

1 Overview of Corporate Governance

(1) Details on corporate organs

Following the capital restructuring by the new partners in the form of a consortium of companies led by Bain Capital in January 2023, Proterial laid out a policy of utilizing the new partners' financial strength, knowledge, and expertise within the Company's management to make large-scale investments and implement reforms in response to changes

in the market environment. For the purpose of more prompt and flexible decision-making and execution of management strategies based on this policy, during January 2023 the Company shifted from a Company with Nominating Committees, etc. system to a Company with Audit & Supervisory Board. The details of each organ are as follows.

- a. The Board of Directors is an organ with purposes to make decisions on the Company's business execution and supervise the execution of duties by Directors and Executive Officers, and holds the authority to decide matters provided in the Articles of Incorporation of the Company and the Board of Directors Rules as well as in laws and regulations. As of the filing date of this document, the Board of Directors consists of the following six Directors

Representative Director,	Sean M. Stack
Representative Director,	Kazuya Murakami
Director,	Yuji Sugimoto
Director,	Masashi Suekane
Director,	Joseph Robbins
Director,	Hidemi Moue

- b. The Auditors abide by the audit policies established by the Audit & Supervisory Board, and attend the Board of Directors and other important meetings, for example, in order to audit the execution of duties by the Directors. The Auditors consist of the following three individuals (two of whom are Outside Auditors), who together form the Audit & Supervisory Board.

Auditor	Kenichi Nishiie
Auditor	Shunsuke Nakahama (Outside Auditor)
Auditor	Yuro Ogawa (Outside Auditor)

- c. Along with introducing an Executive Officer System, the Company established the Executive Committee to ensure that the Representative Director, who consecutively serves as President and CEO, makes decisions on and executes business operations in compliance with laws and regulations and the Articles of Incorporation, as well as more efficiently. Important matters regarding decisions on business operations delegated to the Representative Director, who consecutively serves as President and CEO, by the Board of Directors are first deliberated by the Executive Committee, which is composed of Executive Officers ranked Managing Executive Officer or above. Following these deliberations, the President and CEO makes a decision. The Executive Officers consist of the following 14 individuals.

Chairman, President & CEO	Sean M. Stack
Executive Vice President	Kazuya Murakami
Managing Executive Officer	Tony I. Cha
Managing Executive Officer	Yutaka Nakashima
Managing Executive Officer	Hisaki Masuda
Executive Officer	Ryoichi Aita
Executive Officer	Randy Ahuja
Executive Officer	Yoshihiro Anmo
Executive Officer	Toru Taniguchi
Executive Officer	Natsuki Tokubuchi
Executive Officer	Kenji Minegishi
Executive Officer	Hajime Murakami
Executive Officer	Motohide Mohri
Executive Officer	Toru Yamamoto

The Company has introduced an Executive Officer System. The names, titles, and responsibilities of each Executive Officer are as follows.

	<b>Sean M. Stack</b> Representative Director, Chairman, President & CEO		<b>Kazuya Murakami</b> Representative Director, Executive Vice President
	<b>Tony I. Cha</b> Managing Executive Officer, CFO General Manager, Finance Division		<b>Yutaka Nakashima</b> Managing Executive Officer, CHRO General Manager, Human Resources & General Administration Division, Chief Risk Management Officer
	<b>Hisaki Masuda</b> Managing Executive Officer, CSPO General Manager, Strategy Planning Division		<b>Ryoichi Aita</b> Executive Officer, CQO
	<b>Randy Ahuja</b> Executive Officer, Proterial, Ltd. Director & Co-President, Proterial America, Ltd. Chairperson, Proterial Europe GmbH		<b>Yoshihiro Anmo</b> Executive Officer, CIO & CDO
	<b>Toru Taniguchi</b> Executive Officer, General Manager, Manufacturing & Engineering Division		<b>Natsuki Tokubuchi</b> Executive Officer, CTRo
	<b>Kenji Minegishi</b> Executive Officer, General Manager, Magnetic Materials Business Unit		<b>Hajime Murakami</b> Executive Officer, CTO General Manager, R&D Division; General Manager, Global Research & Innovative Technology Center
	<b>Motohide Mohri</b> Executive Officer, General Manager, Specialty Steel Business Unit		<b>Toru Yamamoto</b> Executive Officer, General Manager, Marketing & Sales Division

CEO : Chief Executive Officer      CSPO : Chief Strategy and Planning Officer      CDO : Chief Digital Officer  
 CFO : Chief Financial Officer      CQO : Chief Quality Officer      CTRo : Chief Transformation Officer  
 CHRO : Chief Human Resources Officer      CIO : Chief Information Officer      CTO : Chief Technology Officer

**(2) Status of Outside Directors and Officers**

Among the Audit & Supervisory Board Members, Shunsuke Nakahama and Yuriro Ogawa serve as Outside Auditors. Mr. Nakahama is also an Outside Auditor for EVIDENT CORPORATION. Although the Company engages in product transactions, etc., with EVIDENT CORPORATION, the trading value is minimal. Furthermore, Mr. Nakahama and Mr. Ogawa are partners at Bain Capital Private Equity

(Japan), LLC. As the parent of the Company, K.K. BCJ-52 is a fully-owned subsidiary of K.K. BCJ-51. Bain Capital Private Equity, LP, and the investment funds to which it provides investment advice; the funds which Japan Industrial Partners, Inc., manages, operates, and provides information to; and the funds operated by Japan Industrial Solutions Co., Ltd., indirectly hold all shares in K.K. BCJ-51.

**(3) Internal Control System Development Progress** (including development progress regarding systems intended to ensure the appropriateness of operations by the Company's subsidiaries)

The Company resolved its basic policy on the internal control system pursuant to the Companies Act at a meeting of the Board of Directors, and is now implementing this system. The details of this basic policy are as follows:

1. Systems to Ensure the Compliance of the Execution of Duties by the Company's Directors with Laws and Regulations and the Articles of Incorporation
2. Systems for the Retention and Management of Information Related to the Execution of Duties by the Company's Directors
3. Rules and Other Systems for Managing the Risk of Loss of the Company and its Subsidiaries
4. Systems to Ensure the Efficient Execution of Duties of Directors of the Company and Directors of its Subsidiaries
5. Systems to Ensure Compliance of Employees of the Company as well as Directors and Employees of its Subsidiaries in Executing Their Duties with Laws and Regulations and the Articles of Incorporation
6. Systems for Reporting Matters Relating to the Execution of Duties by Directors of Subsidiaries to the Company
7. Other Systems to Ensure Appropriate Operations of the Company as well as the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries
8. Matters concerning Employees to Assist with the Duties of the Company's Audit & Supervisory Board Members
9. Matters to Ensure the Independence of Employees Referred to in the Above Item (8) from Directors, as well as the Effectiveness of Instructions of the Company's Audit & Supervisory Board Members Given to the Said Employees
10. Systems for Reporting to the Company's Audit & Supervisory Board Members and Systems to Ensure Prohibition of Disadvantageous Treatments of a Person Who Made Such Reports
11. Matters Concerning the Policy on Prepayment or Reimbursement Procedures and Other Treatments of Expenses or Debt that Are Incurred in the Course of Executing the Duties of the Company's Audit & Supervisory Board Members
12. Other Systems to Ensure the Effective Execution of Audits by the Company's Audit & Supervisory Board Members

**(4) Risk Management System Development Progress**

Each Executive Officer identifies and analyzes business risks including changes in political, economic and social situations, currency fluctuations, rapid technological innovations, as well as changes in customer needs, examines measures against such risks, and reviews these measures whenever necessary through discussions at the Board of Directors, the Audit & Supervisory Board, the Executive Committee and other meeting bodies. In addition, the Company avoids, prevents and manages the risks by ensuring each site of the group companies develop systems to immediately share information of materialized risks relating to compliance, antisocial forces, investments, finance, procurement, the environment, disasters, safety, quality, human rights, information security, export control, legal affairs, etc. with respective business divisions in charge, as well as ensuring each corporate administrative division prepare internal rules, guidelines, etc., conduct education and enlightenment activities, preliminary checks, audits on business operations, etc. and cooperate with the relevant internal business divisions. Moreover, the Company established the Risk Management Committee as an organ to summarize various business risks surrounding the Group and contingency plans for those risk, and to evaluate their coverage and weighting in an effort to strengthen the risk management capabilities of the Group. In addition to ongoing formulation of, training for and review of BCPs assuming large-scale of earthquake etc., the Company established a safety confirmation system for confirming the safety of employees and their families via the internet in the

event of a disaster.

Regarding misconduct related to quality, the monitoring function for quality compliance risk did not function adequately, and it was unable to fully grasp the possibility of misconduct or the occurrence of misconduct as a problem, which we believe is one of the main factors for misconduct continued. Therefore, the Company has put forward strengthening monitoring related to quality compliance as one measure to prevent recurrence, and will implement the following: (1) in addition to the first line of defense, which is the internal control system for sales, development, design, and manufacturing, also review the second line of defense, which is internal audits (integrity audits) by the Corporate Quality Assurance Division, and conduct audits of the Corporate Quality Assurance Division by the Internal Auditing Office, which is the third line of defense, (2) establish a process whereby the Audit & Supervisory Board expresses opinions regarding the results of the aforementioned audits by the Corporate Quality Assurance Division and the Internal Auditing Office in (1), and in the event that improvement is required, follow up on how improvement was carried out, and establish an operational system for confirmation from an objective point of view, and (3) regarding details of risk management activities conducted by the Corporate Quality Assurance Division and Chief Quality Officer (CQO), information will be regularly shared among management executives, the suitability and necessity of cross-divisional measures will be discussed, and made the subject of internal audits.

**2 Status of Audit****(1) Status of the Audit & Supervisory Board Audits**

The Audit & Supervisory Board Members are in charge of auditing business execution by Directors in accordance with laws and regulations, as well as of auditing the adequacy of internal control systems and of the accounting audit. Based on annual auditing policies and audit implementation plans formulated by the Audit & Supervisory Board, the auditors perform audits by hearing reports on important items and visiting each facility, etc., and each subsidiary. In addition, the Audit & Supervisory Board Members conduct special audits if an audit finds the possibility of violations of laws and regulations or the Articles of Incorporation by the Directors. Main agendas for the Audit & Supervisory Board meetings are as shown below.

- (a) Reporting and discussions on the Accounting Auditor's audit plans, the results of its quarterly review, and its audit results
- (b) Internal audit policies and implementation plans for the Internal Auditing Office in charge of internal audits, reporting on the results of internal audits, and reporting and discussions on the status of follow-up on the management and operational challenges identified by the audits
- (c) Reporting on policies and plans for promoting internal control over financial reporting; reporting on the results of evaluation on the effectiveness of internal control (three

times); and discussion towards improving the effectiveness on internal control and business management

(d) Reporting on challenges that business execution divisions currently face and the status of their efforts to address such challenges, and discussions towards improving the corporate governance

Moreover, the Audit & Supervisory Board selects full-time auditors. These full-time auditors attend the Executive Committee and other important meetings besides the Board of Directors to audit the execution of duties by Directors on a daily basis. In addition, full-time auditors engage primarily in the following activities

- (a) Audit the business report, verify the financial statements, etc., hearing from the Accounting Auditor on procedures and views about important issues, and report at the Audit & Supervisory Board on findings concerning the business report and views on the Accounting Auditor's auditing
- (b) Conduct on-site audits of the Group's facilities and subsidiaries based on the audit implementation plans; share the results with each of the Audit & Supervisory Board Members; report the issues detected through such on-site audits to the Internal Auditing Office and the Accounting Auditor; and express opinions in the context of corporate governance at the Board of Directors

**(2) Status of the Internal Audit**

**a. Internal Audit Organization, etc.**

The Company has the Internal Auditing Office (with 11 dedicated staff members) that is in charge of internal audits. The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits on the Group. Based on these policies and plans, the office conducts on-site audits on the status of execution of the Company's offices and subsidiaries in Japan and overseas and business management over the course of three years in principle and also collaborates with the Audit & Supervisory Board and the Accounting Auditor to promote cooperation in tripartite audits. In addition to these audits, a special audit may be conducted upon special request, etc. of the President & CEO. The Internal Auditing Office also reports to the President & CEO and the Audit & Supervisory Board regarding its audit policy and audit implementation plans in advance, reports the audit results mostly once in a month, holds an audit report meeting mostly once in a month to the person in charge of business at the respective business division and each department of the corporate division, and requests improvements regarding the execution of duties. If necessary, it also carries out on-site audits in collaboration with divisions in charge of the environment, safety, information systems and risk compliance within the Company.

**b. Coordination between Internal Audits, Audits by the Audit & Supervisory Board Members and Accounting Audits**

The Audit & Supervisory Board (a) receives explanations about audit implementation plans from the Accounting Auditor and carries out a discussion on and adjustments to the detail as needed, and (b) receives reports on audit results and engages in an exchange of opinions.

Moreover, the Audit & Supervisory Board receives reports from the Accounting Auditor in cases where, as for the performance of duties by Directors, etc., they find any significant evidence of wrongful act or violation of related laws and regulations, or the Articles of Incorporation in the course of performing their duties. In addition, the Audit & Supervisory Board Members receive reports on policies and audit implementation plans for internal audits, as well as periodic reports, from the Internal Auditing Office in charge of internal audits at the Audit & Supervisory Board. At the same time, to promote coordination with audits performed by the Audit & Supervisory Board Members, as necessary, the Board may request (a) a special audit to be conducted by the Internal Auditing Office and (b) set key audit items for internal audits performed by the Internal Auditing Office. Furthermore, the Internal Auditing Office is also in charge of assessing the effectiveness of internal controls over financial reporting, and reports on the status of such to the Audit & Supervisory Board Members. Moreover, besides the Internal Auditing Office, the corporate divisions, etc. in charge of finance, compliance, risks, and other areas also play certain roles in internal control and report the status of performance of their duties to the Audit & Supervisory Board Members.

The Company regards promotion of tripartite audit function as a paramount theme for the audit and supervision functions. The Audit & Supervisory Board Members, the Accounting Auditor, and the Internal Auditing Office mutually share information on issues detected by each of them.

**(3) Status of the Accounting Auditor**

The Company's Accounting Auditor is Ernst & Young ShinNihon LLC. Audits have been continuously conducted for 55 years. The certified public accountants named in the table below conducted accounting audits. Under the direction of said certified public accountants, as necessary, certified public accountants, certified public accountant

assistants, and other personnel from Ernst & Young ShinNihon LLC assisted with the execution of accounting audit duties. Seven certified public accountants and 33 other personnel assisted with the Company's accounting audit duties.

Name of certified public accountant, etc.	Auditing firm of certified public accountant
Teruyasu Omote, Engagement partner	Ernst & Young ShinNihon LLC
Hiroki Morimoto, Engagement partner	Ernst & Young ShinNihon LLC

Note: The consecutive number of years audited does not exceed seven years for any of the auditors, and has therefore been omitted.

**3 Risk Management**

With respect to risk management, each Executive Officer identifies and analyzes business risks including changes in political, economic, and social conditions, currency fluctuations, rapid technological innovations, as well as changes in customer needs. At the Risk Management Committee, chaired by the Group Chief Risk Management Officer, a comprehensive review of the risks is conducted. Then, through discussions as appropriate at the Board of Directors, the Audit Committee, the Executive Committee, and other meeting bodies, measures against such risks are examined. The Risk Management Committee identifies and examines the Group's risks, identifies risks that may become management issues, and regularly monitors the conditions of the risks. In addition, each of the Group's sites has established a system to promptly share information that has become known regarding risks relating to compliance, antisocial forces, finance, procurement, the environment, disasters, quality, information security, export control, legal affairs, etc., with each business division. Meanwhile, each corporate business division has prepared internal rules, guidelines, etc.; conducts education and enlightenment activities, preliminary checks, audits on business operations, etc.; and cooperates with the relevant business divisions to avoid, prevent, and manage risks.

**(1) Risks associated with product demand and market conditions**

**Major potential risks by market segment**

The Group conducts business in a wide range of market segments, including the automobile, industrial infrastructure, and electronics-related sectors. In addition, its businesses span many regions, including Japan, as well as the United States, China, the rest of Asia, and Europe. For these reasons, the Group's operating results and financial situation may be affected by trends in these markets and regions. With the near total lifting of restrictions on economic and social activities taken in response to the COVID-19 pandemic, going forward the global economy is expected to transition to a post-COVID period in which economic conditions are not affected by the extent of infection. Moreover, the prices of major resources affected by the slowdown in the global economy to date are starting to pass their peak, while there is also anticipation for a recovery in demand due to the termination of the zero-COVID policy taken by China. However, the pace of economic recovery will be sluggish due to the continuation of monetary tightening policies implemented by major countries against the backdrop of global price inflation, while the end to automobile production declines that have stemmed from semiconductor and raw material shortages will be further delayed. Such developments could affect demand for the Group's products. Presented below is a non-exhaustive list of the major potential risks, by market segment.

**Automobile-related segment**

- The Company offers a wide range of products in the automobile segment. While our plans incorporate the

effects of slowdown in automobile production due to factors including the global shortage of semiconductors, further cutbacks or prolonged production slowdown by automobile manufacturers could impact the Group's operating results or financial situation. The automobile industry is also currently undergoing a period of transition from conventional internal combustion engines (ICE) to electrification (xEV\*). To meet market needs, the Group is reinforcing its manufacturing lines, expanding product lineups, and taking other measures. However, if the shift to electrification (xEV) rapidly accelerates or is slower than expected, the operating results or financial situation of the Group may be affected.

\* xEV refers to electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).

- With regard to molds and tool steel, manufacturers in China and emerging countries have been gaining power and are expected to enter the Japanese market. If competition intensifies, the operating results or financial situation of the Group may be affected. The Group is responding with efforts at differentiation from other companies, such as by launching high-performance products and strengthening its supply chain.

**Industrial infrastructure segment**

- Among aircraft and energy-related materials, the business for aircraft-related materials tends to depend on supplying specific customers and providing specific products. If demand in the aircraft industry has a long-term slump, the operating results or financial situation of the Group may be affected. The Group is responding by strengthening its business with engine manufacturers and introducing new next-generation products using specialized technologies.
- With regard to fittings for piping components, the Group mainly supplies products to gas-company customers. The liberalization of the gas industry is increasing competition, and if this competition further intensifies, the operating results or financial situation of the Group may be affected. The Group is responding with efforts at differentiation from other companies, including the early introduction of new types of fitting products.
- Regarding wires and cables, the Group is moving to local production of electric wires for rolling stock and is expanding its product lineup, etc., to increase business in the rolling stock segment, one of the Group's growth segments. If demand in the railway segment experiences a long-term slump as railway investments by China, the largest market, stagnate, the operating results or financial situation of the Group may be affected.

**Electronics-related segment**

While the Company offers a wide range of products in the electronics-related segment, customer needs and technologies in this segment are quickly changing. If rapid technological innovations occur and our response is delayed, the operating results or financial situation of the

Group may be affected. In this regard, the Group is striving to respond promptly by grasping customer needs and technological innovations at an early stage, developing new products, and taking other measures.

### (2) Risks associated with competitiveness, and the development and commercialization of new technologies and products

Each of the Group's businesses has competitors that supply the same type of products as the Group. The markets for the Group's existing products may shrink due to changes in technology or the maturation of the market for some of the Group's products. As a result, the Group's competitiveness is affected by its competitive advantage in terms of price, quality, and delivery, and its ability to develop and commercialize new technologies and products. Consequently, an inability to respond appropriately to changes in technology or customer needs, and delays in developing or commercializing new technologies and products would have a negative impact on the Group's growth and revenue and may affect the operating results or financial situation of the Group. In addition, as part of environmental measures centered on reducing CO<sub>2</sub> emissions, society is demanding the development of environmentally friendly technologies and products with lower environmental impact. Amid such circumstances, an inability to respond appropriately to these demands and delays in developing or commercializing environmentally friendly technologies and products may affect the operating results or financial situation of the Group. The Group will respond to these risks by striving to develop and commercialize new technologies and products to maintain its competitive advantage and by doing its utmost to respond to changes in market conditions and customer needs by rapidly introducing new products to the market through co-creation with customers, while strategically advancing the development of technologies and products aimed at environmental measures.

### (3) Risks associated with raw materials procurement

The Group utilizes a variety of raw materials in its production activities, including iron scrap and copper. These raw materials include many rare metals, which are produced in limited areas and by a limited number of suppliers. The prices of these raw materials vary greatly according to international supply and demand, as well as by the resource policies and other conditions in the producing countries, and by social upheaval, such as conflicts between many countries. If the Group is unable to transfer high market prices to its sales prices in a timely manner, the operating results or financial situation of the Group may be affected. In addition, if the supply of these raw materials becomes tight or is delayed due to issues in the producing country, such as not only major natural disasters, strikes, deterioration of the political situation, or failure in its logistics capabilities, but also including social upheavals such as conflicts between many countries, the Group could be prevented from acquiring the necessary volume of raw materials. In addition, if it is confirmed that conflict minerals, child

labor, or other problems lie behind the raw materials procured, it may be necessary to change raw materials or suppliers, affecting the production and supply of products. The Group is responding with efforts to reduce these risks by making procurement more stable by such measures as diversifying procurement sources. Our efforts also include sharing the Proterial Group Sustainable Procurement Guidelines with our procurement sources.

### (4) Risks associated with securing talent

To stay competitive, the Group must continually secure the talented human resources needed to execute its businesses, but the pool of such talented human resources is limited. If the Group is unable to hire or retain such talent, or if the development of its human resources does not proceed according to plan, a shortage of the talent required to execute its businesses may result, thereby affecting the operating results or financial situation of the Group. The Group responds to this risk by striving to secure talent by restructuring its human resource system to enable diverse human resources to work actively at the Group and by promoting the development of talent by further enhancing and strengthening its human resource development program.

### (5) Risks associated with product quality

#### ① Effects of the misconduct at issue

In April 2020, the Company identified cases of misconduct, including the misrepresentation of test results in inspection reports submitted to customers. Since then, the Company has examined the facts and causes of the misconduct. The results of the investigation confirmed that misconduct, such as rewriting the inspection results of the characteristics stated in the specifications agreed to with customers and the delivery to customers of products that did not meet the specifications agreed upon with the customer, had occurred with magnet products, specialty steel products, automotive casting products, etc., manufactured by the Company and its subsidiaries. For affected products, we are currently verifying their performance by analyzing the correlation between our actual inspection methods and the inspection methods agreed upon with our customers, confirming performance under the observation of our customers, and re-inspecting product samples stored by the Company. At present, no performance defects or safety issues have been found.

In April 2023, the Company established the Quality Committee as a replacement for the Quality Compliance Committee, which was established in April 2021 to monitor the steady implementation of various measures to prevent recurrences of incidents, fundamentally review our quality assurance system, and further strengthen compliance. The committee is working with full commitment to prevent the recurrence of misconduct and restore the trust of customers, shareholders, and other stakeholders. However, depending on the progress of cases in question, the Group's operating results or financial situation may be affected by a decline in confidence in the Group's products, the need for additional responses if new cases of

misconduct are uncovered, losses including compensation for customers, and increase in expenditure to strengthen the quality control system.

### ② Non-compliant products and defective products

The Group's products include those requiring high credibility such as key safety components. The Group has established a strict quality control system for product manufacturing to prevent sending to the market products that do not meet the specifications agreed upon with customers (non-compliant products) or defective products. However, if non-compliant or defective products flow into the market and costs are incurred in the repair, replacement, recall, compensation for damages, or legal actions of the Group's products, the operating results or financial situation of the Group may be affected.

### (6) Risks associated with environmental regulations

The Group's business is also subject to a wide range of environmental laws and regulations, as well as laws and regulations related to the Industrial Safety and Health Act, covering areas such as air pollution, water pollution, the use and handling of hazardous substances, reasonable use of energy, waste disposal, and soil and groundwater contamination. These regulations have continued to become stricter over the years. Moreover, in addition to compliance with conventional environmental laws and regulations, recently there has been growing social demand for companies to take initiatives to respond to the risk of climate change. Included are calls for decarbonized management, such as using non-greenhouse gas-producing renewable energy and managing greenhouse-gas emissions throughout the entire value chain, not just for business relationships with customers and suppliers. Moreover, consideration is also being made towards introducing a Carbon Border Adjustment Mechanism that imposes a tax corresponding to the amount of CO<sub>2</sub> emitted during the manufacture of individual products. The Group has been working to reduce CO<sub>2</sub> emissions, including omitting excess processes, promoting the introduction of energy efficient equipment, and converting to natural gas and LPG fuel. Moreover, in June 2021, the Group set the long-term goal of achieving carbon neutrality by 2050 (with the medium-term goal of reducing CO<sub>2</sub> emissions by 38% by FY2030 compared with FY2015). To achieve this goal, in addition to even greater efforts to reduce CO<sub>2</sub> emissions, the Group is considering efforts that go beyond emission reduction, such as recycling emitted CO<sub>2</sub>. The Group also endorses TCFD recommendations and is committed to evaluating and disclosing the impact of climate change. Amid these major changes in the environment, the costs of procuring the materials, parts, and energy that the Group uses to manufacture its products may rise, and the costs of R&D investment and capital investment related to these initiatives may increase. The Group strives to mitigate these environmental risks by complying with environmental laws and regulations within its environmental management structure, in accordance with the environmental management system ISO 14001:2015, and strives to

recognize and reduce the financial impact of environmental compliance.

### (7) Risks associated with changes in foreign exchange rates

Since the Group imports raw materials from abroad, exports products manufactured in Japan overseas, and engages in global cash pooling with its overseas Group companies, fluctuations in exchange rates affect its transactions, assets, and liabilities denominated in foreign currencies. For this reason, if a major change in exchange rates occurs, the operating results or financial situation of the Group may be affected. In this regard, the Group strives to reduce the risk from exchange fluctuations in imports and exports denominated in foreign currencies through means such as foreign-exchange contracts and currency options. In addition, when preparing its consolidated financial statements, the Group converts the financial statements of its overseas subsidiaries to yen, and fluctuations in exchange rates may affect the operating results or financial situation of the Group.

### (8) Risks associated with M&As and business reorganization

The Group may acquire other companies, establish joint ventures, form strategic partnerships, sell businesses, or take other such measures to develop new technologies and products in its business areas, become more competitive, or expand its business areas, etc. These measures include complex issues that require time and money for business operations and the incorporation of technologies, products, and personnel, and time may be required to achieve synergies. If such measures do not proceed according to plans, the initially anticipated effects may not be achieved. In addition, the effects of business partnerships may be adversely impacted by the decision-making and capabilities of the partner, which the Group cannot control, as well as by market trends. Furthermore, integration, restructuring of acquired businesses, post-acquisition operations, etc., related to these measures could incur large expenses for the Group and may affect its operating results or financial situation. The Group responds to these risks by employing outside advisers to analyze M&As, business reorganization, etc., from various perspectives, including market trends, strategies, acquisition price, the PMI process, and latent risks, as well as deliberations by the Executive Committee and the Board of Directors.

### (9) Risks associated with information security

The usage and importance of information systems in the Group's business activities are increasing. The Group retains and manages personal information obtained from its customers, as well as confidential information regarding the technologies, R&D, manufacturing, sales, and operating activities of the Group and its customers, in a variety of formats, including the use of external service providers. The Group works to strengthen its information security in order to protect this confidential information. However, if (1) external cyberattacks or other threats impede the functioning of these information systems, (2) services from

an external service provider are interrupted, or (3) email is misdirected or theft of equipment, etc., occurs, such confidential information may be disclosed through data breach or leak without authorization. Therefore, the Group may be held liable for compensation for damages or be exposed to legal action, and the Group's operating results, financial situation, reputation, or trust may be affected. The Group responds to these risks by taking security measures based on the severity and frequency of the risk, under the assumption that cyberattacks cannot be completely prevented. The scope of strengthening information security has been expanded from the office automation environment to a wide range of business environments, including the production and manufacturing floors, and the Group is enhancing its Information Security Committee system by further strengthening participation by relevant divisions. In addition, the Group conducts security training every year through e-learning to deepen employees' understanding of the Group's information security measures. The Group has also taken out insurance against information leaks, including cyberattacks. This insurance covers claims for compensation for damages in the event of an information leak.

#### (10) Risks associated with the global expansion of businesses

To respond to the maturation of the Japanese market and the increase of customers overseas, the Group is expanding its businesses aggressively, including expanding into and exporting products to the United States, China, the rest of Asia, Europe, and other overseas markets.

To newly expand a business overseas requires the Group to make a large initial investment in manufacturing equipment and other capital, and, in most cases, substantial time is needed before operations commence. Developing a business overseas involves a number of inherent risks: (i) changes in laws and tax regulations; (ii) underdeveloped social systems and infrastructure; (iii) social turmoil, such as war, terrorism, riots, and the spread of infectious disease; and, (iv) other obstacles to overseas business activities caused by the economic, social, or political situation, such as trade-related tariffs, import restrictions, and protectionism. If these issues occur, they could form an obstacle to the Group's overseas business activities and may affect the operating results or financial situation of the Group. The Group responds to this risk by continuously monitoring the political, economic, and social conditions of each region, analyzing the impact on the Group's business, and implementing measures for the Group as a whole.

#### (11) Risks associated with health and safety

Following the view that prioritizing safety and health is above all else, the Group is pushing ahead the creation of safe and healthy workplaces at its manufacturing sites both in Japan and abroad, by instilling a culture of safety, creating safe organizations, and improving facilities to ensure fundamental

safety. However, when an incident such as a work-related accident or violation of labor laws and regulations that affects employees, facilities, or equipment due to unforeseen circumstances occurs, not only could that cause serious damage to the lives or bodies of workers, but could also result in interruption of the Group's business activities, compensation for victims, or administrative penalties for labor law violations. Such results could affect the Group's operating results or financial situation. In response, the Group has established the Safety & Health Management Department as the organization to manage the health and safety of the Group. In addition, the Group continually implements health and safety education to improve employees' awareness of risks and managers' awareness of health and safety issues. The Group also invests in the implementation of essential safety measures for facilities, and promote Group-wide health management measures, such as prevention of lifestyle-related diseases and support for smoking cessation.

#### (12) Risks associated with earthquakes and other natural disasters

The Group's business activities may be interrupted if its facilities are directly damaged or destroyed by a major earthquake or other major natural disasters, such as storms and floods due to climate change. Even if the Group's facilities are not affected directly, its distribution, supply, or communications network could be thrown into turmoil. Furthermore, an outbreak of a previously unknown infectious disease could result in a disruption of the Group's business activities. Direct or indirect disruption of the execution of the Group's businesses due to such natural disasters or events could impede the Group's business activities and affect its operating results or financial situation.

The Group responds to these risks by formulating a Business Continuity Plan (BCP) that accounts for major earthquakes and other disasters, and by continuously revising this plan and providing training on it. It has also established a safety confirmation system that verifies the safety of its employees and their families via the Internet, in the event of a disaster. The Company is also working to construct a remote work environment, including working from home, in an effort to put into place a working environment that will remain stable in the event of a disaster or when faced with measures to prevent infectious diseases.

#### (13) Risks associated with impairment losses on property, plant, equipment, and goodwill

To maintain and grow its businesses, and acquire new business opportunities, the Group must continuously make capital investments. In addition, it acquires the businesses of other companies and the like, as necessary. In particular, the Group makes full use of large-scale capital investments to reap early effects. At the same time, when making new capital investment, the Group implements selective capital investment that focuses on high-growth, high-revenue areas. In addition, the Group holds large amounts of fixed assets from previous capital investments and acquisitions of businesses from other companies, etc. Therefore, the Group could record an impairment loss on its current or

future fixed assets, if it is unable to recover its investments due to changes in the external environment, etc. This may affect the operating results or financial situation of the Group. The Group responds to this risk by having the Investment Committee review major investments beforehand and subsequently having the Executive Committee and the Board of Directors deliberate, from a multifaceted and whole-company perspective that includes conformity with business strategies, market and other trends, business risks, the appropriateness of technology and productivity improvement plans, and the appropriateness of investment amounts and investment plans. In addition, after an investment decision is made, the Group performs regular follow-ups, accelerating and changing investment plans, while tracking the market environment and internal situation.

#### (14) Risks associated with financing activities

The Group's basic policy is to cover the funds needed to invest for growth with cash generated by businesses and cash on hand. However, to avoid missing growth opportunities, the Group also borrows from K.K. BCJ-52 as the parent, and raises long-term financing from the capital markets. Therefore, if financing cannot be obtained under favorable terms due to a deterioration of the financial markets, or if it becomes infeasible to obtain funds flexibly due to rising financing costs or to a worsening cash flow, the operating results or financial situation of the Group may be affected.

The Group strives to reduce risk by using global cash pooling and working to optimize the flow of funds within the Group.

#### (15) Risks associated with laws and regulations, and official regulations

The Group is subject to economic laws, related laws and regulations, and official regulations, including systems for commerce, trade, currency exchange, and taxation, in Japan and the countries where the Group does business. The Group strives to comply with these laws, regulations, and official regulations by maintaining and improving its internal control systems. However, if the Group is deemed to have violated such laws or regulations, it will be subject to administrative sanctions and could be held liable for compensation for damages in a civil lawsuit, etc., due to such violations. In addition, if these laws, regulations, or official regulations are amended, the cost of compliance could increase. Such administrative sanctions, compensation for damages, and increases in compliance costs, etc., may affect the operating results or financial situation of the Group. The Group has responded to these risks by formulating the Proterial Group Code of Conduct, which stipulates rules and principles intended to assist officers and employees in making decisions and taking actions. This Code of Conduct was formulated to cultivate an awareness of compliance among all officers and employees and to ensure thorough legal compliance, and the Group is conducting its business

activities based on the principle of always acting with integrity. Furthermore, the Proterial Global Compliance Program, which stipulates regulations for matters such as compliance with competition laws and the prevention of corrupt practices, is in place at all companies throughout the Group. The Group prepares and distributes the CSR Guidebook to enhance understanding and works continuously to provide education through means such as training and e-learning.

#### (16) Risks associated with intellectual property rights

The Group holds a large number of intellectual property rights, exercises these rights, and grants licenses to other companies in accordance with its business strategy. Meanwhile, the Group respects the intellectual property rights of other companies and obtains their licenses when it is deemed necessary. If the exercise of rights or the granting or acquisition of licenses does not proceed as planned, the business execution or competitiveness of the Group could be affected. In addition, although the Group responds appropriately to legal action or other disputes relating to intellectual property rights by such means as coordination with outside attorneys or other experts, costs related to dispute settlements could be incurred and may affect the operating results or financial situation of the Group. In order to curb these risks, the Group investigates the patents of other companies in advance when conducting research, development, design, etc., and implements preventive measures and countermeasures. To deepen understanding of such risks, the Group also provides continuing education to its employees through various training programs.

#### (17) Risks associated with retirement benefit obligations

The Group bears large retirement benefit costs and obligations, which are determined by actuarial calculations. Evaluations of these costs include key assumptions on estimating pension costs, such as mortality rates, separation rates, retirement rates, changes in salary, discount rates, and expected rates of return on pension assets. The Group must estimate the major assumptions used in this assessment, taking into account many factors, such as the conditions of its workforce, current market conditions, and trends in future interest rates. Although we believe that the estimation of these major assumptions, based on underlying factors, is reasonable, there is no guarantee that the assumptions will match the actual results. Financial market downturns may reduce the expected rate of return due to reduced valuation of plan assets. Depending on circumstances, additional contributions to plan assets may be required. Reductions in the discount rate will increase the actuarial retirement benefit obligations. For this reason, changes to the major assumptions may affect the operating results or financial situation of the Group. In response, the Group's Retirement Benefits Committee meets regularly to deliberate and decide on appropriate investments based on advice from investment advisory firms on matters such as asset allocation and selection of investment projects.