

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

Akinori Adachi

Executive Officer

At Denka Group, under the management plan “Mission 2030,” we aim to realize a sustainable society and enhance corporate value, positioning the strengthening of risk management as a key management issue. Amid increasing uncertainty surrounding our business, such as growing societal demands regarding climate change (TCFD), rapid social changes including greater respect for human rights, rapidly changing business environments, and full-scale business portfolio shift, we are working to appropriately control various risks and minimize capital costs. To this end, we have established the Denka Group Risk Management Committee, chaired by the president, and are strengthening our risk management system through integrated risk management (ERM) system and year-round activities. Going forward, we will further enhance our integrated risk management system to achieve “Mission 2030,” thereby not only improving corporate reliability but also contributing to society as a whole.

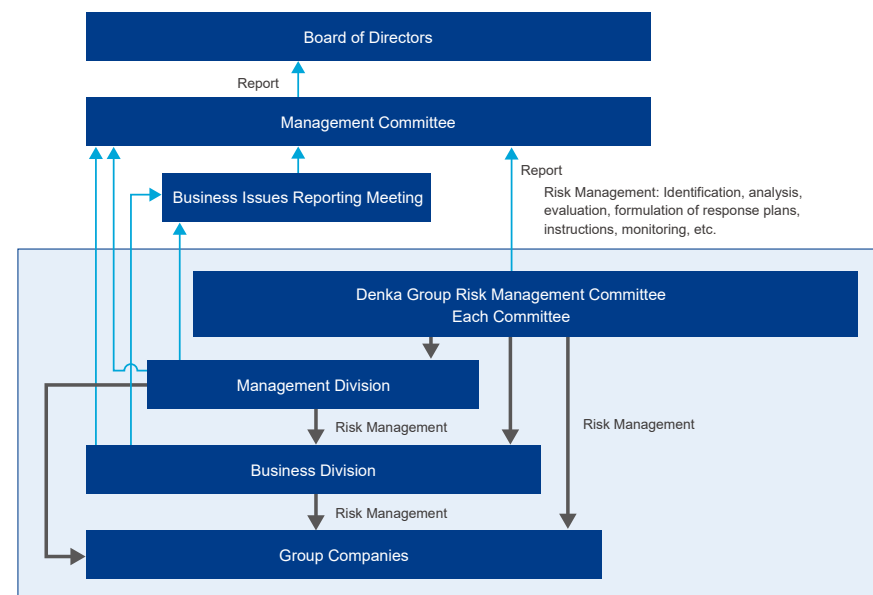
Denka's Approach to Sustainability and Risk Management

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.

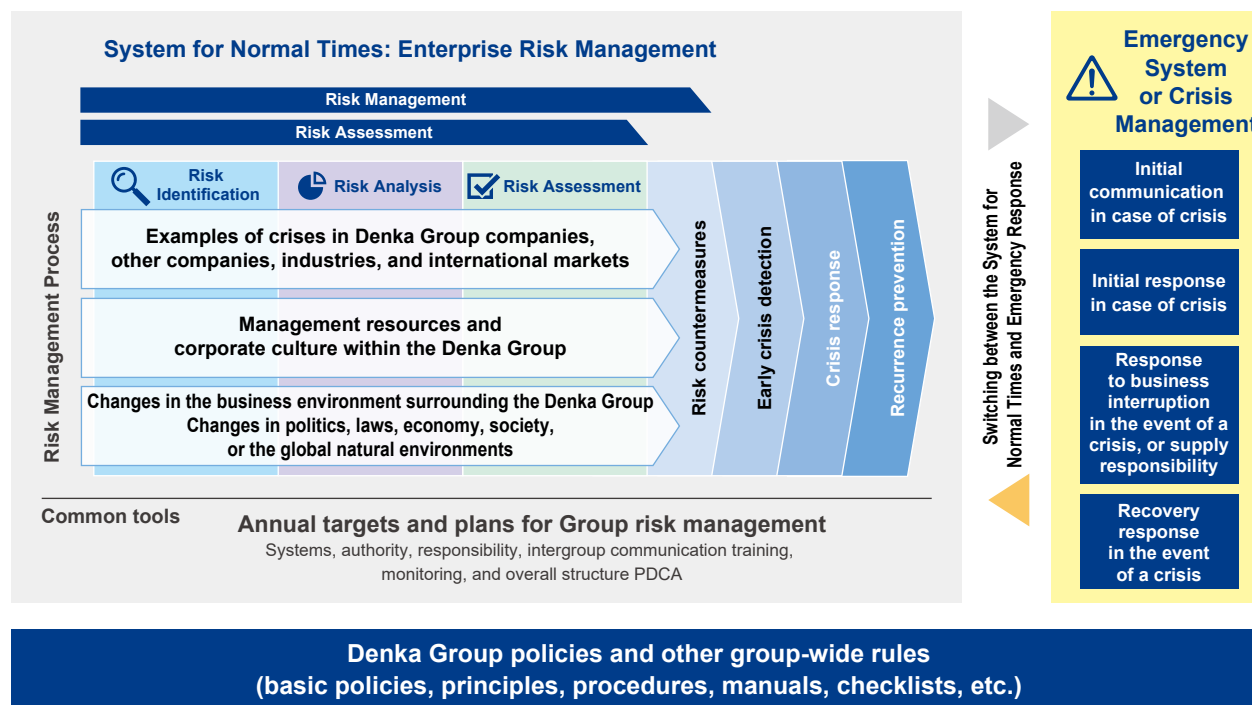
Risk Management Structure during Normal Times



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. In FY2024, as a response to identified priority risks, we strengthened our initial response to cyberattacks, reviewed business continuity plans, and conducted surveys of physical security at business sites and plants.

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	Medium classification	Small classification	Risk owner
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 Department/ Environment and Safety Department
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/ Financial Strategy Department
Management risks	Related companies (Group companies, etc.)	Failure of group governance	Internal Control Department
Business risks	Disasters	Climate change risks (cold and heat waves, droughts, 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 Department
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	Page number for articles
Business management	Awareness of management issues and social issues related to sustainability	▶ P05-16	Message from the President
		▶ P31-33	Sustainability management promotion structure
	Execution of the management plan and financial strategy, business environment (economic crisis, economic/foreign exchange fluctuations, geopolitical risks)	▶ P04	Temporary suspension of chloroprene rubber manufacturing equipment at US DPE and its effects
		▶ P17-22	Financial Strategy
		▶ P34-36	Management Plan "Mission 2030"
	Corporate governance, group governance	▶ P71-82	Management Value Creation
	Responding to changes in the business environment, natural disasters	▶ P37-48	Message from division heads, business strategies, SWOT analyses
Risk management & compliance	Risk management, accidents/crimes	▶ P87-94	Risk management
Accidents & disasters	Operational accidents, safety, health and disaster prevention	▶ P83-84	Place the utmost priority on safety
Quality & product liability	Issues caused by poor product/service quality, information coverups, falsification, false reporting	▶ P85-86	Quality Assurance Management
Information systems	Overall information system error due to cyber-attacks and unauthorized access	Sustainability website (web)	Governance/compliance with laws and regulations/thorough corporate ethics/information security management
		▶ P56-59	DDX Financial Strategy
	Digitalization, DX	▶ P60	Technology -Process Reforms-
Environmental Management	Climate change, abnormal weather, reduction of environmental impact, and biodiversity	▶ P65-70	Pursuit of sustainability/Denka's Environmental Management
HR strategy	Employment, DE&I, human resource development, health management	▶ P61-64	Human Resources Value Creation
Respect for human rights	Human rights violation risks	▶ P91	Initiatives for respecting human rights
Protection of intellectual property	Protection of intellectual property	Sustainability website (web)	Governance/compliance with laws and regulations/thorough corporate ethics/intellectual property management
Protection of personal information	Protection of personal information	Sustainability website (web)	Governance/compliance with laws and regulations/thorough corporate ethics/information security management
Supply chain	Export trade management	Sustainability website (web)	Governance/compliance with laws and corporate ethics/export security trade control
	BCP (Business Continuity Plan)	Sustainability website (web)	Governance/corporate governance/BCP
	Procurement risks	Sustainability website (web)	Society/procurement/Denka Group Basic Policy and Guidelines on Sustainable Procurement
Communication	Responsible dialogue with stakeholders	▶ P95-97	Dialogue with Stakeholders

Denka Group Internal Control

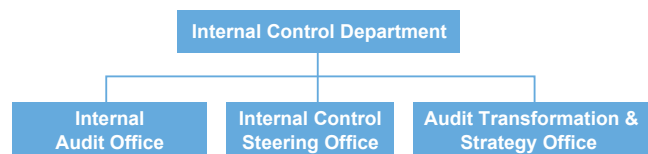
Basic Policy

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:

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.

Organizational Structure

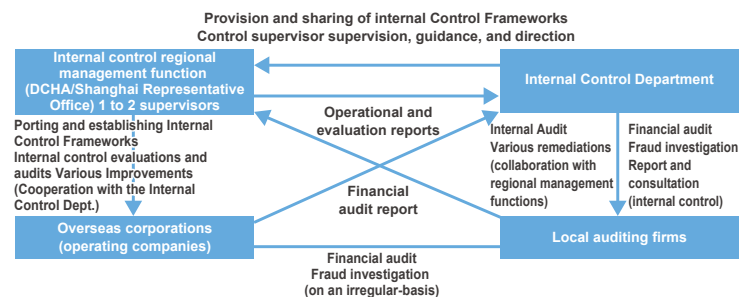
The Internal Control Department is comprised of three distinct offices: The Internal Audit Office, Internal Control Steering Office, and Audit Transformation & Strategy Office. The Internal Audit Office is responsible for assurance activities, including control evaluations, audits, and advisory services. The Internal Control Steering Office supports the “first line” in designing and implementing controls. The Audit Transformation & Strategy Office explores innovative audit methodologies while promoting Digital Transformation (DX). Furthermore, the Internal Control Department is actively promoting mid-career recruitment to foster its transformation into an organization that embraces diverse values, unrestricted 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.

Overseas Corporate Internal Control Regional Management Structure



Road Map in the Management Plan “Mission 2030”

	[2024 results]	[2026 plan (M30 interim targets)]	[FY2030 Targets]
Internal control framework	(1) Implementation completed (FY2024 completion): 17 companies, 1 site (2) In progress – total 3 companies	• Implementation completed: 26 companies, 2 sites (* Number of companies reporting completion)	Establish internal control framework for all Group companies
Enterprise Risk Management (ERM)	• Introduced an Enterprise Risk Management (ERM) system to centrally manage group-wide risks. • Identified and selected the Denka Group's "priority risks (10 items)." • Started BCP formulation at Gosen Site • "Tokyo metropolitan epicentral earthquake disaster" • Creation of initial response manual • Securing communication means in emergencies (in cooperation with the Digital Strategy & Innovation Department)	• Strengthening the functions and authority of the head office second line (head office management divisions) via ERM • Institutionalizing a "group management mindset" through a shift in mindset via ERM (from a single-entity management-oriented approach to group management-oriented approach)	• Qualitative improvement of "group control and group management" through strengthening the functions and authority of the head office second line (head office management divisions) • Strengthening the management foundation supporting group management (e.g., building information infrastructure to promote group-wide information sharing and systems for detailed risk assessment)

Overview of Internal Control

1 Adoption of the Three Defense Line

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 Achievements (Number of Audits and Support for Internal Control Development)

In FY2024, we conducted 50 voluntary audits, ten group companies for Company-level Control (CLC) and three group companies for internal control related to Process-level Controls (PLC) under J-SOX. In addition, five companies, mainly overseas group companies, have started to establish internal controls using the Internal Control Framework, and together with the three companies that began last year, evaluations have been completed for six companies.

3 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.

Initiatives to Respect Human Rights

The Denka Group respects international norms related to human rights and strives to act by the Guiding Principles on Business and Human Rights of the United Nations. In addition, we endorse the Ten Principles stipulated by the above initiative as a signatory company of the United Nations Global Compact. We share a common understanding of the importance of human rights throughout our business activities. Based on the Denka Group ESG Basic Policy and the Denka Group Ethics Policy, we work to fulfill our responsibility in respecting human rights. We value diversity in terms of race, religion, gender, age, nationality, and disability, and will increase corporate value by fulfilling our responsibilities.

Promotion System

We organize related departments and Human Rights Working Team to coordinate in promoting initiatives on respecting human rights. The progress of initiatives is reported twice a year to the Board of Directors after being discussed by the Sustainability Committee.



Denka Group Human Rights Policy

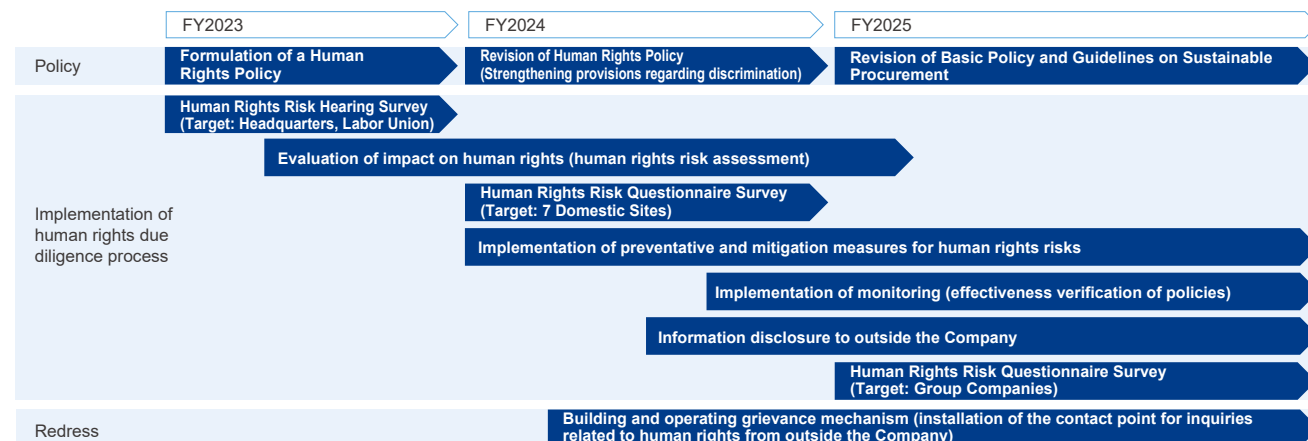
The Denka Group Human Rights Policy was approved by the Board of Directors and enacted on September 11, 2023. This human rights policy applies to all Group executives and employees, and its business partners and suppliers are urged to support and respect it.



• Denka Group Human Rights Policy
<https://denka.disclosure.site/ja/themes/796>

Target and Road Map of the Response Process in the Management Plan “Mission2030”

We are promoting activities of achieve the 2030 target of establishing a process of identifying and responding to human rights risks in the Group’s supply chain in the Management Plan “Mission2030”. We will continue to promote awareness of and disseminate the Denka Group Human Rights Policy to all Group employees and work systematically together with expert third parties on human rights due diligence and redress mechanisms.



Sustainable Procurement

The Denka Group builds partnerships with all business partners, works to strengthen mutually beneficial relationships, fulfills its social responsibilities in the supply chain, and aims for sustainable development by establishing the “Denka Group Basic Policy on Sustainable Procurement” and the “Denka Group Sustainable Procurement Guidelines” based on the “Denka Group ESG Basic Policy.” To promote sustainability throughout the supply chain, these policies and guidelines are applied to all transactions with Denka Group business partners.



• Denka Group Basic Policy and Guidelines on Sustainable Procurement
<https://denka.disclosure.site/ja/themes/798>

FY2030 Targets

- (1) Conduct procurement questionnaire for all business partners
- (2) Improvement of Low-Scoring Suppliers

FY2024 Initiatives

- Compiled BCP raw material risk assessments.
- Listed scores for each company by questionnaire item (all 9 items including human rights, labor, and environment). In FY2025 and FY2026, we plan to focus on “human rights and labor” items, conduct hearings with target suppliers, and request improvements.

Basic Policy on Taxation

The Denka Group recognizes tax payment as one of the basic and important social responsibilities that companies must fulfill, and strives to pay taxes appropriately under this policy to contribute to economic and social development.



• Denka Group Basic Policy on Taxation
<https://denka.disclosure.site/ja/themes/826>

Policy on Strategic Shareholdings

As a general rule, Denka does not hold strategic shareholdings considering the improvement of capital efficiency. However, Denka will hold such shareholdings if it judges that it will contribute to building a stable business relationship and maintaining and strengthening business alliances under its growth strategy, thereby enhancing the Company's corporate value over the medium to long term. In accordance with the above policy, the Board of Directors conducts a comprehensive annual review of such shares from various perspectives, including the financial condition of the issuing company, the volume of transactions with the Company and the economic rationality of such transactions, and a comparison with the Company's cost of capital. As a result of this continuous analysis, the number of issues of strategic shareholdings as of March 31, 2025, decreased by 9 from the end of the previous fiscal year to 45, and the ratio to consolidated net assets decreased by 0.79 percentage points to 6.42% from the end of the previous fiscal year.

Trends in Strategic Shareholdings

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Number of issues	97	93	90	70	54	45
Amount on balance sheet (Millions of yen)	26,468	33,243	34,034	29,956	22,848	19,786
Total net assets (Millions of yen)	254,014	270,036	292,094	300,351	316,915	308,296
Percentage of consolidated net assets	10.42%	12.31%	11.65%	9.97%	7.21%	6.42%

Number of Issues of Strategic Shareholdings at the End of March 2025 and the Amount on the Balance Sheet

	Number of issues	Amount on balance sheet
Unlisted issues	43 issues	3,338 million yen
Listed issues	2 issues	16,448 million yen

Issues with declining number of shares held in FY2024

	Number of issues	Total amount of gains related to the decrease in the number of shares
Unlisted issues	9 issues	362 million yen
Listed issues	—	—

Regarding Litigation Against US Subsidiary

Since 2018, multiple lawsuits (20 cases as of the end of March, 2025) have been brought against Denka's U.S. subsidiary, Denka Performance Elastomer LLC ("DPE"; Denka's stake in DPE is 70%), and DuPont de Nemours, Inc. and its affiliates (collectively "DuPont"), in the 40th Judicial District Court, State of the Louisiana, United States, and are currently pending.

The plaintiffs (total sum of plaintiffs is 7,308, as of the end of March, 2025) are alleging in the lawsuits that they are suffering physical, property and psychological damage from chloroprene monomer emitted from the plant located in the State of Louisiana in the US, (DuPont started its operation in 1969 and later DPE acquired the plant in November 2015) where DPE manufactures Neoprene. In the lawsuits, the plaintiffs are seeking damages with an upper limit of 50,000 USD per plaintiff from DPE and DuPont. DPE will continue to closely examine the details of these claims by the plaintiffs and take appropriate response action.

On February 28, 2023, the US Department of Justice, on behalf of the US Environmental Protection Agency, filed a lawsuit against DPE in the US District Court for the Eastern District of Louisiana seeking to implement measures eliminate the hazards resulting from discharges of chloroprene monomer. A motion for preliminary injunction for DPE to take above measures was also filed on March 20, 2023. Subsequently, both proceedings were consolidated and pending before the court, but the US Department of Justice withdrew the lawsuit as of March 7, 2025, and the case was closed.

On April 9, 2024, the United States Environmental Protection Agency announced new air emission regulations for chemical substances applicable to chloroprene rubber manufacturing facilities that include DPE, and published them in the federal register on May 16 that year. The regulations requires chloroprene rubber manufacturing facilities in the United States to substantially reduce emissions of chloroprene monomer, a raw material for chloroprene rubber, by implementing various emission control measures. In response to these regulations, DPE filed a petition with the United States Court of Appeals for the District of Columbia Circuit on May 16, 2024, seeking a review of the regulations themselves. On July 10, 2024, DPE also filed a petition for review with the Fifth Circuit of United States Court of Appeals seeking confirmation of the legal validity of the two-year extension of the compliance grace period for these regulations given by Louisiana Department of Environmental Quality (LDEQ), and both cases are currently pending before their respective courts. Regarding these regulations, the U.S. government also announced in a presidential proclamation dated July 17, 2025, that the initial compliance grace period would be extended by two years.

For details, please refer to the news releases* posted on the corporate website of Denka Co., Ltd.



• <https://www.denka.co.jp/news/>

* News releases dated June 19, 2019; February 14, June 8, June 19, August 7, December 17, 2020; March 2, June 22, July 20, 2021; April 28 and June 17, October 28, 2022; January 13, March 6, April 21, 2023; and April 17, July 10, 2024.