

Sustainability Strategies

Sustainability

In July 2023, we set up a Sustainability Committee headed by the Chairman, President and CEO to explore ways to achieve growth that does not burden society. What role should we play in society in response to demands for sustainability? We are committed to addressing social issues and working with society in the three business domains of chemicals, engineering, and processing.

Aiming to “make effective use of limited resources and realize an affluent, sound society”

Our corporate philosophy is: “We are contributing to the effective use of limited resources on planet Earth, creating new value of resources through surface modification of all kinds of materials, preserving the global environment, and realizing an affluent society”.

Since we introduced Japan’s first rust prevention technology (phosphate conversion treatment technology), we have contributed to a wide range of fields, from core industries to cutting-edge industries in surface modification, mainly for metals. As a leader in surface modification, we recognize the social responsibility that comes with our corporate activities, and we will strive to meet society’s expectations. We aspire to develop the Company through these efforts and help create a sustainable society.

Basic Policy on Sustainability

1. The Nihon Parkerizing Group is committed to realizing a sustainable society and increasing its corporate value by providing its products and services.
2. The Nihon Parkerizing Group will actively seek to provide products and services that are environmentally friendly and ensure safety and quality.
3. The Nihon Parkerizing Group aims to realize a society where diverse human resources can play an active role through respect for human rights and equal employment opportunities.
4. The Nihon Parkerizing Group will engage in fair and sincere corporate activities, with appropriate information disclosure and proactive communication with stakeholders.

Tackling climate change -- Initiatives based on TCFD recommendations and the challenge to achieve carbon neutrality --

We can afford no further delay in tackling climate change. The Nihon Parkerizing Group will fulfill its accountability to stakeholders by disclosing information based on recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). At the same time, we will meet our corporate responsibility by identifying the risks and opportunities of climate change, evaluating the business impact and financial impact through scenario analysis, and implementing remedies to explore the sustainability of our business.

Governance

In July 2023, we set up a Sustainability Committee to achieve sustainable growth under our management philosophy while also enhancing both economic and social value and continue to pursue initiatives related to sustainability, including those related to climate change, in response to rising demands and expectations that companies contribute to the realization of a sustainable society.

The committee is chaired by an executive director appointed by the President and CEO and is responsible for the execution of

all sustainability-related tasks. This committee meets four times a year to discuss the scenario analysis results based on the TCFD recommendations, issues related to measures to address climate change, and issues associated with establishing and progressing towards qualitative and quantitative targets.

The committee reports these deliberations to the Executive Committee and the Board of Directors at least once a year without delay. The Board of Directors oversees the company’s sustainability activities.

Strategies

Based on short-, medium-, and long-term time perspectives, we have assessed and identified risks and opportunities that we estimated would have a significant impact on our business, from among transition risks attributed to policies, regulations, and market changes that climate change will bring to the value chain, as well as physical risks such as extreme weather events, according to the risk and opportunity assessment process that we have established. In addition, we have conducted a scenario analysis of how our business environment could have changed in 2030 from a long-term perspective, given the unique nature of the issue of climate change.

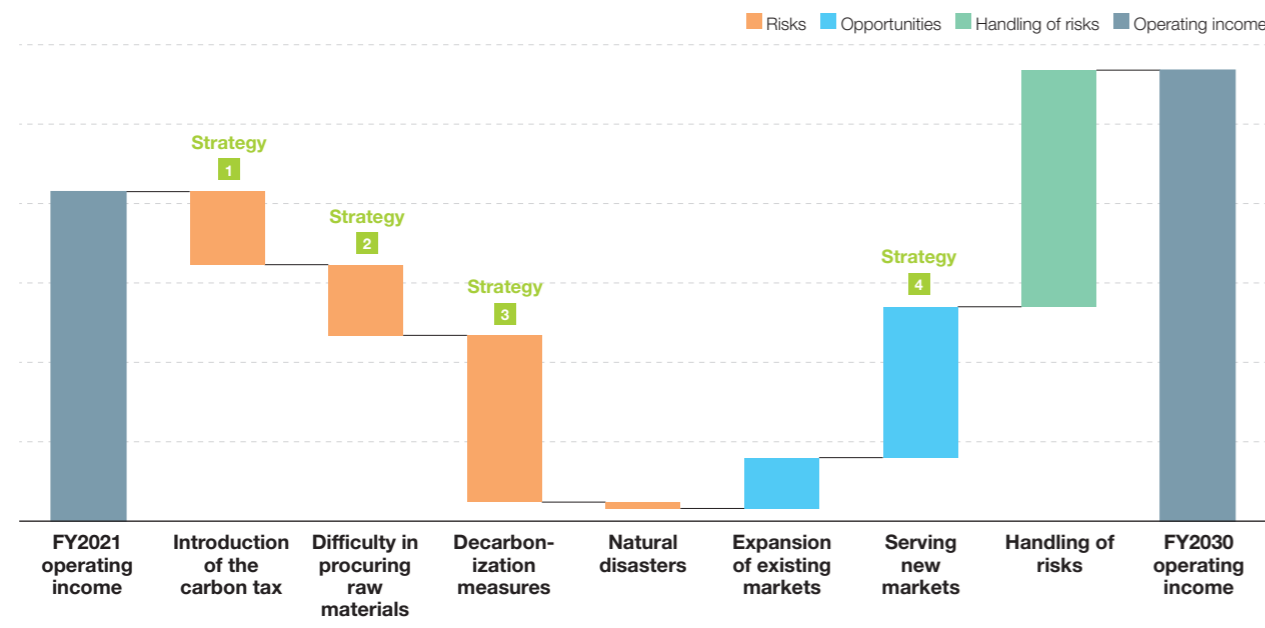
In the scenario analysis, we referenced multiple existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). We assumed two scenarios: the below 2°C scenario, under which decarbonization is accelerated, and the 4°C scenario. The risks and opportunities expected to impact the business significantly were identified as follows, and we quantified the financial impact in 2030 to the extent possible.

*Reference scenarios: IEA APS, SSP5-8.5, SSP1-2.6, STEPS

Scenario analysis (below 2°C scenario)

Scenario	Type of risk/opportunity	Impact on business	Time span			Overall evaluation	Remedies		
			Short term	Medium-term	Long term				
Below 2°C	Transition risks	Policy and legal regulations	Decarbonization policy breakthrough	Cost increase resulting from the introduction of carbon tax and use of carbon credits		●	●	Medium	- Promotion of energy conservation - Shifting to renewable energy-based power - Use of solar power generation for private consumption - Improvement of utilization ratio through consolidation and centralized operation
				Difficulty in procuring raw materials		●	●	Medium	- Enhancing supplier engagement - Promoting multi-sourcing - Product development with a view to purchasing and using alternative raw materials
		Market	Demand for decarbonization and energy conservation	Growing customer demand for low-carbon products and services		●	●	High	- Studying potential and apparent demands and issues and promoting research and development - Enhancing customer engagement - Expanding the lineup of environmentally friendly products - Promotion of CFP calculation for products and services - Promotion of energy conservation
	Physical risks	Acute	Increase in natural disasters	Difficulty in procuring scarce raw materials	●	●	●	Low	- Enhancing supplier engagement - Promoting multi-sourcing - Product development to use alternative raw materials
				Shutdowns resulting from natural disasters caused by extreme weather conditions					
		Opportunities	Products and services	Market changes	Expansion of existing markets		●	●	Low
Serving new markets					●	●	High	- Studying apparent demands and issues and promoting research and development - Developing customized products - Materializing environmentally friendly products by accelerating development	

Financial impact in 2030 under “the below 2°C scenario”



Key strategies based on the below 2°C scenario

- Strategy 1**
Introduction of the carbon tax
 We estimate that emissions from business activities will increase with business growth if we take no remedial action. Assuming the introduction of a carbon tax, the impact on operating income could be hundreds of millions of yen. We have, therefore, set an ambitious emissions reduction target of reducing CO₂ emissions per unit of sales (Scope 1 and 2) by 30% (compared to FY2020) by 2030 and will ensure that we promote measures to address this risk.
- Strategy 2**
Difficulty in procuring raw materials
 We anticipate that the procurement of new raw materials may be required due to environmental regulations. If it is difficult to procure raw materials, the impact on operating income could be billions of yen. As we have set “building a sustainable supply chain” as one of our key issues (materiality), we will establish a stable supply system for raw materials in cooperation with suppliers. Further, we will seek to develop products using alternative raw materials and switch to alternative products as appropriate.
- Strategy 3**
Decarbonization measures
 Customer demand for decarbonization is increasing. Failure to meet this demand could result in a decrease in orders and the loss of billions of yen in operating income. As we have set forth “developing new products and technology that are environmentally friendly” and “contributing to reducing the environmental load” as our key issues (materiality), we will work to reduce the environmental impact of our customer’s manufacturing processes and promote carbon footprint (CFP) calculation for each product and service to visualize CO₂ emissions, thus driving measures to address this risk.
- Strategy 4**
Serving new markets
 The movement toward carbon neutrality is accelerating worldwide, with the rapid expansion of decarbonization markets and the development of innovative technologies required in these markets. As we have set “developing new fields making the most of surface modification technologies” as one of our key issues (materiality), we will actively develop products for new markets based on the proprietary surface modification technologies we have cultivated over many years as a leading company.

Risk management

Process for identifying and assessing climate-related risks

At Nihon Parkerizing, our Sustainability Committee identifies and assesses climate risks. In contrast, the Risk Management Committee identifies and evaluates other business risks.

The Sustainability Committee conducts scenario analysis based on TCFD recommendations to identify critical risks and opportunities and assess the degree of impact.

For business risks, climate-related transition and physical risks were identified and assessed in light of risk assessment criteria, such as impact and probability of occurrence, using a standard risk sheet for the overall Company. The impact is evaluated on a four-point scale based on operating income. In contrast, the probability of occurrence is assessed on a four-point scale based on the frequency of occurrence.

Ultimately, risks are rated on a 16-point scale based on their importance, and priorities to be addressed are set by examining risks in relative terms from a management perspective.

Process of managing climate-related risks

The organization devised and implemented measures to address business and other risks based on their materiality. Their progress is managed, and improvements are made on an ongoing basis. We reflect measures to tackle climate-related transition risks and opportunities in our environmental strategy, incorporate them into our targets and plans, promote and develop environmental performance improvement and risk management efforts, and make improvements through the PDCA cycle.

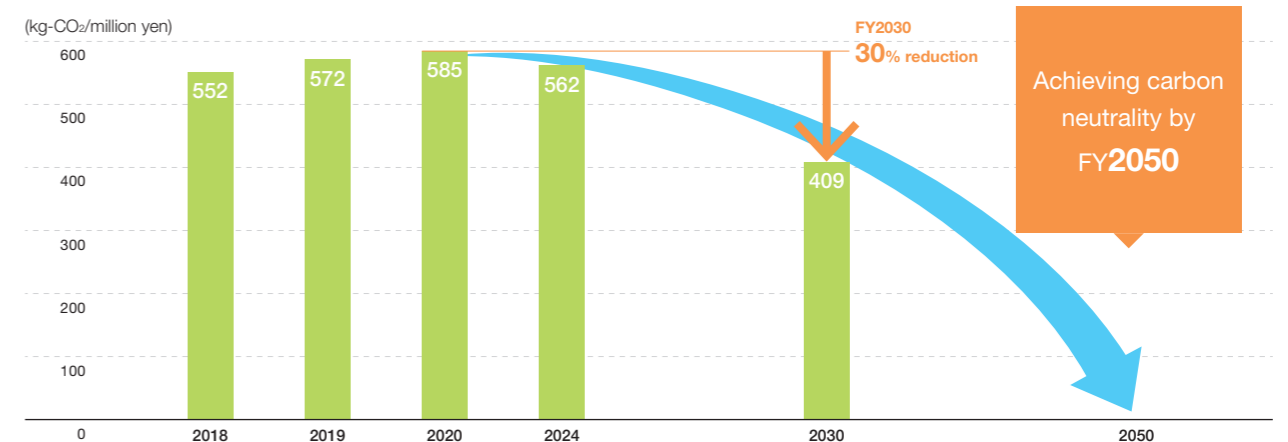
Integration with comprehensive risk management

The Group has established a Risk Management Committee to effectively and efficiently manage various risks that may hinder the achievement of its business objectives. This committee oversees risk management activities focused on management risks (operational risks), assesses such risks, evaluates and manages them, examines measures to address them, and reports to the Internal Governance Committee. The Sustainability Committee takes the lead in managing risks related to climate change, and the two organizations work closely and cooperatively with each other in company-wide risk management activities.

Metrics and targets -- initiatives to achieve carbon neutrality --

To achieve carbon neutrality by 2050, we aim to reduce our non-consolidated CO₂ emissions by 5% from the FY2020 level by FY2024 and 30% from the FY2020 level by FY2030. In addition, to achieve these targets, we will take measures such as (1) improving the efficiency of facilities and equipment and streamlining operating methods and processes, (2) expanding the use of electricity derived from renewable energy sources, and (3) using carbon offsetting methods.

CO₂ emissions reduction targets (non-consolidated basis, CO₂ emissions per unit of sales, Scope 1 and 2)



Scope 1, 2, and 3 GHG emissions

To ensure the transparency and reliability of the disclosed GHG (greenhouse gas) emissions, in FY2022, we received assurance from an external organization (SOCOTEC Certification Japan) as a third party.



Scope 1	26,593 (t-CO ₂)
Scope 2 (market standard)	23,770 (t-CO ₂)
Scope 3	573,119 (t-CO ₂)
Total	623,482 (t-CO₂)

Coverage: Nihon Parkerizing Co., Ltd., Parker Engineering Co., Ltd., Parker Processing Co., Ltd., Oita Parkerizing Co., Ltd., Komatsu Parkerizing Co., Ltd., Japan Kanigen Co., Ltd., Hamamatsu Netsushori Co., Ltd., Million Chemicals Co., Ltd., and Kyodo Yuso Co., Ltd.

Environmental Initiatives

The Nihon Parkerizing Group is committed to developing products that solve environmental issues at the production stage and the stage of customer use to “effectively use limited resources and realize an affluent, sound society.”

Environmental policy and ISO 14001

To contribute to protecting the global environment, we have established environment policies and obtained ISO 14001 certification, the international standard for environmental management systems. We engage in activities such as strengthening our corporate structure, developing environmentally friendly products, saving energy and resources, and reducing waste.



1. The Nihon Parkerizing Group will comply with all relevant laws, regulations, and agreements and operate its business in consideration of biodiversity and by giving the highest priority to environmental protection.
2. The Nihon Parkerizing Group will contribute to society by developing and marketing environmentally friendly products and technologies for them.
3. The Nihon Parkerizing Group will promote GHG reduction throughout the value chain to realize a low-carbon society.
4. The Nihon Parkerizing Group will strive to reduce the environmental impact of its business activities by effectively using resources and appropriately managing chemical substances.

Initiatives to reduce the environmental load

Promotion of energy conservation

- 1 Achieving both energy reduction and high efficiency with optimal processing methods
- 2 Saving energy with initiatives including appropriate management of electricity and gas use and use of waste heat
- 3 Developing chemicals and expanding their lineup with a focus on low temperature and long life
- 4 Reducing industrial waste in the treatment process
- 5 Efforts to develop equipment and systems aimed at reducing CO₂ emissions from various industrial machinery

Development of environmentally friendly products

The Group's surface modification technologies contribute to solving global environmental issues such as resource conservation, energy conservation, and high efficiency by adding various functions to the surface of materials, such as corrosion resistance, wear resistance, and lubrication. As a leading company

in surface modification, we are promoting the development of technologies for reducing environmental impact, such as replacing hazardous substances with chrome-free, phosphorus-free, sludge-free, or similar substances, reducing hazardous substances, and achieving zero emissions.

Approach to resource recycling

The Group uses recyclable containers for the products. We also promote the 3Rs (reducing, reusing, and recycling) and

strive to minimize industrial waste emissions while at the same time ensuring that waste is disposed of properly.

Approach to water resources

We use Baseline Water Stress, an Aqueduct Country Ranking evaluation indicator developed by the World Resources Institute, to check the water stress conditions in the countries where the Group's business sites are located. We manage our water consumption as a precious resource and strive to use water resources effectively (such as reusing cleaning water and steam drain water).

Baseline Water Stress	Countries where our business sites are located
Extremely high	India
High	Belgium, Mexico
Medium-high	Thailand, Korea, China, Indonesia
Low-medium	US., Japan, Philippines
Low	Taiwan, Vietnam, Malaysia

Created based on scores by country for Base Water Stress used in Aqueduct from the World Resources Institute

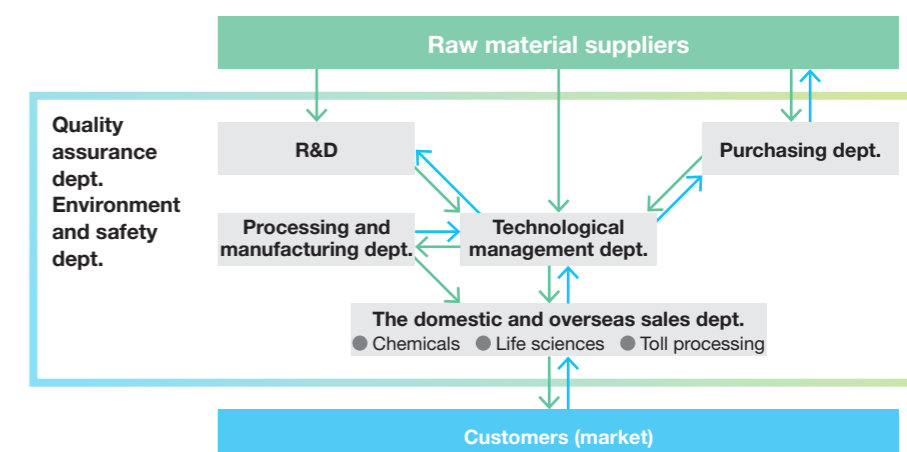
Management of chemical substances

To fulfill our social responsibility as a chemical manufacturer that manufactures and sells chemical products, we have formulated a policy for the management of chemical substances in products and established a Chemical Substance Management System (hereinafter referred to as CMS). We collect, manage, and communicate complex and voluminous information on the hazards, toxicity, and risk assessment of chemical substances based on domestic and international laws and regulations, as well as customers' standards, and share this information internally for CMS activities.

In addition, we conduct surveys of suppliers about chemical substances contained in products under our Green Procurement Guidelines. By controlling chemical substances contained in our products and identifying chemical substances of concern for hazardousness, we manage and reduce the risk of chemical substances for people and the environment throughout the entire supply chain.

CMS management system

To provide appropriate information to our customers, we have established a system in which the seven sectors concerned cooperate and collaborate under the supervision of the management, chief administrator, and chemical substance control supervisor to manage chemical substances in products.



*Arrows indicate information flows.

R&D

The Nihon Parkerizing Group, a technology-driven company, has been focusing on researching and developing surface modification technologies that excel in progressiveness and originality. In recent years, we have also been actively addressing various social issues, including the development of technologies that can reduce the environmental impact, such as the substitution or reduction of hazardous substances and zero emissions.

Research and support systems

The Central Research Laboratories constitute the development center that provides the basis of our technologies. Here, we engage in basic research and product development for customers worldwide. In addition to the Central Research Laboratories, we have created several technical centers in Japan and overseas to improve products and provide timely technological support by working close to our customers.

Meanwhile, to expand and strengthen our research and development system for the future, we are currently renovating the Central Research Laboratories.

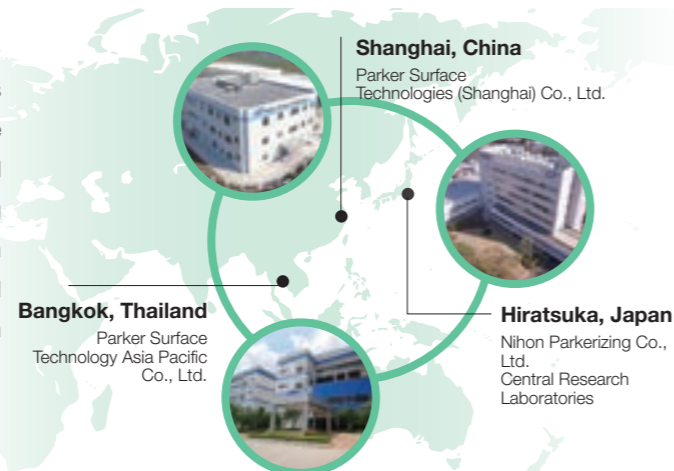
Based on the concept of open innovation, the new laboratories are scheduled to open in 2025.



Rendering image of the Central Research Laboratories scheduled to open in 2025
*Subject to change due to the project at the planning stage

Global structure

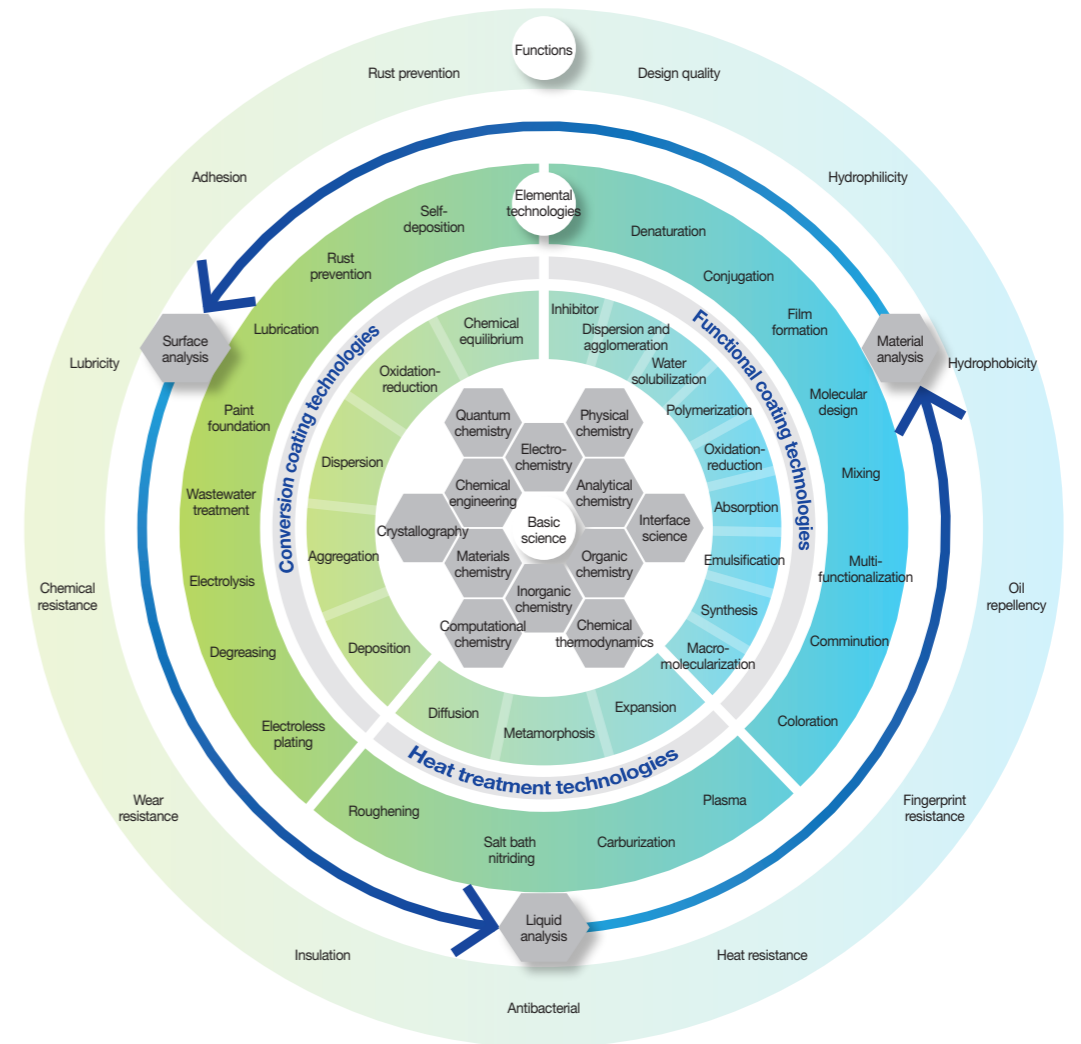
To ensure the sustainability of our business, we are expanding our surface modification technologies worldwide. In this process, we are taking advantage of the global network we have built to strengthen our customers' overseas roll-out and our connections with local customers. The Nihon Parkerizing Group has established technology development bases in China and Thailand to build local development and technical support systems. We thus respond timely to requests from local customers.



Strengthening core technologies and R&D

We will celebrate our centenary in 2028, five years from now. We have developed various surface modification technologies to engage with customers sincerely and solve their issues with our technical expertise. As a result, as shown in the figure on the right, our core technologies have found widespread application in all industrial fields. Recently, expectations have been growing for new surface

modification technologies, which add value to materials as a new means of solving social issues. Our research and development dept. is focusing on medicine, EV-related components, and renewable energy, and we are gaining confidence in ourselves about deepening and utilizing surface modification technologies as our core technologies.



Product development for realizing a sustainable world

We have launched PALLUCID, an environmentally friendly next-generation conversion coating agent that replaces phosphate conversion coating processes for various paint bases. PALLUCID is a revolutionary technology that not only extends the service life of metal materials through rust

prevention treatment but also reduces CO₂ emissions from raw materials, chemical manufacturing, and transportation processes by 70%. We will continue to spare no effort in developing innovative products for realizing a sustainable world.

Human Resource Strategies

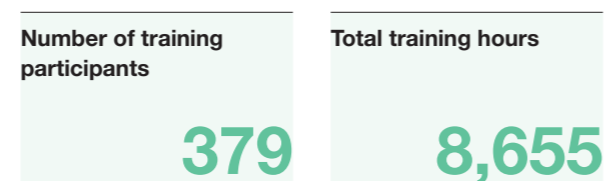
At the Nihon Parkerizing Group, we believe that people are the source of our competitiveness and, most importantly, our management resource. We create a motivating and comfortable work environment to maximize the power of our people and organizations, thus continuously enhancing our corporate value. We also respect the human rights of all stakeholders involved in our business activities.

Human resource development

To develop human resources who are proactive, dynamic, and creative and who can be active on a global scale from a long-term perspective, we are implementing various initiatives, including the introduction of different training programs.

In addition, to systematically develop next-generation leaders who will play a central role in management, we offer a step-by-step training program for all employees.

The number of hours allocated to capacity-building training for our employees in FY2022 was as follows.



Schematic for capacity building training programs

Position	Training provided outside the workplace				Workplace training	Other
	Human skills	Technical skills	Specialty (elective)			
Managerial positions	General-manager level					Self-development (incentive program encouraging acquisition of qualifications)
	Section-manager level	Management strategy training Middle management program				
Supervisory positions	Assistant-manager level	Training for new managers Management courses, training for evaluators, interview system, labor management	Practical course on business accounting	TOEIC training		
		Manager assessment training Managerial competence and aptitude	Basics of accounting	TOEIC training		
Non-managers		Supervisor assessment training Supervisory competence and aptitude		TOEIC training		
		Mid-level employee training	Basics of marketing and business strategies	TOEIC training		
		New employee training Product knowledge, practical training	Critical thinking	TOEIC training		
Prospective employees		New employee training Business manners and internal rules	Presentation skills training			
		Prospective employee training				

Creation of a comfortable workplace

Pursuing employee happiness and achieving a high level of self-fulfillment are among the most important significance for our continued existence. To bring our employees as close as possible to this ideal, we provide a range of support according to their life stages. The creation of a pleasant work environment also leads to higher labor productivity. We have established programs for leave, leave of absence, working

hours, and income considerations for life events such as childcare and nursing care. We are working to make these programs known to all employees. We also support flexible work styles such as through telework and flextime systems. These systems have become widely available, enabling employees to work flexibly and efficiently.

Diversifying human resources

We are committed to promoting diversity so that individual employees can leverage their diverse personal qualities and maximize their abilities.

We aim to realize a company where employees with diverse values, ways of thinking, and skills, consisting of various backgrounds such as race, gender, physical characteristics, physical disabilities, diseases, nationality, religion, political beliefs, age, sexual orientation, and gender identity, can maximize their abilities and characteristics and work energetically.

In FY2022, as part of our efforts to promote active participation of our human resources, we held the Parker Group Special Lecture Meeting for Promoting Active Participation of Women for female employees and their supervisors by inviting a woman working on the frontline of business as the lecturer. Participants commented that they wanted to use the lecturer's experience as a reference for their approach to their work. It was an excellent opportunity for them to think about developing their subordinates as supervisors, which means that the event increased motivation.

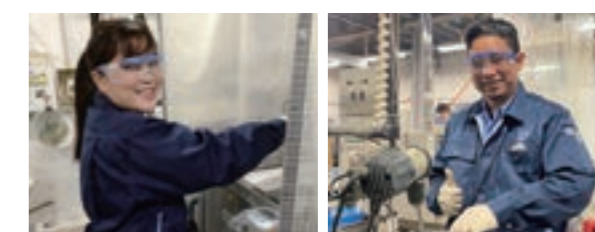
In addition, to develop global human resources, we launched the Global Associates Program, under which we accept engineering staff from overseas Group companies to our technology centers in Japan. Through this initiative, we deepen technological, cultural, and other exchanges in various areas to invigorate the entire Group.

We will continue implementing initiatives to maximize the power of people and organizations. Concerning the promotion

of diversity, our goal is to increase the percentage of women in management positions over the medium to long term.



Parker Group Special Lecture Meeting for Promoting Active Participation of Women



Trainees accepted from Group companies in Thailand and Malaysia

Respect for human rights

The Group has implemented initiatives on respect for human rights through the Nihon Parkerizing Group Human Rights Policies and guidelines.

Respect for fundamental human rights is clearly stated in our compliance handbook, distributed to all employees to ensure they are fully aware of the importance of respecting basic human rights.

To respect each other and eliminate all discrimination, we issue a monthly Compliance Newsletter and conduct compliance training once a year to ensure that each employee will have a correct understanding and awareness of compliance.

Human Rights Policies

1. The Nihon Parkerizing Group will comply with the laws and regulations of the countries and regions in which it operates, support and respect international norms related to human rights, and fulfill its responsibility to respect human rights.
2. The Nihon Parkerizing Group will eliminate unfair discrimination and any form of harassment in the workplace and respect labor rights.
3. The Nihon Parkerizing Group will strive to promote respect for human rights throughout the supply chain involved in its business.
4. The Nihon Parkerizing Group will prevent the occurrence of adverse human rights impacts. It will take prompt and appropriate action when identifying contributing or complicit violations.

Occupational Health and Safety

The Nihon Parkerizing Group strives to maintain and promote every employee's physical and mental health by enhancing tangible aspects (e.g., facilities and environment) and intangible aspects (e.g., health management) so that employees can exercise their full potential safely and comfortably.

Health and Safety Policy

The Nihon Parkerizing Group has established a Health and Safety Policy to ensure all employees and parties involved, including subcontractors, know the importance of preventing occupational accidents. They prioritize ensuring safety and health for a safe and comfortable work environment.

Health and Safety Policy

1. The Nihon Parkerizing Group will place the highest priority on the safety and health of all of its employees. It will be committed to providing a safe and secure work environment and promoting mental and physical health.
2. The Nihon Parkerizing Group will take appropriate preventive measures for health and safety and strive for continuous improvement.
3. The Nihon Parkerizing Group will comply with all laws and regulations regarding health and safety.

Physical and mental health management

We provide advice and support for health management through interviews with industrial physicians to help employees maintain and improve their health. Believing that it is of utmost importance for employees to understand, maintain, and improve their health status, we encourage employees to receive regular health checkups, aiming for the rate of employees receiving the checkups at 100%.

We provide employees with an opportunity for stress checks once a year to prevent mental health problems. Employees who are highly stressed in the stress check are encouraged to undergo an interview with an industrial physician. We also conduct group analyses of offices and plants in addition to analysis of individuals and conduct hearings as necessary to improve the workplace environment.

Risk assessment (chemical risks and health and safety risks)

Chemical risk assessment

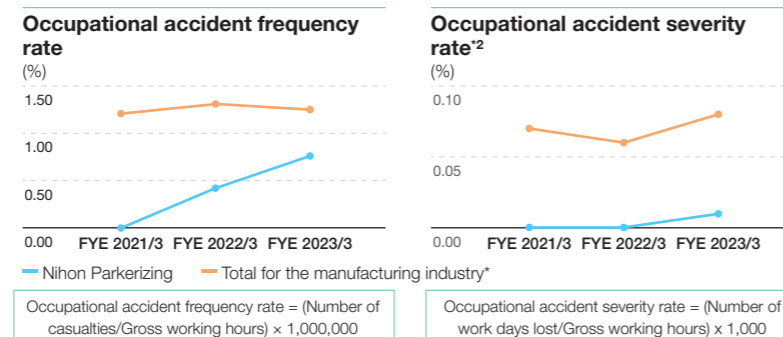
We have introduced a system that allows us to assess the risk of hazardous chemical substances and take measures to reduce the risk. We share the results of this risk assessment throughout the company.

Health and safety risk assessment

Based on the health, safety, and environment manual, we identify risks such as hazardous work to prevent serious accidents. In addition, we make assessments for each risk and take cross-sectional measures internally according to the risk level.

Creation of safe and pleasant workplaces

A safe work environment is essential for employees to perform their duties peacefully. We are proactively improving our workplace environment to create a pleasant workplace. In addition, all employees and related parties, including subcontractors, engage in safety activities together to achieve zero accidents.



* Source: Overview of the Ministry of Health, Labor and Welfare's whitepaper survey on trends of industrial accidents (survey of business establishments (with 100 or more workers each) and survey of the construction work, general including public and private construction work)
² Coverage expanded in FYE 2023/3 (to include contractors)

Supply chain management

The Nihon Parkerizing Group aims to build a sustainable supply chain. To this end, we have established close cooperative relationships with our suppliers. We are working to build resource management, production, and supply systems to realize a recycling-oriented society. In addition, to build a stable supply system, we are strengthening our understanding of and remedies against risks in procurement.

Procurement Policies and promotion of CSR procurement

The Nihon Parkerizing Group and its suppliers have established Procurement Policies and Green Procurement Guidelines to ensure sound procurement activities in compliance with laws and regulations and with environmental considerations, respect for human rights, and fair trade. Based on these policies, we promote CSR procurement to fulfill our social responsibility as a company. In addition, in FY2022, we formulated the Quality Assurance Manual for Purchased Raw Materials and informed our suppliers of the manual.

Procurement Policies

1. The Nihon Parkerizing Group aims to realize coexistence and co-prosperity with suppliers based on mutual trust.
2. The Nihon Parkerizing Group will provide opportunities for procurement transactions to all suppliers and select them fairly and honestly, considering quality, price, delivery time, and other factors.
3. The Nihon Parkerizing Group will comply with domestic and foreign laws, regulations, and social norms and request that its suppliers comply with the same laws and regulations.
4. The Nihon Parkerizing Group is committed to sustainable procurement activities, fully considering the environment, human rights, occupational health and safety, and corporate ethics.

Supplier engagement

In FY2022, we conducted a questionnaire to deepen mutual understanding with our suppliers. We aimed to confirm the status of suppliers' sustainability initiatives, including procuring "sustainable palm oil with an awareness of human rights," consideration for water use and biodiversity, assessing environment-related risks such as soil and air pollution, and efforts toward carbon neutrality. We received responses from more than 80% of suppliers.

We will continue to deepen our relationship with suppliers through dialogue on their sustainable procurement policies and the status of their initiatives. We will pursue initiatives aimed at achieving mutual understanding and bolstering corporate value.

Risks in procurement and remedies

In recent years, the environment surrounding corporate activities has drastically changed, and the future remains uncertain, mainly reflecting the growing geopolitical risks in addition to the spread of COVID-19, climate change, and increasing natural disasters. In FY2022, our business was also severely affected, mainly by the rising prices of raw materials, including phosphoric acid as a critical raw material. Given this situation, we continue to step up measures to timely identify risks in our supply chain and take steps to improve them from the perspective of our business continuity plan (BCP).

External environment affecting procurement

- Procurement uncertainty caused by geopolitical risks
- Delivery delay resulting from unexpected equipment trouble
- Delays or suspension of deliveries resulting from natural disasters
- Delivery time affected by logistics problems

Quality Assurance

The Nihon Parkerizing Group is committed to technological innovation and quality improvement to provide products and services that consistently exceed the expectations of customers and society. We provide products and services with reliable quality to our customers through continuous improvements to our quality management system, compliance with legal and regulatory requirements, and fair and sincere corporate activities.

Quality Assurance System and Quality Policy

Based on a policy of customer focus, the Nihon Parkerizing Group is stepping up initiatives to create its Group-wide quality assurance system through quality audit activities and quality training not only within the Group but also at domestic and overseas affiliates to provide products and services that earn the trust and satisfaction of customers.

Quality Policy

The Nihon Parkerizing Group strives to provide products and services that exceed the expectations of society and customers through quality improvement and technological innovation in its efforts to enhance customer satisfaction.

1. We will provide reliable quality to our customers by continuously improving our quality management system.
2. We will comply with legal and regulatory requirements and provide our customers with safe and reliable products and services.
3. We will strive to earn the trust of our customers by thoroughly preventing the recurrence and occurrence of problems.
4. We will enhance the transparency of our quality assurance system and conduct fair and sincere corporate activities.

Quality management system

We have obtained certification under international quality standards (ISO 9001) for each chemical and toll processing business. The standard certification for quality management systems was obtained by the Kansai Plant in 1995 for the chemicals business and by the Hiratsuka No. 2 Plant in 1997 for the toll processing business. Our chemical and toll processing plants are now certified to international quality standards. Under the ISO 9001 fundamental principles of customer focus and improvement of customer satisfaction, we have clarified our procedures for providing better

products to our customers and implemented the PDCA cycle, thus advancing improvement initiatives on an ongoing basis. As part of our commitment to improving quality, we have also acquired IATF 16949 certification for the automotive industry, JIS Q 9100 certification for the aerospace industry, and ISO 13485 certification for the medical device industry. Overseas, we are working to obtain ISO 9001 certification at all our affiliates. We are striving to build a system that will enable us to meet global quality requirements.

Rate of acquisition of ISO 9001 certification

(as of July 31, 2023)

Non-consolidated

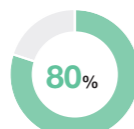
16 plants in total: 5 product manufacturing plants and 11 processing plants



Domestic consolidated subsidiaries

10 companies in total that are engaging in equipment manufacturing/ product manufacturing/ processing

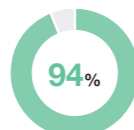
*Acquisition status of ten of our 13 domestic consolidated subsidiaries (excluding Parker Giken Kogyo, Kyodoyuso, and Ozeki Chemical Industry, which do not engage in any of the above businesses) (Two of the ten companies have yet to obtain the certification.)



Overseas consolidated subsidiaries

17 companies in total, which are engaging in equipment manufacturing/product manufacturing/ processing

*17 major overseas consolidated subsidiaries (Including IATF 16949 certification/Not yet acquired by one of the companies)



Certificates of registration of quality management system

ISO9001



Chemicals

Toll Processing

Efforts for Safe and Reliable Production

The Nihon Parkerizing Group produces safe and reliable products by strengthening process quality control of manufacturing processes, reducing hazardous and harmful work for on-site workers, and improving the work environment.

Reliability is achieved by enhancing manufacturing quality control.

We bolstered quality control with standardized process audits of our domestic manufacturing plants, affiliates, and subcontractors to advance sustainable resource management, production, and transportation. We plan to expand this initiative to our suppliers to strengthen our relationships with them.

Results of standardized process audits at manufacturing sites in FY2022

Domestic manufacturing 6 locations -- All are excellent plants*

Plants of domestic affiliates: 3 locations -- Excellent or certified plants

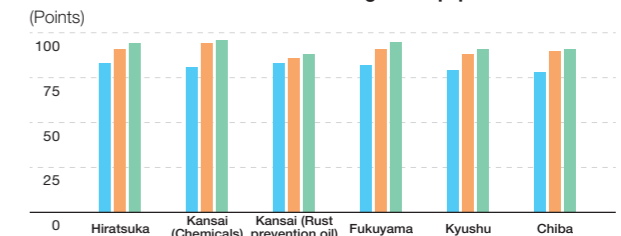
Plants of overseas affiliates: 3 locations -- Excellent or certified plants

Domestic transportation 3 locations -- All are excellent transportation contractors.

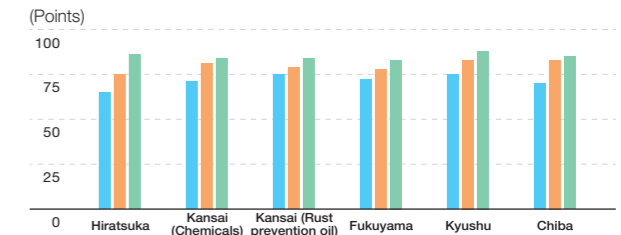
*The judgment was made through audits that followed internal evaluation procedures and standards.
(80 points or above Excellent plant, 60 points or above Certified plant)

Evaluation results of standardized process audits of domestic manufacturing plants

Results of evaluation of manufacturing and equipment conditions



Results of evaluation of visualization and identification



Legend: Blue = FYE 2021/3, Orange = FYE 2022/3, Green = FYE 2023/3

*Domestic manufacturing plants: Hiratsuka, Kansai, Fukuyama, Kyushu, and Chiba

Safety ensured by reducing hazardous work

We conduct risk assessments of our product manufacturing processes to reduce hazardous work. We engage in continuous activities, such as providing safety training and proposing improvements for reducing hazardous work to on-site workers, aiming to eliminate dangerous work.

Efforts to improve the working environment

Case 1: Improvement of label removal work at automatic cleaning of product containers



Labels remaining unremoved

Labels removed completely from 70% of the containers

Case 2: Improvement in the indication of relevant legal information on raw materials

Information on laws and regulations is indicated in the raw material receiving and inventory management systems, which has led to improved workability, response to investigations of legal regulation information, and compliance with laws and regulations.

Compliance initiatives

Automatic transfer of product inspection result

We are working to prevent human intervention and avoid risks posed by humans by automatically incorporating quality inspection results into our manufacturing and sales systems.

We have completed the introduction of this system at several of our plants. We will gradually expand this to other plants to promote further automation.

Corporate governance

Nihon Parkerizing regards corporate governance as one of the most essential management issues. We strive to ensure that corporate governance functions soundly by constantly developing the most appropriate management structure so the company can develop and grow soundly while considering all stakeholders.

Steps we have taken to strengthen governance

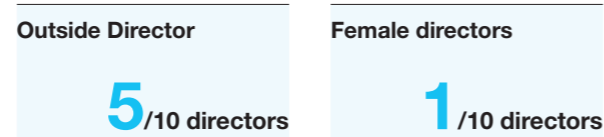
- 2016 — June 29 Introduction of a performance-linked stock compensation plan using a trust for directors
- 2017 — June 29 Transition from a company with a board of company auditors to a company with an audit and supervisory committee
- 2019 — June 27 Introduction of an executive officer system
- 2022 — August 5 Establishment of a Nomination and Remuneration Committee

Corporate governance structure

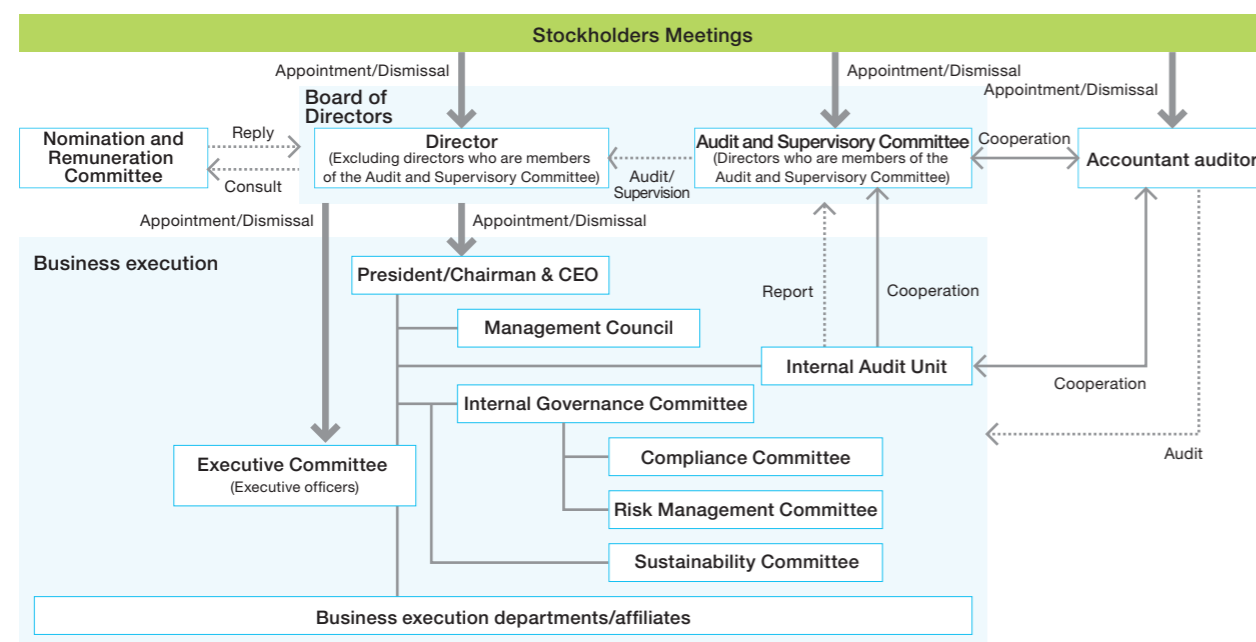
In 2017, we transitioned to a company with an audit and supervisory committee to strengthen our corporate governance and improve our corporate value by enhancing the audit and supervisory functions of the Board of Directors.

We have also introduced an executive officer system to separate the management decision-making and supervisory functions from the business execution functions, thereby accelerating decision-making, improving management efficiency, and clarifying responsibility for business execution.

Of our ten directors, five are outside directors. They are designated as independent directors under the Tokyo Stock Exchange (TSE) rules and registered with TSE. In addition, one of them is a female director.



Corporate governance structure (As of July 1, 2023)



Board of Directors

The Board of Directors consists of ten directors (including five outside directors) and meets monthly in principle. Kazuichi Satomi, Chairman, President, and CEO, chairs the Board of Directors. It deliberates on essential matters stipulated in the Articles of Incorporation and the Board of Directors Regulations. It makes management decisions to enhance the

long-term corporate value of the Group as a whole. The Board of Directors also supervises the status of business execution by separating the management decision-making and supervisory functions from the business execution functions and clarifying responsibilities.

Audit and Supervisory Committee

The Audit and Supervisory Committee comprises four members: one director and three outside directors. Masaharu Kubota, an outside director who is an Audit and Supervisory Committee member, chairs the committee. It meets monthly in principle. Directors who are members of the Audit and Supervisory Committee attend meetings of the Board of

Directors and express their opinions as appropriate. They also conduct audits, for instance, by examining essential documents, visiting business offices, and inspecting subsidiaries. In addition, accounting matters are regularly reported to the Audit and Supervisory Committee by the designated CPA.

Executive Committee

The Executive Committee consists of ten executive officers and meets monthly, in principle. Masayuki Yoshida, the Representative Director and Managing Executive Officer, chairs the committee. Its purpose is to discuss and resolve critical

executive policies and other matters based on the basic guidelines decided by the Board of Directors, as well as to discuss management matters to be submitted to the Board of Directors in advance and report as necessary.

Internal Governance Committee

To carry out internal control, we have established the Internal Governance Committee, chaired by the president and composed of directors, and the Risk Management Committee

and Compliance Committee as its subordinate organizations, aiming to build a more effective governance system that includes Group companies.

Sustainability Committee

We established the Sustainability Committee to strengthen our sustainability efforts, further enhance our corporate value in the future, and identify and address critical social issues on an ongoing basis.

on sustainability activity policies, promotion and progress management of various sustainability-related measures, and matters related to climate change, including critical issues (materiality) and KPIs.

The representative director chairs the Committee and consists of four directors and one executive officer. It deliberates

This Committee meets quarterly and annually reports its activities to the Board of Directors.

Nomination and Remuneration Committee

The Board of Directors' decisions on the nomination and remuneration of directors follow recommendations by the Nomination and Remuneration Committee. To improve the effectiveness of the nomination and remuneration of

directors, we have voluntarily established a Nomination and Remuneration Committee, which is chaired by an outside director, with most of its members being independent outside directors.

Expertise and experience of directors (skill matrix)

To ensure accurate and prompt decision-making and supervision toward the realization of our corporate philosophy and long-term vision, our Board of Directors has established a

skill matrix of knowledge, experience, and abilities required of directors. It intends to maintain a balance and diversity of skills on the Board of Directors.

Skills	Experience, knowledge, and abilities of the expected skills
Corporate management	Experience as a (representative) director of a company, management performance, and experience and knowledge in business management
Marketing/sales	Experience and knowledge in the marketing and sales field
Development/technology	Experience and knowledge in development and technology fields
International/global	Experience in overseas business, knowledge of international affairs, culture
Finance/accounting	Qualification as a Certified Public Accountant, experience and knowledge in the field of finance and accounting
Legal affairs/compliance	Attorney's license, experience, and knowledge in the field of legal affairs and compliance

Name	Corporate management	Marketing/sales	Development/technology	International/global	Finance/accounting	Legal affairs/compliance
Kazuichi Satomi	●		●	●		
Hiroyasu Tamura	●				●	
Masayuki Yoshida	●		●	●		
Yasumasa Fukuta	●	●				
Shimako Emori	●					●
Tatsuya Mori	●				●	
Masaharu Kubota						●
Hayato Hosogane	●	●		●		
Koji Chika	●	●				
Shigetaka Hazeyama				●	●	

Officers' remuneration

Policy for the determination of or the method for calculating officers' remuneration

At its meeting on March 22, 2021, our Board of Directors passed a resolution on a policy for determining the content of individual directors' remuneration. Our basic policy is to ensure that our directors' remuneration is linked to the company's performance, reflects their positions' responsibilities, and results in increasing corporate value sustainably. Remuneration for directors consists of monthly compensation, bonuses, and performance-linked stock compensation. Remuneration for outside directors and directors and members of the Audit and Supervisory Committee is monthly compensation only.

Amounts of bonuses are determined comprehensively by using operating income, which is an indicator of the business performance of our main businesses, as the primary index, and by taking into account changes from the same period of the previous year.

The performance-linked stock compensation plan is a system under which points are awarded based on business performance for each fiscal year, and compensation, equivalent to the accumulated points, is paid at the time of retirement. Whether or not points are awarded, and the number of points to be awarded, are determined each fiscal year.

Remuneration paid in FY2022

Executive classification	Total amount of remuneration (Million yen)	Total amount of remuneration by type (Million yen)			Number of eligible officers
		Fixed compensation	Performance-linked compensation	Stock compensation	
Directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors)	212	143	42	26	6
Members of the Audit and Supervisory Committee (excluding outside directors)	18	18	—	—	1
Outside Director	36	36	—	—	5

Evaluation of the effectiveness of the Board of Directors

Our Board of Directors conducts "a questionnaire of all directors on matters for improving the effectiveness of the Board of Directors", including the operation of the Board of Directors meetings, the content of agenda items, and the status of supervision of business execution. Each director's self-evaluation and opinions are collected and analyzed, and the Board of Directors receives the results.

As a result of the survey, we have confirmed that our Board of Directors is generally effective regarding the operation of the Board of Directors meetings, the sufficiency of prior

explanations of matters to be resolved, and responses to issues raised at the Board of Directors meetings, among other aspects. On the other hand, while we see specific improvements from the previous fiscal year, we confirmed the need to continue promoting sustainability management, including SDGs and ESGs, and to further enhance discussions on management strategies from a medium- to long-term perspective.

We will continue striving to improve the effectiveness of the Board of Directors, such as making improvements in issues.

Officers (As of June 30, 2023)



Chairman and President
CEO

Kazuichi Satomi

Attendance at the Board of Directors meetings
100% (12/12)

- April 1985 Joined the Company
- July 1987 Director of the Company
- January 2000 Managing Director of the Company
- June 2003 Senior Managing Director of the Company
- June 2005 Vice President of the Company
- April 2011 President of the Company
- June 2017 Chairman of the Company
- June 2022 Chairman and President of the Company (to present)



Representative Director
in charge of Administration Div. and
Group Management Div.

Hiroyasu Tamura

Attendance at the Board of Directors meetings
100% (12/12)

- April 1983 Joined the Company
- December 2009 General Manager of Accounting Dept. of the Company
- June 2015 Director and General Manager of Administration Div. of the Company
- June 2022 Director and in charge of Administration Div. and Group Management Div. of the Company
- June 2023 Representative Director and in charge of Administration Div. and Group Management Div. of the Company (to present)



Representative Director
in charge of Technical Div. and
Corporate Planning Div.

Masayuki Yoshida

Attendance at the Board of Directors meetings
100% (12/12)

- April 1987 Joined the Company
- April 2012 General Manager of First Research Center, Central Research Laboratories of the Company
- June 2013 President of PARKER SURFACE TECHNOLOGIES (SHANGHAI) CO., LTD.
- June 2017 Director and General Manager of Central Research Laboratories of the Company
- April 2018 Director and General Manager of Technical Div./Central Research Laboratories of the Company
- June 2022 Director and in charge of Technical Div. and Corporate Planning Div. of the Company
- June 2023 Representative Director and in charge of Technical Div. and Corporate Planning Div. of the Company (to present)



Outside Director
(Audit and Supervisory Committee Member)

Masaharu Kubota

Attendance at the Board of Directors meetings
100% (12/12)

- April 1989 Registered as Attorney-at-law Joined Daini Tokyo Bar Association
- April 1990 Chief of Jingumae Law Office (to present)
- June 2019 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)



Director
(Audit and Supervisory Committee Member)

Hayato Hosogane

Attendance at the Board of Directors meetings
100% (12/12)

- April 1983 Joined the Company
- November 2012 Department Manager of Chukyo Dept., Chemicals Div. of the Company
- June 2015 Director of the Company and President of Thai Parkerizing Co., Ltd.
- April 2019 Director and General Manager of Corporate Planning Div. of the Company
- June 2020 Director (Audit and Supervisory Committee Member) of the Company
- June 2022 Director (Audit and Supervisory Committee Member) of the Company (to present)



Director
in charge of Chemicals Div. and
Commercial Processing Div.

Yasumasa Fukuta

Attendance at the Board of Directors meetings*
100% (10/10)

- April 1989 Joined the Company
- July 2016 General Manager of Marketing Div. of the Company
- April 2019 General Manager of Chemicals Div. of the Company
- June 2019 Executive Officer and General Manager of Chemicals Div. of the Company
- June 2022 Director and in charge of Chemicals Div. and Commercial Processing Div. of the Company (to present)



Outside Director

Shimako Emori

Attendance at the Board of Directors meetings
100% (12/12)

- October 2002 Registered as Attorney-at-law
- September 2004 Registered as Patent Attorney
- March 2009 Established Ocean Law Offices (to present)
- April 2009 Associate Professor of Komazawa University Law School
- April 2017 Professor of Komazawa University Law School
- June 2019 Outside Director of the Company (to present)



Outside Director

Tatsuya Mori

Attendance at the Board of Directors meetings
100% (12/12)

- December 2002 Joined Aozora Bank, Ltd.
- July 2006 Joined Japan Asia Investment Company, Limited
- May 2010 Joined New Horizon Capital Co., Ltd.
- November 2012 Established Office-Prifiss
- June 2019 Outside Director of the Company (to present)



Outside Director
(Audit and Supervisory Committee Member)

Koji Chika

Attendance at the Board of Directors meetings
92% (11/12)

- March 2013 Executive Officer and General Manager of Marketing Planning Dept. of Nippon Life Insurance Company
- March 2015 Executive Officer and Deputy General Manager of Customer Service Headquarters of Nippon Life Insurance Company
- March 2017 Managing Executive Officer and General Manager of Head Office Osaka Corporate Marketing Dept. of Nippon Life Insurance Company
- April 2019 Representative Director and Vice President of SEIWA BUSINESS LINK CO. LTD
- June 2019 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)
- April 2020 Representative Director and President of SEIWA BUSINESS LINK CO. LTD (to present)



Outside Director
(Audit and Supervisory Committee Member)

Shigetaka Hazeyama

Attendance at the Board of Directors meetings*
100% (10/10)

- October 1997 Joined Chuo Audit Corporation
- April 2001 Registered as Certified Public Accountant
- February 2002 Joined Starbucks Coffee Japan Ltd.
- January 2007 Established Hazeyama Certified Public Accountant Office (to present)
- August 2017 Registered as a Certified Tax Accountant
- June 2022 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)

*This applies to Board of Directors meetings for the current fiscal year held after taking office on June 29, 2022.

Risk Management

The early detection and handling of risks is essential for the smooth operation and achievement of business. The Nihon Parkerizing Group is striving to develop and strengthen its risk management system to detect risks with the potential to impede the achievement of business objectives as early as possible and to respond promptly and appropriately when risks materialize.

System for driving risk management

We have established a Risk Management Committee under our Risk Management Rules. The risk management supervisors and risk managers, who play a critical role in the risk management system, are responsible for the overall

management of risks of all Group companies. Once a year, we conduct a risk survey to review our risks, examine means of identifying and tackling risks, and provide internal training.

Risk assessment and response measures

Risk assessment process

Step 1. Collecting risk information and identifying risks

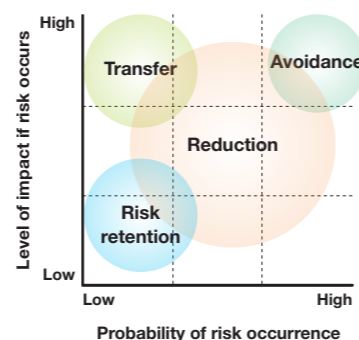
Collecting a wide range of risk cases from external information, in addition to risk survey results, and identifying risks that may have a significant impact on the company from among the collected risk cases

Step 2. Risk calculation

Calculating the severity of the identified risks. Quantitative or qualitative calculations are based on two factors: the likelihood of an event occurring (probability of occurrence) and the magnitude of the impact that will be given if an event occurs (level of impact).

Step 3. Risk assessment

Comparing the calculated risks with predetermined risk criteria and determining the need for actions and the level of importance



Decision on Remedies

We formulate measures to address each risk we have identified as significant.

Business continuity plan (BCP)

To fulfill our corporate social responsibility, we have prepared and regularly reviewed a business continuity plan (BCP) to minimize damage and ensure business continuity and an early recovery during a disaster or other emergency. We are also taking steps to strengthen our business continuity management (BCM) by conducting earthquake response drills, among other initiatives. In terms of disaster countermeasures, our basic policy is to (1) protect the lives of employees and their

families, (2) strive to preserve management resources, and (3) contribute to business continuity and early recovery, and we have established a disaster control manual and operate according to it. We have also introduced a system for confirming employees' safety and health status as part of our measures to tackle disasters and pandemic diseases. This system enables us to promptly check employee's safety and health status during an earthquake, pandemic or other emergency.

Information security

We take the following approaches to address information security risks that have been increasing in recent years, such as cyber-attacks and conventional information security risks.

Three approaches to information security measures

- 1 Establishing and continuing to review management systems and internal rules related to information security
- 2 Implementing and continuing to review technical and physical measures
- 3 Improving information security literacy through information security training and drills and continuing to review training plans*

*We are taking initiatives to raise information security awareness, including periodic training for officers and employees and drills on targeted e-mail attacks.

Compliance

The Nihon Parkerizing Group is committed to being a corporate group trusted by its stakeholders. For this purpose, we fulfill our corporate social responsibilities while complying with all laws and regulations in our business activities. Through our systems and initiatives, we strive to raise awareness of compliance issues and foster a sound corporate culture.

System for driving compliance

Under the Basic Compliance Rules, we have established a Compliance Committee to establish, maintain, and review our compliance system. Such efforts are also regularly reported to the Internal Governance Committee.

Promoting compliance

Recognizing the social responsibility that corporate activities provide, we have distributed a Code of Conduct for Executives and Regular Employees that defines the proper behavior expected of executives and employees. We ensure that all executives and employees in Japan and overseas are fully

informed of the Code of Conduct. We are thus fostering a corporate culture that does not tolerate misconduct. In addition, to prevent discrimination and harassment, we have established Employment Regulations and Anti-Harassment Regulations.

Internal whistleblowing system

The Group has established a reporting desk where employees can report and seek advice about non-compliance and facts suspected of non-compliance. To protect whistleblowers, we have established a system that maintains the

confidentiality of whistleblowing information, accepts anonymous whistleblowing, and otherwise complies with the Whistleblower Protection Act.

Training and awareness-raising activities

Activities for preventing corruption and harassment

The Nihon Parkerizing Group translates and distributes a compliance handbook and the Code of Conduct for Executives and Regular Employees in multiple languages so that Group employees in each country can understand them. In addition, we hold training sessions and conduct regular training and awareness-raising activities through e-learning and other means.

Quality compliance activities

To foster an awareness of compliance and quality, we have introduced a Compliance and Quality Enhancement Month to undertake various initiatives in December every year. In FY2022, we delivered the top message, "Handling numbers accurately and carefully." We put up posters, including ones showing the quality slogan. In addition, each department determined the themes of their issues and worked on remedies and improvements. Ten Group companies also joined the activities.

