

# Risk Management

## Policy (our fundamental view)

Recognizing the various risks surrounding the NOF Group, we promote risk management initiatives with the aim of preventing the occurrence of loss risks and minimizing their impact when they do occur, thereby contributing to the achievement of management strategy targets.

1. The NOF Group comprehensively identifies various management risks surrounding its business, and conducts risk assessment based on the impact and frequency of each factor in order to identify risks that need to be addressed as a priority.
2. According to the characteristics of the identified risks, We work to minimize the impact on management by taking appropriate measures to reduce the impact of risks that have materialized, as well as measures to reduce the probability of occurrence.
3. We work to objectively verify the effectiveness of risk countermeasures by periodically conducting risk assessments, while working to recognize and evaluate new risks.
4. Under the leadership of the Risk Management Committee, we promote the risk management of the NOF Group by implementing the above risk management cycle.

## Organizational setup

The Risk Management Committee, the Compliance Committee, the RC Committee, and the Quality Control Committee analyze management risks, consider countermeasures, and report to the Board of Directors.

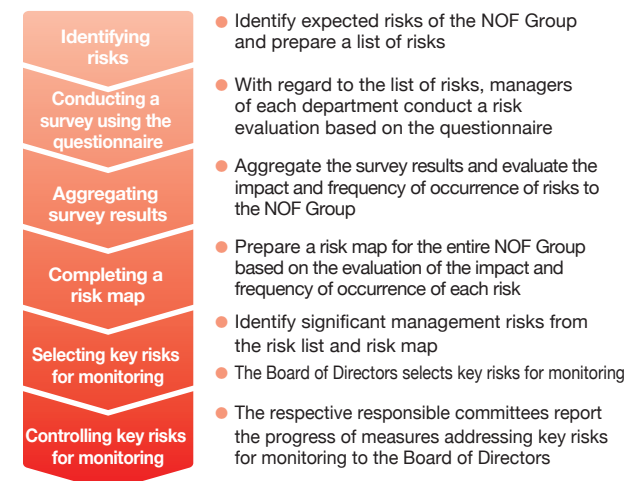
The Board of Directors receives reports and deliberates as necessary on various business risks, including those related to compliance, information management, and environment and safety, as well as confirmation and evaluation of the comprehensiveness of risks. We manage and monitor Group companies in accordance with the rules on the management of Group companies, and offer advice, as necessary; while any important matters that are deemed to materially impact our subsidiaries' assets or profit and loss are approved by the NOF Board of Directors or the Executive Committee.

## Risk assessment process

The Risk Management Committee takes the lead in preparing a list of risks in consideration of the business characteristics of each department and the environment surrounding the business, including global political, economic, and social conditions. Based on this list of risks, a questionnaire is sent to each NOF site and Group company to estimate the

impact and frequency of each risk. Using the results of this questionnaire, the general managers of each division carry out risk evaluations. Based on the results, the Risk Management Committee identifies the risks whose response status should be recognized by management and consults with the Board of Directors to select the key risks for monitoring.

### Flow of risk assessment



Overview and status of countermeasures of key risks for monitoring

Key risks for monitoring	Risk description	Ongoing countermeasures
<b>Harassment / human rights abuses</b>	Possible decline in trust in the Company due to human rights abuse, such as abuse of authority and sexual harassment at workplaces	<ul style="list-style-type: none"> <li>Revise the NOF Group Corporate Code of Ethics and the Compliance Manual</li> <li>Establish a consultation service with male and female employees as well as a contact point with attorneys</li> <li>Implement a company-wide employee engagement survey and feed back results to employees</li> </ul>
<b>Cyberattacks and information system failures</b>	Possible information leaks and interruption of business activities, due to illicit access from outside such as cyberattacks and information system failures	<ul style="list-style-type: none"> <li>Establish the information security management rules and appoint a person responsible for information security management, etc.</li> <li>Develop a defense system against illicit access and implement safety measures at appropriate, rational levels</li> <li>Raise the overall level of security measures at each company and promote stronger incident response capabilities</li> </ul>
<b>Inadequate governance of overseas bases</b>	Possible decline in trust in the Company due to fraud, such as violations of laws and regulations, as a result of inadequate governance at overseas bases	<ul style="list-style-type: none"> <li>Develop a system for ensuring the appropriateness of business operations</li> <li>Request a regular report on the state of business execution and financial conditions, etc.; conduct business audits</li> <li>Strengthen communication through regular meetings with the NOF Head Office</li> </ul>
<b>Quality control</b>	Possible decline in trust in the Company due to quality fraud, falsification of quality inspection results, and other situations Risk of a significant increase in workload due to rising customer quality demands	<ul style="list-style-type: none"> <li>Ensure strict management of data related to quality control</li> <li>Raise awareness and train employees</li> <li>Conduct regular management audits</li> </ul>

Overview of major risks and status of countermeasures

Major risk	Risk description	Ongoing countermeasures
<b>Technology leaks</b>	Possible decline in the NOF Group's competitiveness, due to leakages of technology and technical information, which allows similar products/technologies to be provided by competitors	<ul style="list-style-type: none"> <li>Establish rules for trade secrets</li> <li>Develop a management system for trade secrets</li> <li>Strengthen information security training for employees</li> </ul>
<b>Raw material procurement</b>	Risk of social credibility falling due to human rights violations such as forced labor and child labor, or procurement of raw materials suspected to damage the environment	<ul style="list-style-type: none"> <li>Statement of compliance with the CSR Procurement Policy and CSR Procurement Guidelines in sales contracts</li> <li>Ongoing supplier surveys through various questionnaires</li> </ul>
<b>Occupational accidents and incidents</b>	Possible casualties among employees and neighborhood residents, possible suspension of business activities, and possible compensation for damages as a result of large-scale fires and explosion accidents at plants	<ul style="list-style-type: none"> <li>Continuously improve health and safety levels through Responsible Care activities</li> <li>Strengthen the system for conducting safety assessments at the time of new construction</li> <li>Formulate emergency response manuals and implement trainings</li> <li>Implement joint disaster prevention drills and dialogue activities with local municipalities</li> </ul>
<b>Intellectual property infringement, etc.</b>	Possible compensation for damages and possible orders to suspend manufacturing and shipment, due to infringements of intellectual property rights	<ul style="list-style-type: none"> <li>Develop a check system for intellectual property management and patent infringement</li> <li>Educate employees on intellectual property including patents and trademarks</li> </ul>
<b>Violations of laws and regulations</b>	Possible suspension of business activities and possible payments of surcharge, etc. following administrative dispositions taken in response to violations of laws and regulations, such as the Unfair Competition Prevention Act, Antimonopoly Act, Subcontract Act, Foreign Exchange and Foreign Trade Act, Chemical Substances Control Law, and Pharmaceutical and Medical Device Act	<ul style="list-style-type: none"> <li>Prepare a Global Compliance Manual and country-specific compliance manuals based on the legal systems of each country</li> <li>Establish compliance training and contact points for whistle-blowing/consultation</li> <li>Establish a system for disseminating information on revisions to laws and regulations</li> </ul>
<b>Earthquakes, tsunami, infectious diseases</b>	Possible interruption of production activities or business activities, including sales and distribution, due to earthquakes, tsunami, or other natural disasters	<ul style="list-style-type: none"> <li>Formulate a business continuity plan (BCP)</li> <li>Conduct BCP training and internal audits</li> <li>Implement flood countermeasures for critical facilities</li> </ul>
<b>Delays in fostering human resources</b>	Possible stall in development of core human resources who will be responsible for business growth, due to a delay in implementing the human resource development plan	<ul style="list-style-type: none"> <li>Build a system for deliberation and evaluation of company-wide human resources development policy plans</li> <li>Build a system to oversee progress and results related to human resources development</li> </ul>
<b>Inadequate disclosure of non-financial information</b>	Possible loss of trust from stakeholders due to uncertainty about economic and environmental impact as well as social reputation	<ul style="list-style-type: none"> <li>Preparation of a roadmap for statutory disclosure</li> <li>Introduction of a system to optimize the collection and aggregation of sustainability information</li> </ul>