: Privacy policy, [Sustainability Site] "Solid corporate governance/Corporate conduct deserving of stakeholder trust" Initiatives related to protecting intellectual property
Supply chain	BCP, export trade management	P77 Enterprise Risk Management initiatives [Sustainability Site] "Improvement of safety and quality of products" BCP measures based on risk assessments of conflict minerals and raw materials "Solid corporate governance/Corporate conduct deserving of stakeholder trust", export trade management
Individual businesses	Responding to changes in the business environment	P36 Contributing to a sustainable society through technology, P43- Message from division heads, business strategies, SWOT analyses

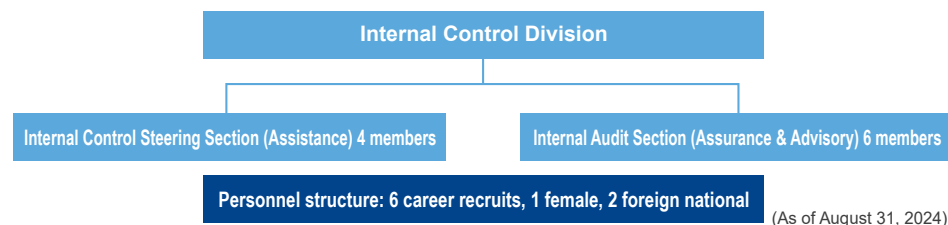
# Denka Group Internal Control

## Basic policy (Mission, Vision, Values)

The Company is committed to improving the non-financial value of the entire group by enhancing internal control, improving business processes, reducing risks, and preventing fraud. The Internal Control Department is organized to lead the force, and we envision becoming a professional team that is trusted by stakeholders inside and outside the company by carrying out three activities:

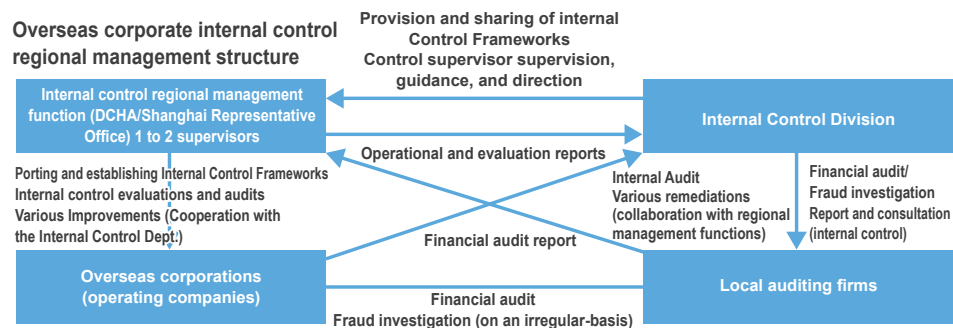
## Promotion system

The Internal Control Department is composed of two organizations: the Internal Audit Office, which is responsible for assurance activities such as control evaluation, auditing, and advice; and the Internal Control Steering Office, which supports and assists the construction of internal controls by the first line. The Internal Control Department is also actively promoting career hiring and transforming into an organization with diverse values that are not bound by gender, age, or nationality.



## Overseas corporate internal control regional management structure

Internal control functions have also been organized within regional headquarters companies in Singapore and China, and are working with the Internal Control Department to strengthen Group's control.



implementing assurance, giving advice, and assisting activities, all on a PDCA basis. As one of the non-financial KPIs in management plan "Mission 2030", we have set a goal of completing the establishment of a structure of internal controls (Internal Control Framework) within the group by 2030, which packages standardized internal control initiatives.

## Overview of internal control

### 1 Implementation of the Three Line Defense

Our company's internal control system is composed of three lines of defense: the first line is the risk owners (sales and manufacturing sites, etc.), the second line is the management department that provides control support and monitoring to the first line, and the third line is the internal audit departments that evaluate and assure the effectiveness of controls.

### 2 The Internal Control Department as the third line

The Internal Control Department as the third line of defense has two independent organizations, the Internal Control Steering Office and the Internal Audit Office. In addition to evaluation and assurance activities such as the Management Assessment and Audit concerning Internal Control Over Financial Reporting (J-SOX) and voluntary audits, the Internal Control Department also supports and assists the establishment of internal control while effectively utilizing the Internal Control Framework, working together closely with risk owners who lack knowledge and know-how.

### 3 Achievements (number of audits and support for internal control development)

In FY2023, we conducted 46 voluntary audits, 10 group companies for Company-level Control (CLC) and 2 group companies for internal control related to Process-level Controls (PLC) under J-SOX. In addition, 4 group companies and 1 site, mainly overseas, have started to establish internal controls using the Internal Control Framework, and the evaluation of 3 companies has been completed.

### 4 Reporting lines

The Internal Control Department reports directly to the president (solid line report) for audit results, etc., but also shares the results with the Audit and Supervisory Committee (dot line report), which is another audit function, to improve the efficiency and comprehensiveness of audits.

### 5 Awareness and dissemination of internal controls

The results of internal control evaluations and audits are also shared with relevant management departments (second line) and major group company executives, and a wide range of items are discussed and reported, such as significant findings, specific actions to be taken, and good examples of control.

# Denka's Group Compliance

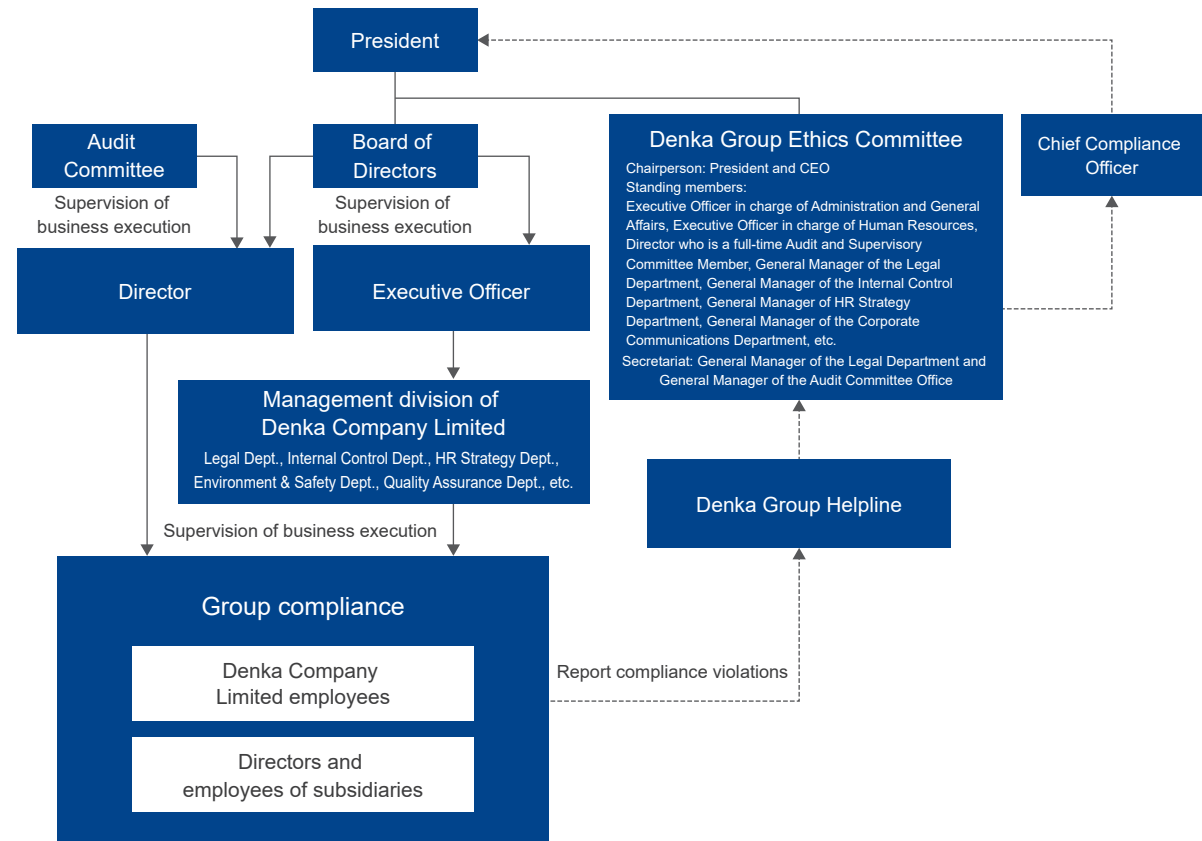
## Basic policy

The Group broadly defines “compliance” as compliance with laws, contracts, internal regulations, and social norms. The Denka Group Ethics Committee, established by the Board of Directors and chaired by the CEO, oversees compliance efforts across the entire Group. In response to each compliance risk, our Management Division in the Head Office devises and implements various preventive measures, gathers information on the latest laws and regulations, legal precedents, and case examples from other companies, establishes and revises various rules, including the Group's common rules and common company-wide rules, and carrying out various compliance training, monitoring, auditing, and more.

In addition to the activities of the Head Office Management Divisions, business divisions, business offices, plants and Group companies strive to reduce compliance risks in each field during normal times, including collaborative activities with outside experts. The Group is enhancing the Group-wide activities of each department of the management divisions. Furthermore, Denka is also working diligently to ensure that all employees throughout the Group comply with laws and regulations as though they were their own responsibilities based on Denka's core values of “initiative”, “empathy”, and “integrity”.

## Denka Group's compliance promotion system

Denka is striving to ensure thorough compliance at the Group level based on the regulation of authorities required for the business execution and common Group rules established by the Board of Directors, such as the “Denka Group Code of Ethics”. The Board of Directors established the Denka Group Ethics Committee, which deliberates on overall compliance including compliance promotion plans, to realize compliance throughout the Denka Group. At the same time, the Board of Directors has appointed an executive officer to oversee compliance as the Chief Compliance Officer (CCO), as well as an executive officer in charge of legal affairs, internal control, general affairs, and secretarial affairs. The CCO oversees Denka Group compliance issues, while the executive officer in charge of legal affairs, internal control, general affairs, and secretarial affairs promotes the strengthening and improvement of the Denka Group compliance system in Japan and overseas through the activities of the Legal Department, Administrative Department, and the Internal Control Department.



## Denka Group Standards of Business Conduct

The Board of Directors established the “Denka Group Code of Ethics” to ensure compliance by officers and employees of Denka Group companies both in Japan and overseas to maintain and ensure the trust of stakeholders and enable sustainable development of the entire Group. Furthermore, we established the “Denka Group Ethics and Legal Compliance Guideline Denka Group Standards of Business Conduct”, which further embodies the content of the “Denka Group Code of Ethics”. These set forth global standards of ethical conduct, as guidelines for ethically and legally appropriate actions, including, which executives and employees of each Denka Group company should follow to realize the Group's vision. In terms of content, we distribute booklets (in Japanese, English, and Chinese languages) as a guide for each employee's daily work. It covers basic rules for appropriate work, environment, safety, fair transactions, export regulations, economic sanctions, insider trading, personal information management, quality compliance, intellectual property rights, corruption prevention, compliance with labor laws, respecting human rights, and other themes.

## Whistle-blowing system “Denka Group Helpline”

The Denka Group Ethics Committee operates the Denka Group Helpline, a group whistle-blowing system in compliance with the guidelines of the Consumer Affairs Agency of Japan, to detect and correct compliance issues at the early stages in each Group company. Officers and employees of each Group company, regardless of the contract type, such as temporary employees, etc., their family members within the second degree of kinship living with them, and retirees as stipulated by the Whistleblower Protection Act of Japan, can report compliance issues to the Denka Group Ethics Committee at any time using the Denka Group Helpline. The report can be made either anonymously or with identifying information, whichever whistleblower prefers, in Japanese, English, or Chinese language.

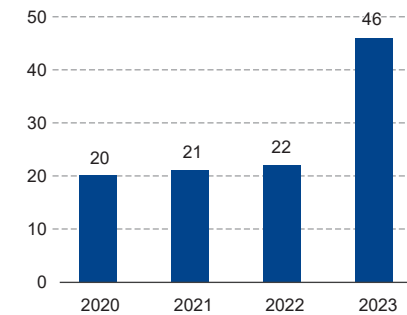
The Denka Group Ethics Committee not only has multiple contact points for receiving reports (internal contact point: the committee secretariat, external contact point: Nishimura & Asahi and specialized businesses serve), but also has stipulated the obligations in the group-wide whistle-blowing regulations for officers and employees to keep the identity of the whistleblower confidential and to prohibit retaliatory actions against whistleblowers, and the strict punishment for violations of these obligations. The Legal Department is also working to maintain trust in and promote the use of the whistle-blowing system by emphasizing this information for officers and employees through various compliance training programs. As a result, the Denka Group Helpline is actively being used, contributing to improving the effectiveness of compliance efforts made by the Denka Group.

## Response to misconduct

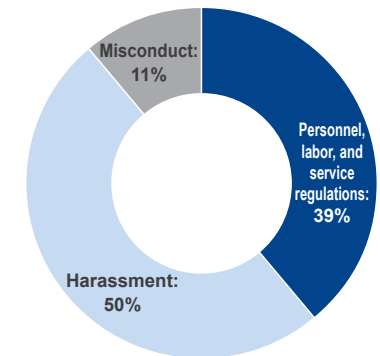
Denka formulated a basic regulation on responding to compliance violation incidents in August 2022 to fairly and appropriately respond to compliance issues reported via internal reporting, office organization, and other routes. This regulation stipulates specifics on internal reporting related to compliance issues, investigation systems, process of proceedings when an issue is recognized, and measures for internal dissemination as corrective and preventative measures. If a compliance issue occurs in the Company, we strive for the early resolution and correction of the issue including implementing necessary disciplinary action by the internal investigation team investigating the issue under the regulation.



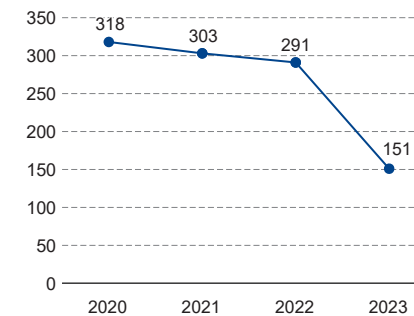
Trend in the number of reports



Breakdown of internal reports  
(cumulative from FY2019–FY2023)



Trend in the number of consolidated employees per report (persons/reports)



\* Classification is based on the content of the report at the time of receipt and does not necessarily reflect the recognized facts.

Breakdown of offices in FY2023 (cases)

	Misconduct	Harassment	Personnel, labor, and service regulations
Head Office	–	11	1
Research facilities and plants	4	6	12
Group companies	–	11	1