

Risk Management

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



**Akinori
Adachi**

Executive Officer

The Denka Group promotes integrated risk management as a foundation supporting management decisions so that it can enhance corporate value in a sustainable manner, even amid increasing uncertainty in the business environment. Our Group comprehensively identifies and evaluates risks that may affect business activities from multiple perspectives, including finance, business, environment, safety, compliance, and information security. We then identify key risks that management should prioritize and clarify response policies, management indicators, and the structure of responsibility. We consider risk management not simply an initiative of a particular division, but part of the management foundation in which all officers and employees participate proactively. By combining greater risk sensitivity at the operational level with management's broad perspective and judgment, we strengthen preparedness for risks during normal times and maintain a structure capable of responding rapidly and systematically when crises occur. Through regular reviews, we verify the appropriateness of risk content, priorities, and management methods and continuously improve them in response to changes in the business environment and societal expectations. Through these initiatives, the Denka Group aims to achieve stable and sustainable growth, by both reducing risks and creating growth opportunities.

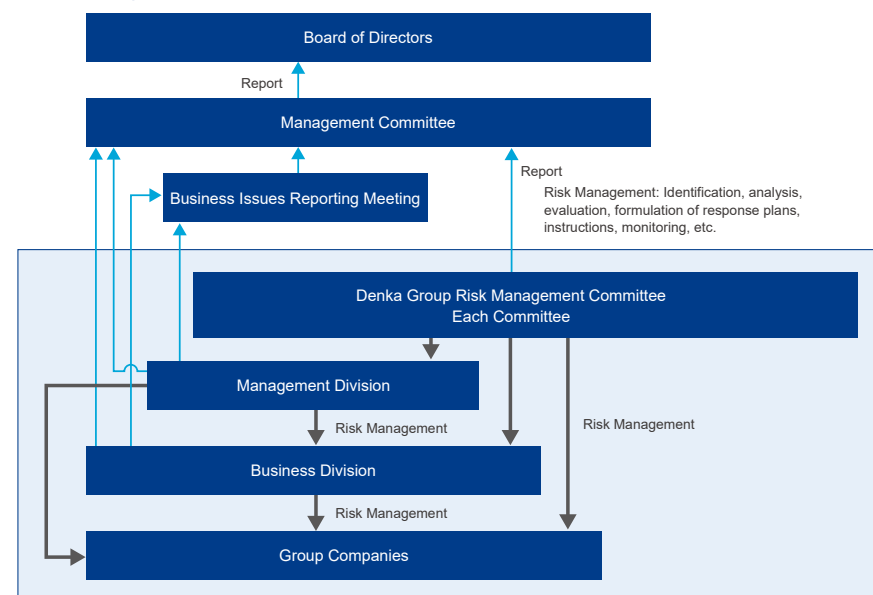
Denka's Approach to Sustainability and Risk Management

Denka's Board of Directors recognizes that responding to the various social issues related to sustainability is an important management issue that leads to both risk reduction and revenue opportunities. To that end, we formulated the "Denka Group ESG Basic Policy," strive to put into practice the ten principles of the United Nations Global Compact in its four areas, and respond appropriately to risks through initiatives such as strengthening the 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, monitors the progress of various sustainability initiatives and shares best practices. Denka strives to enhance corporate value over the medium- 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 create an environment in which each Executive Officer can take appropriate risks, while at the same time developing the Group-wide risk management structure. To achieve this purpose, the Management Committee and the Business Issues Reporting Meeting, both of which are held monthly, discuss risk management, including the identification and evaluation of various risks that may affect Group management and measures to control such risks, while also taking into account economic value, including profitability. In addition, various risks in the business divisions, including the status of achievement of business plans, are continuously monitored. Cross-organizational committees conduct specialized risk management for risks related to legal matters, capital investment, the environment, health and safety, quality control, startup investment, and other areas. Furthermore, Denka's management divisions manage the risks under their respective jurisdictions across the Group based on Group-wide common rules and other relevant standards. In addition, each business division manages its division-specific business risks and dispatches Directors and other personnel to Group companies to manage the business risks of each company in consultation with Denka's management divisions. Denka is working to further strengthen the Group-wide risk management structure based on the concept of integrated risk management. The Denka Group Risk Management Committee selects and identifies risks and opportunities at the Group management level as "priority risks," evaluates their level of impact, formulates measures, and monitors progress, thereby strengthening the Group's ability to respond to priority risks. As part of these efforts, we published the Denka Group Management Handbook, which sets out the ideal state of various operations based on the concept of Group internal control, and are continuously working to strengthen and appropriately operate the Group-wide internal control system.

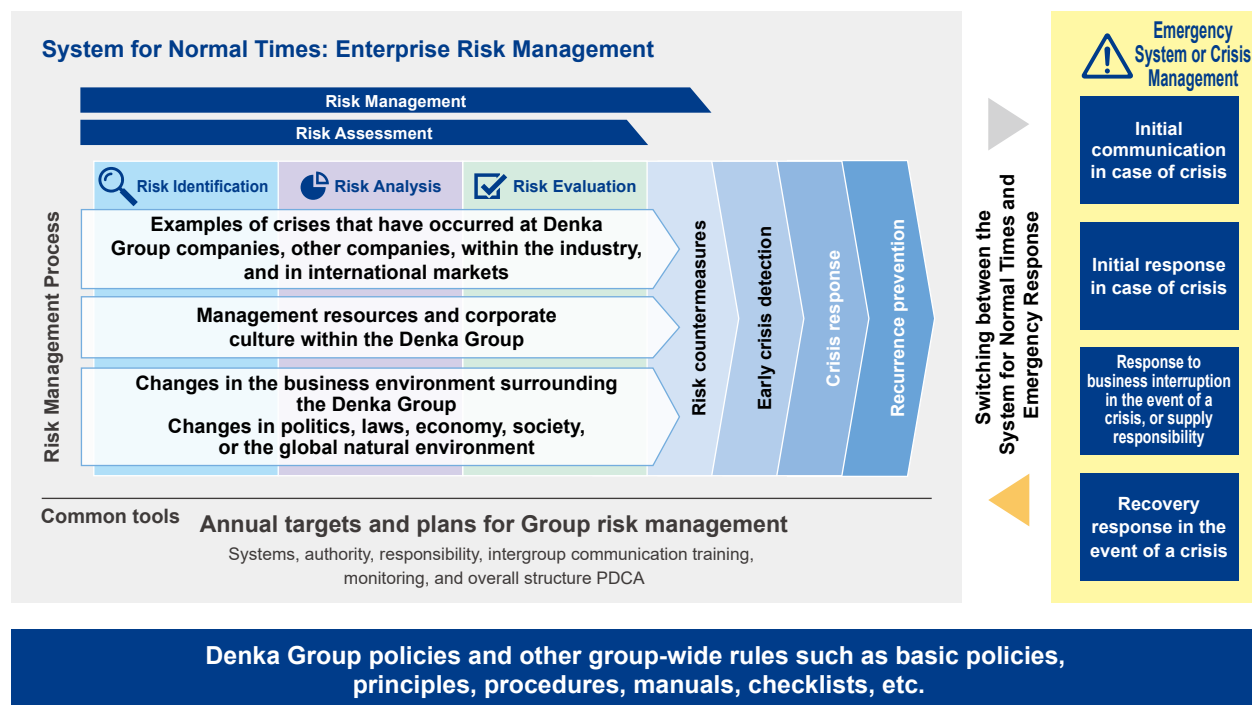
Risk Management Structure under Normal Conditions



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 are conducted, such as implementing measures to enhance the communication network during disasters and conducting real-time disaster response training involving 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 over the medium- to long-term for stakeholders by reducing impacts of risk exposure on its business performance and minimizing its capital costs. In FY2025, we reviewed business continuity plans and developed the Basic Crisis Management Guidelines and the Head Office Initial Disaster Response Manual in response to identified priority risks.

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 Environment and 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)	Administration Dept.
Business risks	Accidents/ crimes	Serious crimes committed against the Company by third parties. (terrorist attacks, arsons, threats, etc. in Japan)	Administration Dept./ Environment and Safety Dept.
Management risks	Business environment (social, economic, political)	Inability to export or expand business operations due to geopolitical risks	Corporate Planning Dept.
Management risks	Business environment (social, economic, political)	Economic crises, economic fluctuations, and exchange rate fluctuations	Accounting Department/ Financial Strategy Department
Management risks	Affiliated 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	Disruptions to information systems caused by cyberattacks and unauthorized access	Digital Strategy & Innovation Department
Business risks	Products/ services	Incidents caused by quality defects in 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	Violations of or noncompliance with laws and regulations	Concealment, falsification, and false reporting of information (product counterfeiting, falsification of quality, performance, and data, concealment of occupational accidents, etc.) Violations of laws and regulations in Japan and overseas, contracts, and internal regulations ⇒ Global compliance	Legal Department/ Internal Control Department

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 a crisis occurs, 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

Classification	Summary of Major Risks	Page	Page number for articles
Business management	Awareness of management issues and social issues related to sustainability	▶ P10-15	Message from the President
		▶ P32-35	Materiality, sustainability management promotion structure
	Execution of the management plan and financial strategy, business environment (economic crisis, economic/foreign exchange fluctuations, geopolitical risks)	▶ P20-24	Financial Strategy
		▶ P25-28	Management Plan "Mission 2030"
	Corporate governance, group governance	▶ P77-85	Management Value Creation
	Responding to changes in the business environment, natural disasters	▶ P38-50	Messages from division heads, business strategies
Risk management & compliance	Risk management, accidents/crimes	▶ P90-93	Risk Management
Accidents & disasters	Operational accidents, safety, health and disaster prevention	▶ P86-87	Place the Utmost Priority on Safety
Quality & product liability	Issues caused by poor product/service quality, information coverups, falsification, false reporting	▶ P88-89	Quality Assurance Management
Information systems	Overall information system error due to cyber-attacks and unauthorized access	Sustainability Site (web)	Governance/compliance with laws and regulations/thorough corporate ethics/information security management
		▶ P58-60	DX Strategy
	Digitalization, DX	▶ P56	Process reforms
Environmental management	Climate change, abnormal weather, reduction of environmental impact, and biodiversity	▶ P69-76	Pursuing sustainability
HR strategy	Employment, DE&I, human resource development, health management	▶ P61-67	Human Resources Value Creation
Respect for human rights	Human rights violation risks	▶ P94	Initiatives to Respect Human Rights
Protection of intellectual property	Protection of intellectual property	▶ P53 Sustainability Site (web)	Governance/compliance with laws and regulations/thorough corporate ethics/intellectual property management
Protection of personal information	Protection of personal information	Sustainability Site (web)	Governance/compliance with laws and regulations/thorough corporate ethics/information security management
Supply chain	Export trade management	Sustainability Site (web)	Governance/compliance with laws and corporate ethics/export security trade control
	BCP (Business Continuity Plan)	Sustainability Site (web)	Governance/corporate governance/BCP
	Procurement risks	Sustainability Site (web)	Society/procurement/Denka Group Basic Policy and Guidelines on Sustainable Procurement
Communication	Responsible Dialogue with Stakeholders	▶ P98-100	Dialogue with Stakeholders

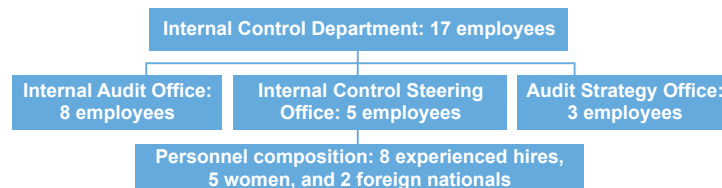
Denka Group Internal Control

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 the 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.

Promotion System

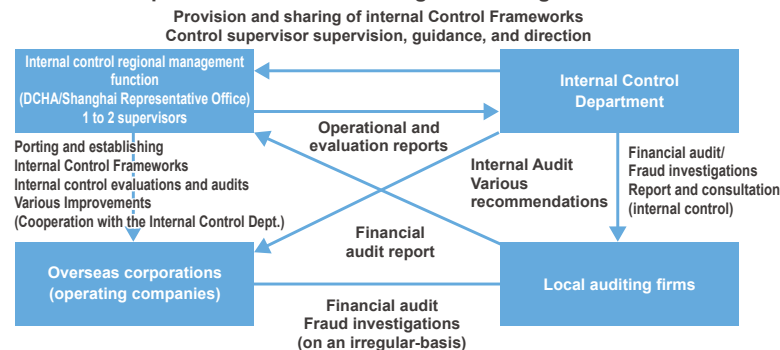
The Internal Control Department comprises the Internal Audit Office, which is responsible for assurance activities such as control evaluation, auditing, and advice; the Internal Control Steering Office, which supports and assists the construction of internal controls by the first line (workplace operations such as sales and manufacturing); and the Audit Strategy Office, which promotes DX and examines the approach to innovative audits. The Internal Control Department is 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 the Group's control.

Overseas Corporate Internal Control Regional Management Structure



Road map in the Management Plan "Mission 2030"

	[FY2025 Results]	[FY2026 Plan (Interim Targets)]	[FY2030 Targets]
Internal control framework	(1) Implementation completed (Completed in FY2025) Total: 24 companies (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)	<ul style="list-style-type: none"> 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 Plant "Tokyo metropolitan epicentral earthquake disaster" <ul style="list-style-type: none"> Creation of initial response manual Securing communication means in emergencies (in cooperation with the Digital Strategy & Innovation Department) 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 Lines of 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 Achievements (Number of Audits and Support for Internal Control Development)

In FY2025, under J-SOX, we evaluated 10 companies for company-level controls (CLC) and 3 companies for process-level controls (PLC) as key sites, and actively conducted voluntary audits covering 14 business processes, including personnel management, information management, and quality management. In addition, 5 group companies, mainly overseas, have started to establish internal controls using the Internal Control Framework, with evaluation of six companies completed, including one company that started last year.

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 effective controls.

The Denka Group's Initiatives to Respect Human Rights

We make respect for human rights the foundation of our business activities and work to address human rights issues throughout the supply chain.

The Denka Group promotes human rights due diligence based on its Human Rights Policy. We are identifying and assessing human rights risks at our sites in Japan and overseas and across our supply chain. We are also working to ensure respect for human rights through prevention and mitigation measures and the establishment of reporting channels.

March 2025

Revised the Denka Group Human Rights Policy

Taking into account the OECD Guidelines for Multinational Enterprises (2023 edition), we aligned our policy with the Denka Group Corporate Ethics Policy and the Denka Group Standards of Business Conduct, which were revised at the same time, strengthening a consistent framework for respecting human rights across the Group.

<Revisions>

- Clarified the groups protected against discrimination and the employment relationships where fair treatment must be ensured
- Added a policy of equal pay for equal work
- Explicitly stated that wages supporting stable livelihoods will be paid without discrimination
- Added policies to prevent overwork and reduce overtime hours

Identifying Key Human Rights Risks for the Denka Group

In FY2025, we surveyed 14 Group companies in Japan and overseas to identify human rights risks. Together with the results of surveys of our domestic plants and business sites that began in 2023, these findings reaffirmed the following as key human rights risks across the Group. We will consider corrective measures to reduce these risks.

- Forced labor and child labor**
(at customer companies and raw material production sites)
- Occupational health and safety**
(within our operations and at suppliers)
- Bullying and abuse of authority at the workplace**
(within our operations and at on-site contractors)
- Working hours** (within our operations)
- Freedom to relocate**
- Rights of indigenous people and local residents**
- Consumer safety and the right to know**



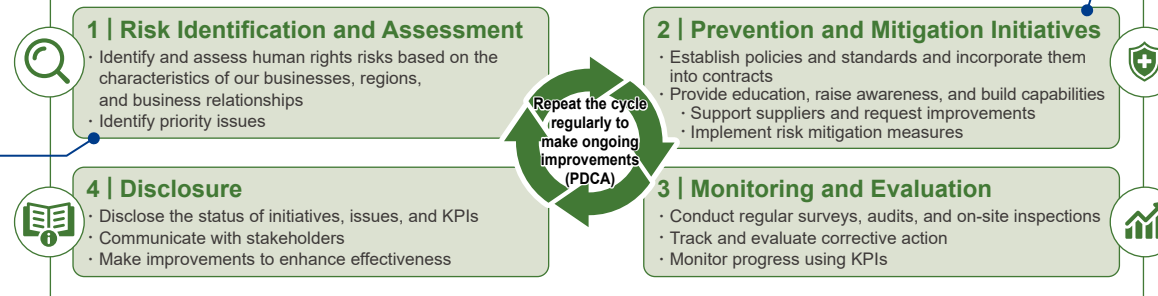
1. Policy and Governance (Management Commitment)

- Endorse the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights, the ILO core conventions, and the OECD Guidelines for Multinational Enterprises
- Make respect for human rights a fundamental principle of corporate conduct and ensure its implementation throughout the Group



Put the Policy into Practice

2. Human Rights Due Diligence (DD) (Ongoing Process)



3. Remedy (Grievance Mechanism)

We will provide appropriate remedies where due diligence could not prevent a problem or where adverse impacts have occurred.

Expanding the Grievance Mechanism

In FY2025, the Denka Group revamped its reporting system to expand its grievance mechanism. We established an external reporting channel that can be used not only by employees, but also by suppliers and other parties throughout our supply chain. By identifying and responding to human rights concerns and potential risks, we are advancing our efforts to respect human rights.

Other FY2025 Results

Example: Conducted ESG surveys of suppliers and held interviews on human rights issues in FY2025.



Supplier assessment coverage*1

100% (FY2030 target: 90%)



Individual interviews with low-scoring suppliers*2

67% (FY2030 target: 100%)

*Primarily online interviews



Supplier endorsement rate

100%

(Percentage of companies that endorse Denka's supply chain policy and guidelines)



Human rights training participation rate among Denka Group employees

100% (FY2030 target: 100%)

* Denka Group

*1 Based on the CSR Procurement Self-Assessment Questionnaire developed by Global Compact Network Japan (UNGC).

*2 Individual interviews with suppliers that received low scores in the survey described in *1.

Policy on Strategic Shareholdings

As a general rule, Denka does not hold strategic shareholdings, in light of the need to improve capital efficiency. However, Denka will hold such shareholdings if it judges that such holdings will contribute to the establishment of stable business relationships and the maintenance and strengthening of business alliances in line with its growth strategy, thereby contributing to the enhancement of the Company's corporate value over the medium- to long-term. In accordance with this holding policy, we conduct a comprehensive review of such shares from various perspectives, including the financial condition of the issuer, the volume and economic rationality of transactions with Denka, and a comparison with our cost of capital. We describe the purpose of holding each such shareholding in our Annual Securities Report and continue to review such holdings every year. In FY2025, we reviewed the purpose of holding each such shareholding, including from the perspective of capital efficiency, and promoted reductions. As a result, the number of strategic shareholdings as of the end of March 2026 decreased by 12 from the end of the previous fiscal year to 33, and their value as a percentage of consolidated net assets decreased by 0.09 percentage points from the end of the previous fiscal year to 6.33%.

Trends in Strategic Shareholdings

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Number of issues	93	90	70	54	45	33
Total balance sheet amount (Millions of yen)	33,243	34,034	29,956	22,848	19,786	21,460
Total net assets (Millions of yen)	270,036	292,094	300,351	316,915	308,296	338,826
Percentage of consolidated net assets	12.31%	11.65%	9.97%	7.21%	6.42%	6.33%

Number of Strategic Shareholding Issues and Total Balance Sheet Amount as of March 31, 2026

	Number of issues	Total balance sheet amount
Unlisted shares	31 issues	3,247 million yen
Listed shares	2 issues	18,212 million yen

Issues with declining number of shares held in FY2025

	Number of issues	Total sale proceeds related to the decrease in the number of shares
Unlisted shares	12 issues	359 million yen
Listed shares	2 issues	11,608 million yen

Litigation Against Our U.S. Subsidiary

Since 2018, multiple lawsuits (20 cases as of March 31, 2026) 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 for the State of Louisiana, United States, and remain pending.

The plaintiffs (a total of 7,308 as of March 31, 2026) allege in the lawsuits that they have suffered physical, property, and emotional harm as a result of chloroprene monomer emitted from the chloroprene rubber manufacturing plant located in the State of Louisiana, United States (DuPont began operating the plant in 1969, and DPE acquired it from DuPont in November 2015). In the lawsuits, the plaintiffs are seeking damages of no more than US\$50,000 per plaintiff from DPE and DuPont. DPE will continue to respond appropriately in the legal proceedings.

On April 9, 2024, the United States Environmental Protection Agency announced new air emission regulations for chemical substances applicable to chloroprene rubber manufacturing facilities, including DPE, and published them in the Federal Register on May 16 of the same year. The regulations require chloroprene rubber manufacturing facilities in the United States to substantially reduce emissions of chloroprene monomer, an intermediate raw material, 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 review of the regulations. On July 10, 2024, DPE also filed a petition with the U.S. Court of Appeals for the Fifth Circuit seeking confirmation of the legal validity of the Louisiana Department of Environmental Quality's (LDEQ) approval of a two-year extension of the period for compliance with the regulations. Both matters remain pending before their respective courts, but as of the date of this report, proceedings in both cases have been stayed by order of the courts.

For details, please refer to the news releases* posted on Denka's corporate website.



<https://www.denka.co.jp/news/>

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