

Revised in July 2023

### **[Business risks]**

Business risks of the Group described in this section are determined as risks that may significantly affect investors' decisions as of this Securities Report's submission date. The Company's Board of Directors has deliberated matters in this section and will be reflected and updated by the Board every year.

#### **<Risk management system of the Group>**

The Group's mission is to manufacture various foods, pharmaceutical ingredients, etc., out of resources, including marine products, and supply them to people worldwide. We strive to maintain stable production and sales to fulfill such duties. From such a point of view, the Group has formulated the "Risk Management Rules." Our Risk Management Committee (Note 1) takes charge of building and operating the risk management system and reports to the Board of Directors periodically to prevent risks that hinder our business activities from arising, minimize the occurrence of losses and use our best efforts to preserve management resources and ensure business continuity. Risk groups significantly impacting the Group areas are identified as priority risks (Note 2), and a dedicated subcommittee has been set up for such risks.

(Note 1) Risk Management Committee: Consists of all Executive Officers and is chaired by the Representative Board Member, President & CEO.

(Note 2) Priority risks: "Quality assurance," "environment," "occupational safety and health," "compliance," "information security," "post-disaster business continuity planning (BCP)," etc.

### **1. Impact of climate change (temperature rise worldwide)**

In recent years, climate change has become more serious worldwide, and its effects are becoming more and more pronounced. Extreme weather and natural disasters caused by global warming may seriously impact the Group's various business activities, including raw material procurement, production, logistics, and sales. In addition, new regulations and changing market trends in response to climate change could threaten our business model. The Group recognizes the risks of climate change and will take proactive measures, including reducing CO2 emissions. In November 2021, we announced our support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and joined the TCFD Consortium. In addition, after identifying risks and opportunities related to climate change and assessing business and financial impact through scenario analysis, we disclose information by the four items recommended in the TCFD recommendations: governance, strategy, risk management, and metrics and targets. For details, see "2. Business Status 2: Approaches and Initiatives on Sustainability (2) Theme Issues Climate Change Response to Actions (Initiatives for TCFD Recommendations)."

### **2. Risks concerning procurement of raw materials and others**

Marine products, the Group's primary raw materials, have been frequently affected by fluctuations in the marine product market due to increases and decreases in catch and aquaculture production. Still, furthermore, the changes in the marine and terrestrial environment caused by climate change may reduce the yield of raw materials such as marine and agricultural and livestock products, and raw material prices may soar. In addition to climate change, overfishing and illegal operations of marine resources, overdevelopment, environmental destruction in agriculture, and tightening regulations on animal welfare in livestock products may lead to procurement risks for the Group. Furthermore, there is a risk that external factors such as political and economic conditions, deterioration of security due to terrorism and conflict, and social turmoil will cause soaring raw material prices and energy costs related to procurement and production. According to the United Nations announcement in 2022, the world population is expected to exceed 9.7 billion by 2050. The Group's Business For this company, increasing food demand due to population growth may lead to market expansion and opportunities. Still, on the other hand, competition for resources may become fierce, making it challenging to procure stable raw materials. Procurement risks due to such changes in the

external environment may affect the income and expenditure of each business. Recognizing the importance of securing sturdy natural materials and product supply, the Group strives to ensure stable resource access through alliances with global suppliers, M&A, and research and technological development in aquaculture. We will continue to promote measures to secure durable raw materials and supply products.

### **3. Risks of human-induced marine pollution**

In recent years, the impact of containers and packaging of beverages and foods, indispensable for daily life, and plastics used in business activities on the marine environment have been taken up as social issues. The Group conducts business activities mainly in the food and marine products business, and if the severity of this problem increases, it may affect its business continuity. Recognizing that marine pollution caused by plastic waste may lead to the destruction of marine ecosystems and the reduction of marine life and that it is an important issue that affects the procurement of raw materials and food safety in the food and fishery businesses, we are promoting measures against the use of plastics in our entire industry. Since fiscal 2019 we have established a subcommittee under the Sustainability Committee to carry out activities.

#### **(1) Marine Environment Subcommittee**

The subcommittee is promoting activities that lead to zero plastic outflow into the marine environment, such as changing the material of plastic fishing gear, formulating and operating management rules to prevent the outflow of fishing gear, and supporting external organizations in surveys of plastic leakage into the ocean.

#### **(2) Plastics Subcommittee**

We are working to manage the progress of plastic reduction results by promoting the 3Rs (reduce, reuse, recycle) + R (use of recycled materials) of plastic resources. Specific activities include reducing the amount of waste plastic generated from production sites, reducing the volume of containers and packaging, changing to biomass plastics and paper materials, and considering reducing the use of plastics in logistics materials.

### **4. Risks in an expansion of overseas business**

As one of the Group's main strategies, we aim to accelerate the overseas expansion of the Marine and Food businesses in Europe, build a business foundation in Asia, and expand the overseas development of pharmaceutical raw materials in the Fine chemicals business. Suppose risks such as disputes arising from political issues or changes in laws and regulations materialize in the countries where we operate. In that case, it may affect our business's basic strategy and income and expenditure. In addition, although we strive to gather information on changes in overseas markets at an early stage and respond promptly, a change in the situation that exceeds expectations may affect our business income and expenses. The main possible risks are:

- Changes in laws and regulations of each country, foreign exchange risk, country risk (occurrence of politics, conflict, terrorism, etc.)
- Litigation and protectionism in each country
- Head, Response to Sustainability Issues, Changes in Environmental Protection Policies and Activities of Protection Organizations

### **5. Risks concerning intellectual property**

The Group owns intellectual property that is important for the Group's business, such as maturation control and breeding know-how for cultured fish in the aquaculture business and advanced purification technology for EPA (eicosapentaenoic acid), an essential omega-3 fatty acid in the Fine chemicals business. As the importance of intellectual property increases due to the Group's overseas expansion and technological innovation in each industry, a leak of intellectual property that should be the Group's know-how could impact its business income and expenses. In addition, failure to patent and convert technologies developed by the Group into know-how could lead to a decline in the business's competitive advantage

and affect the Group's business strategy and income and expenditure. In addition, if the Group is found to have infringed on the intellectual property rights of a third party through lawsuits, etc., the Group may be subject to injunctions on product sales and business activities, claims for damages, etc., which may affect the Group's business strategy and income and expenses. In addition to promoting the patenting and know-how of the developed technologies and comprehensive information management described below, we are working to educate employees of the R&D department on intellectual property and thoroughly enforce confidentiality agreements.

## **6. Risks concerning infringement of human rights**

Companies that operate globally are required to respect human rights by international standards established by the United Nations and the International Labor Organization (ILO), and the Group conducts business activities by these standards by laws and social expectations related to human rights. In addition, the Group emphasizes minimizing negative impacts on rights holders (human rights entities that companies should respect) by identifying potential human rights risks in the value chain and addressing those risks. In recent years, ESG investment has become more widespread and expanding, and human rights violations caused by the globalization of corporate activities have been scrutinized. Recognizing that human rights violations caused not only by the Company but also by companies, including the value chain, create risks for the company, such as damage to the brand and lead to divestment, we are promoting the following initiatives.

(1) Establishment of a system to promote respect for human rights.

In September 2020, we formulated the Nissui Group Human Rights Policy based on the United Nations Guiding Principles on Business and Human Rights. We positioned respect for human rights as a management issue. In fiscal 2021, we established a new Human Rights Subcommittee under the Sustainability Committee to improve the system and work on human rights due diligence, engage in dialogue with stakeholders, promote understanding among employees of the importance of respect for human rights, and promote corporate activities that consider the human rights of all rights holders.

(2) Sustainable procurement

We have established the Sustainable Procurement Subcommittee under the Sustainability Committee to promote initiatives in line with the Nissui Group Basic Procurement Policy. We have formulated supplier guidelines for suppliers consisting of four items: "legal compliance," "respect for human rights," "safety and health," and "consideration for the environment," and have them respond to a self-check sheet after holding briefing sessions. In addition to aggregating and graphing the response results, we also return feedback sheets with comments focusing on awareness and initiatives for "consideration for human rights" and "environmental considerations" to inform each company what they want to see strengthened in the future. In addition, to confirm the intent and actual situation of the responses, we visit suppliers and conduct online hearings, ensure the issues of each supplier, give advice on improvements, and share good examples from other suppliers.

(3) Elimination of harassment

The Group has established and disseminated the Charter of Ethics, which stipulates respect for individuals and prohibits discrimination and harassment. In addition, we have established a harassment desk in the Company's Human Resources Department to raise awareness by conducting group training and e-learning for all employees, and we have also established harassment consultation desks at each Group company in Japan to conduct group training with dedicated personnel to raise awareness among Group companies. In response to the expansion of the Power Harassment Prevention Law to small and medium-sized enterprises from April 2022, in March 2022, the president once again strongly called for the eradication of harassment as a message to all Group employees in Japan and overseas. In fiscal 2022, we conducted harassment prevention training for all section managers who may be the perpetrators of harassment by checking their awareness of themselves.

## **7. Risks related to securing and developing human resources**

To achieve the Group's management plan over the medium to long term, including overseas business development, the Group believes that it is necessary to secure and develop human resources who will be responsible for the management with the ability to create, plan and operate businesses. These global and professional human resources can play an active role overseas. However, as the declining birthrate, aging population, and declining population in Japan, it is becoming difficult to secure excellent human resources in Japan, so it is expected that it will be challenging to ensure the necessary human resources if we fall behind in responding to diversity that allows diverse human resources to work. Regarding securing human resources in Japan, we hire experienced employees and new graduates with management and business-related skills. Through the "comeback system," we are working to secure excellent human resources by providing employees who have retired from the company with opportunities to rejoin the company if they wish to work again. In addition, to provide employees with many years of experience with opportunities to use their skills and play an active role, we have established a senior employee system for employees who wish to continue employment after reaching the mandatory retirement age 60. Regarding the work of persons with disabilities, we will deepen mutual understanding of disabilities within the company while complying with the statutory employment rate and promote further active participation. In addition, to secure human resources, it is essential to consider appropriate treatment, and to the annual regular salary increase based on the evaluation system, we have increased base pay for two consecutive years in 2022 and 2023 and revised the bonus table to reflect the improvement in business performance in recent years. We will continue to operate and modify the wage system to reward their abilities and activities. To enable these diverse human resources to fully demonstrate their respective skills and grow further, as described in "2nd Business Status 2: Approach and Initiatives Related to Sustainability (2) Response to Thematic Issues Human Capital," we will develop and operate an integrated education and training program from joining the company to retirement based on the human resource development policy, according to roles, positions, ages, etc. We will strive to create a comfortable working environment by promoting health and productivity management, work style reforms, and the advancement of women.

## **8. Risks concerning the quality and safety of products**

The Group recognizes that the occurrence of quality accidents or quality fraud, such as falsifying labeling of products and products, can damage customers' trust in the Group as a whole, damage the brand, and significantly impact business. The philosophy of the Quality Assurance Charter states we claim that it will "deliver safe, secure, and valuable quality products to each customer." To respond to this risk, we have established quality policies and action guidelines in the Quality Assurance Charter and have established a system for quality education for employees, the establishment of standards and mechanisms for strengthening preventive management at production plants, quality confirmation at the time of product design, quality confirmation of raw materials used, and labeling verification. In April 2023, to strengthen the quality assurance capabilities of the Group, we revised the Quality Assurance Charter and newly added employee education and instillation to create a culture in which all officers and employees think about food safety and quality risks from the customer's perspective (fostering a food safety culture).

### **(1) Quality Assurance Committee and Customer Satisfaction Improvement Subcommittee**

The Quality Assurance Committee, chaired by the president, meets monthly to share customers' opinions and formulate and thoroughly implement necessary internal standards and rules. In addition, we have established the Customer Satisfaction Promotion Subcommittee, chaired by the General Manager of the Customer Service Center, under this committee. We are working to improve product design and package labeling based on customer feedback.

(2) Nissui Quality Assurance Standards and Plant Certification System

As standards to ensure the safety of the quality and safety of manufactured products, we have established various "Nissui Quality Assurance Standards" that are stricter than related laws and regulations. Based on the Nissui Plant Certification Standards based on the HACCP (Note) concept, these standards include water usage standards, chemical management standards, insect control management standards, resin parts standards, raw material standards, packaging material standards, allergen contamination prevention standards, and food defense standards. Nissui brand products are produced only at factories certified according to the Nissui Factory Certification Standards, and even after certification, the Quality Assurance Department conducts regular audits and provides factory guidance. In addition, to share information and solve problems among factories, we regularly hold meetings with plant management and factory quality control managers.

(Note) HACCP: Abbreviation for Hazard Analysis and Critical Control Point. Sanitation management techniques to manage critical processes from the arrival of raw materials to shipping products to remove or reduce hazards such as contamination with food-poisoning bacteria and incorporation of a foreign substance which have been identified in advance and thereby secure the safety of products. The Codex Alimentarius Commission, jointly established by the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) of the UN, issues HACCP and recommends that countries adopt them.

(3) Promotion of obtaining FSSC 22000 (Note) certification

Sixteen of our directly managed and affiliated company factories in Japan have acquired FSSC 22000 (Note) certification, an international food safety management system standard.

(Note) FSSC 22000: Food Safety System Certification. A management system standard for food safety developed by the Foundation FSSC 22000. A measure approved by the Global Food Safety Initiative (GFSI), a non-profit organization mainly focused on the retail food industry, is one of the food safety certification schemes.

(4) System for central management of raw material information

For all raw materials, we obtain from suppliers the "Raw Material Specification Assurance Certificate" prescribed by the Company that describes the formulation, derived raw materials, production area, genetic modification information, allergens, standards, food additives, pesticides, veterinary drugs, feed additives, etc., and register and centrally manage them in the "Raw Material Management System." We confirm safety while collecting information from raw material manufacturing sites.

(5) Testing systems and improvement of testing precision through the Excellent Lab program

To establish an inspection system to confirm the safety of everything from raw materials to products, we have installed an inspection room at a Nissui-certified factory and have also found a system that can conduct inspections at three bases: the Food Analysis Department (Tokyo Innovation Center), Qingdao Nissui Food Research & Development Co., Ltd. (Qingdao), and the Quality Control Section of Thailand (Samut Sakhon). The Food Analysis Department is developing "Excellent Lab" activities to maintain inspection accuracy and improve inspection rooms' inspection levels at Nissui-certified factories. Specifically, we regularly update and distribute inspection manuals, use the medium dedicated to the Excellent Lab in common with all laboratories, and conduct quality control tests for all inspectors once a year to confirm inspection accuracy. Furthermore, to improve the inspection skills of each inspector, we are working to improve the level of inspectors through on-the-job training programs, level-specific certification seminars, and regular Excellent Lab Promotion Meetings.

(6) Management of overseas plants by Qingdao Nissui Food Research and Development Co., Ltd. and Quality Control Section Thailand

Qingdao Nissui Food Research and Development Co., Ltd. and Quality Control Section Thailand conduct quality management of products of the Company produced in Nissui's certified plants in China and Southeast Asia, provide quality guidance to production plants, carry out sampling

testing and pre-export testing of products and hold group training for persons in charge of quality management at each plant on an annual basis.

(7) Responses in case of quality incidents

The Group has established a system in which product collection, ascertaining of circumstances, investigation of the cause, customer handling, and other responses are taken promptly and appropriately in the event of a quality incident.

**9. Risks posed by falling behind in the development of new technologies in response to changes in awareness and needs of consumers**

Consumers' living needs and lifestyles are changing from moment to moment, such as the increasing frequency and severity of natural disasters and increasing consumer awareness of preserving the global environment due to artificial marine pollution. The increase in the world population, the declining population, the aging population in Japan, and the demand for products that meet the needs of quick meals, convenience, and health consciousness is increasing. In addition, new technologies are being updated daily in response to the emergence of markets for alternative protein products worldwide. If we stay caught up in responding to these changes in consumer awareness and needs and developing advanced technologies, there is a risk that this could affect the Group's growth. The Group's basic policy for research and development is to invest in R&D while always considering the needs of consumers' daily lives and to solve the sustainability of the global environment and people's healthy lives through food innovation. In 2011, we invested approximately 7.5 billion yen to build the Tokyo Innovation Center in Hachioji City, Tokyo, to strengthen our R&D capabilities, which are the cornerstone of our business development, and consolidate the Central Research Laboratory, the Institute of Food Function Science, the Product Development Department, the Technology Development Department, and the Food Analysis Department. From cutting-edge basic research to commercialization with safety confirmation, we are building a system that can smoothly promote cooperation between departments and respond quickly to a wide range of consumer awareness and needs changes. The Oita Marine Research Center (Oita Prefecture), the Central Research Institute, established in 1994, is also engaged in a wide range of research, from basic research specializing in aquaculture to applied research at the business level, in collaboration with the Tokyo Innovation Center. In fisheries, we invest in research and aquaculture in seafood processing technology. In aquaculture, we are engaged in research that will lead to the growth and expansion of the fishery business and the creation of new companies, such as breeding farmed fish from a medium- to long-term perspective, expanding land-based aquaculture, developing new fish species, and advancing aquaculture technology through data science. In the food business, we conduct research and development of food processing technology, including vegetables and chicken, research on the use of plant protein, and basic research on taste and aroma. In addition, we have announced that pollock predominantly increases lean mass (a guideline for muscle mass) without particular exercise just by eating it, and we are developing products using 100% pollock surimi as part of the "Fast-twitch skeletal muscles Protein" series. In the food business, in addition to the conventional development system, we have established the "Future Creation and Development Council" to adopt new development methods based on "design thinking" that focuses on "human-oriented" and are working to meet the needs of daily life 5 to 10 years from now.

**10. Information security risks**

The Group holds customers' personal information in our mail-order business. To prevent leakage or loss of such personal data and other important information related to management, business, research, etc., the Group has set up the "Information Security Working Group" under the Risk Management Committee to formulate the "Basic Policy on Information Security" and other rules and regulations, strengthen the framework for managing systems, provide education and training for employees periodically and thereby thoroughly implement information security management. In addition, as we conduct Group management, the business of the entire Group may be affected once data leakage or system destruction occurs within the Group. Given the situation, the Group has been working to average out our levels in the areas of the enforcement

of the Basic Policy on Information Security and rules for users, technical measures, and subjective measures, including education and training within the Group companies through such efforts as precisely defining what to be achieved by each step and holding meetings of the Nissui Group's IT departments periodically. In the future, the Group will conduct periodic checks on whether the information security measures of Group companies are functioning effectively and strive to improve and enhance efforts to secure information security continuously. Furthermore, as the circumstances where human resources saving and efficiency improvement through collaboration among production, logistics, and sales systems continue to progress at each site, it is expected that the impact of the suspension of a system on business activities would increase regardless of the reason such as physical destruction of the system caused by a natural disaster, etc., a prolonged power failure or an attack from an external source. Accordingly, the Group is taking measures to anticipate system failures and systems for emergency response.

#### **11. Risks posed by the spread of infectious diseases**

About infectious diseases, the Omicron variant, which is less pathogenic to a certain extent for the novel coronavirus (COVID-19), has become mainstream, and moves are underway to resume economic activities, such as changing the position of the novel coronavirus (COVID-19) under the Infection Act. However, due to the emergence of unknown viruses and highly infectious mutant strains of the new coronavirus, a new pandemic can rapidly spread infections and cause many seriously ill people. Although it is difficult to predict the impact on our company in the event of a new pandemic, there is a possibility that the stable supply of products and products may be hindered, such as the suspension or reduction of production at fishing and aquaculture and food production bases, and the difficulty of procuring raw materials at suppliers and in the process of logistics. In addition, if the fisheries market deteriorates due to a decrease in demand or costs increase due to securing personnel to continue stable production, it may affect the bottom line, and travel restrictions may delay the overseas expansion of business and lead to a decline in governance due to lack of communication with overseas Group companies. In response to the spread of the new coronavirus, to fulfill its mission of continuously and stably supplying our products to people around the world, the Group has established a task force headed by the President and Representative Director. It has taken various measures such as thorough infection control measures, promotion of telework at home, and prompt restoration of base functions where many affected people have occurred. In a new pandemic, we will take similar measures quickly and flexibly to minimize the impact on business continuity.

#### **12. Risks related to financing**

To conduct business activities smoothly, the Group selects the optimal financing method from a variety of means, including direct financing, to procure stable funds at low costs, but due to rapid fluctuations in financial markets and failure to achieve business plans due to various risk factors, financing may be limited, and working capital may be insufficient. The Company and its domestic and overseas group companies procure funds from financial institutions based on the yen, U.S. dollars, and euros according to each country's business scale. Still, the procurement methods, suppliers, and periods are appropriately dispersed, and in Japan, we have established a commitment line denominated in yen from multiple financial institutions. In Japan and North America, we have introduced a cash management system (CMS) in each area, and we have exchanged surplus funds within the group companies in other places among the group companies. In addition, sudden fluctuations in interest rates may increase or decrease financing costs, and interest expenses may increase significantly when interest rates rise. However, we have reduced the risk of interest rate fluctuations by flexibly responding to such measures as raising the ratio of long-term fixed funds in response to economic conditions and other factors based on a 1:1 balance between long-term fixed funds using interest rate swaps and floating short-term funds.