Risk Management

Basic approach

The artience Group advances initiatives based on our understanding that identifying risks that may affect business continuity and addressing these risks promptly and appropriately to minimize the impact of the risks is an important task.

In line with the change of the name of the Company and the Company's philosophy in January 2024, we reorganized our policies and guidelines related to sustainability and established the Basic Policy on Risk Management and the Basic Policy on Development of Internal Control System.

Related Policies

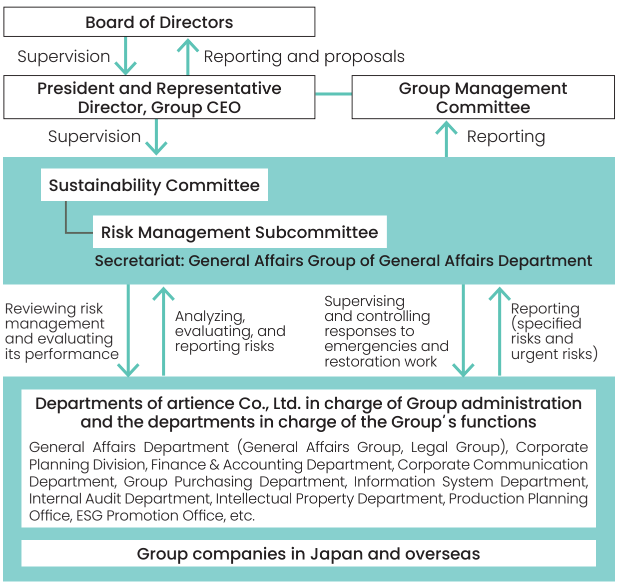
- Basic Policy on Risk Management (revised on January 1, 2024)
- Basic Policy on Development of Internal Control System (revised on January 1, 2024)
- Risk management action policy

WEB For information about the Basic Policy on Risk Management, the Basic policy on Development of Internal Control System, and the risk management action policy, visit our website and click on [Sustainability > Governance > Risk Management.]

Risk management system

The Risk Management Subcommittee, whose secretariat is the General Affairs Department, exhaustively and comprehensively manages the risks of the entire Group under the operating officer in charge of risk management (the chair of the Risk Management Subcommittee.) Each company and department of the Group are working to identify risks that are hidden in the changes in the social environment and in day-to-day operations to assess and study them, prevent risks from materializing and carry out measures to reduce risk-related damage.

Risk management system (FY2024)

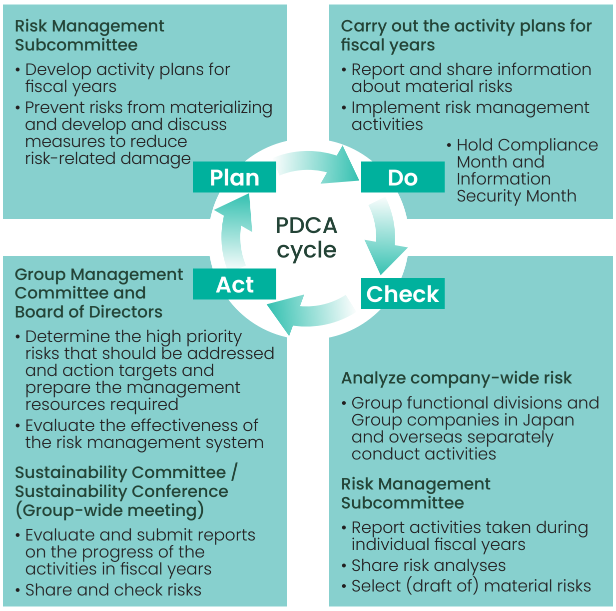


* Excerpts and additions from P.65 Sustainability promotion system (FY2024)

The Risk Management Subcommittee assesses the risks of each company and department based on the frequency of occurrence and severity, and creates and shares a risk map. The committee checks the progress and level of achievement of activities for the mitigation of serious risks. It reports Groupwide risks, which need to be addressed by the Group as a whole, to the Group Management Committee and the Board of Directors. If a new problem arises that could develop into a serious risk, we report to the Board of Directors and establish an emergency headquarters to address the risk.

Risk Management Process

Leveraging the risk management system, we review risks and implement a PDCA cycle to improve the quality of activities.



WEB For information about the implemented risk management activities, visit our website and click on [Sustainability > Governance > Risk Management.]

Internal controls

At the artience Group, we recognize that the improvement and utilization of the internal controls system is an important management issue. The Board of Directors has formulated the "Basic Policy on the Internal Controls System (revised on January 2024)," and we strive to put in place the implementation systems and monitoring systems needed to ensure that we carry out our business activities in an appropriate manner.

WEB For information about the Basic Policy on Development of Internal Control System, visit our website and click on [Sustainability > Governance > Risk Management.]

Risk Management

Typical business risks and our response

Representative risks that management recognizes could have a significant impact on the financial position, operating results and cash flows of the Group are as follows. (This is not an exhaustive list.)

In FY2023, there was no new risk of a significant adverse impact on the Group.

Category	Typical risks concerning the entire Group	Examples of our response to risks
① Risks related to overseas operations	• Changes in laws and regulations, and changes in tax systems that could have adverse effects • The adverse effect of inadequate social common capital on corporate activities • Unfavorable political factors • Social turmoil caused by terrorism, war, or infectious disease • Unexpected rapid change in the work environment	• Expanding business in worldwide and improving the balance of business fields, aiming to build an earnings structure that is unlikely to be affected by economic trends or other risks in individual countries • Establishing supply chain management that enables a flexible response to risk
② Risks related to system fault, information leakage, loss, and damage	• Suspension of operations due to system failure • Occurrence of the leak, loss, or damage of information due to a computer virus or security breach	• Ensuring that important systems to be redundant, securing backups of these systems and establishing a computer security incident response team (CSIRT) system • Enhancing the information management system and training staff to reduce human risks
③ Risks related to quality and product liability	• Accidents or complaints caused by the quality of products • The 2024 Problems in Logistics	• Ensuring compliance with legal regulations related to quality and safety and carrying out activities to strengthen quality assurance • Participating in "*White Logistics*" (initiatives aimed at creating a healthy and safe working environment in the logistics industry) and cooperating with other companies to improve logistics
④ Risks related to natural disasters and epidemics	• Difficulties in procuring raw materials, hindrance to production activities, stagnation of global consumer activities and stagnation of logistics functions in the supply chain, etc., due to natural disasters, such as major earthquakes, heavy rains and epidemics in Japan and other countries	• Creating manuals tailored to specific risks and providing regular training to tackle them • Establishing a disaster control system and systems for complementary production in Japan and overseas, through business continuity management (BCM)
⑤ Risks related to the sourcing of raw materials	• The increase of prices and supply shortages due to the fluctuation of market conditions, natural disasters, accidents, govenment policies, and other issues • Compensation for damages due to the delayed or suspended supply of raw materials from suppliers and the resulting failure to supply products to customers	• Sourcing raw materials for appropriate prices by increasing and accuracy of market price and demand forecast • Securing stocks of raw materials according to their characteristics by sourcing them from a wide range of suppliers
⑥ Risks related to exchange rate fluctuations	• Dramatic fluctuations in exchange rates	• Taking steps to reduce exchange rate fluctuation risks, including exchange forward contracts and the balancing of foreign currency receivables and payables
⑦ Risks related to general legal restrictions	• Changes to legal restrictions in Japan and overseas and the resulting changes in markets • Litigation or other legal procedures that seriously affect the Group's businesses, including litigation related to environmental issues, product liability, and patent infringement	• Collecting information about legal restrictions in Japan and overseas and taking measures to address them • Review of compliance-related policies and implementation of measures by the Compliance Subcommittee, a committee dedicated to compliance matters • Managing the overall Group with internal control system and improving the effectiveness of the management
⑧ Risks of environmental burdens	• Changes to environmental laws and regulations in Japan and overseas and the resulting changes in markets • Increased expenses caused by delays in taking measures to reduce environmental impact • Additional investment and changes oin business portforio in response to social environmental requirements (such as the shift away from plastics and the carbon neutrality, etc.)	• Advancing environmental measures (including the reduction of CO_2 emissions, the development of VOC-free products, and the recycling of materials including chemical recycling) by reviewing manufacturing processes in the long-term management plan • Strengthening the management of chemicals and systematizing management
⑨ Risks related to climate changes	• Changes to climate change-related laws and regulations in Japan and other countries and the resulting changes in markets • Increase in costs due to delays in responding to social demands, such as the reduction of CO_2 emissions	• Disclosures based on the TCFD (Task Force on Climate-related Financial Disclosures) recommendations, and promoting measures to address climate change
⑩ Risks related to common debt collection	• Difficulty in collecting of trade receivables and other claims due to the worsening of customers' financial conditions	• Regular review of customers' credit risk • Implementing measures to protect receivables and strengthening credit management
⑪ Risks relating to impairment losses on non-current assets	• Impairment losses on non-current assets due to changes in economic conditions, etc.	• Having discussions in the Group Management Committee and the Board of Directors on investment plans including the amount that is planned to be invested
⑫ Risks related to human resource	• Labor shortage due to changes in social environment	• Carrying out workstyle reforms and other measures • Implementing DX and other measures to streamline operations
⑬ Risks related human rights	• Impairment of social trust and suspension of transactions due to human rights issues • Lawsuits and conflicts due to human rights issues	• Conducting human rights training and activities to raise awareness of human rights • Carrying out efforts to address human rights issues in the supply chain

* Details of business risks are shown in the securities reports.