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Chemistry for a Friendly Future

Since our founding, Sakai Chemical Industry Co., Ltd. has aimed to enrich people’s lives through the power of chemistry. Our journey began back in 1918 with the production of zinc oxide. Since then, we have released numerous inorganic chemical materials such as barium salts and titanium dioxide. From the 1950s, we have expanded our business through various applications including plastic additives, pharmaceuticals, catalysts, cosmetic materials, and electronic materials. Through these applications, we have enriched the lifestyles of people in each era. Even so, as expressed by our company mission of “Chemistry for a Friendly Future,” we are never satisfied with the status quo. Instead, we are always contemplating how chemistry can create an even brighter future. Gone are the days in which chemistry is used for convenience and efficiency; rather, chemistry is now expected to take on greater responsibility. How can our Group contribute to issues such as environmental problems, resource depletion, and the realization of a sustainable society? What kind of environment and society can we pass on to the next generation? The answers to these questions are at the foundation of “Chemistry for a Friendly Future.”

The Sakai Chemical Group has reached a critical juncture in our history. We must transform our Group in conjunction with the major changes occurring throughout society. Our Board of Directors and executive officers have

invested countless days in discussing the optimal direction to be taken by the Sakai Chemical Group going forward. The conclusion reached by directors and executives is that the Sakai Chemical Group must aim to be an “excellent company capable of contributing to society with Smart Material.” This means we will use chemistry to find definitive answers to the three themes of “protecting nature (protecting the global environment),” “supporting the development of an advanced information society (working for a more equal society),” and “supporting people’s health.”

Our Group is always eager to take on new challenges. In order to fulfill our mission of “Chemistry for a Friendly Future,” we work earnestly every day to develop materials that reduce environmental impact and production technologies that contribute to safe and secure manufacturing. Our Group also strives to contribute to the sustainable development of society as a whole by widely disseminating these materials and technologies. Of course, we are committed to bringing even greater benefits to society. In order to fulfill our responsibilities as a corporate citizen, we actively work to coexist with local communities, promote the growth and happiness of our employees, and educate the next generation. Our Group believes that “Chemistry for a Friendly Future” requires more than technology—indeed, the passion and initiative of people are essential for success.

CEO MESSAGE

Medium-Term Management Plan “Transformation: BEYOND 2030” Aiming to be an excellent company capable of contributing to society with Smart Material

In May 2024, the Sakai Chemical Group announced the Medium-Term Management Plan “Transformation: BEYOND 2030.”

An essential step in formulating the plan was to image people’s lives in the year 2050. For example, we envisioned a society where the virtual world and real world coexist. Of course, based on the premise that society is run by people, human interaction and communication would continue in such a dual society. We also envision a society in which lifestyles will continue to diversify, and where remote and real communication will coexist. With these scenarios in mind, we held in-depth discussions on contributions that the Sakai Chemical Group could make through chemistry. These discussions included the Board of Directors and executive officers.

As a result, we resolved to concentrating the Sakai Chemical Group’s management resources in the three fields of “environment and energy,” “electronics,” and “life science and healthcare.” We also committed to transitioning to a business portfolio that combines contributions to people’s healthy lives with high profitability.

Based on this determination, we have defined Smart Materials as finished goods and services that meet certain evaluation criteria in the three fields mentioned above in terms of the degree of contribution to our ideal future and the degree of contribution through the Group’s technology. The Sakai Chemical Group’s long-term goal is to become an excellent company capable of contributing to society with Smart Material.

The first step to achieving this long-term goal is to dispose

of our current low-profit businesses. In Transformation: BEYOND 2030, the Group set the immediate vision of “growing through the dual pillars of inorganic and organic chemistry and shifting to businesses that contribute to a society looking to the future,” and we are resolutely working to replace our business portfolio.

Transformation: BEYOND 2030 calls for the Group to invest an increasing amount of management resources in our growth businesses: the electronic materials business, the cosmetic materials business, and the organic chemicals business. Conversely, we are considering measures to increase the efficiency of our titanium dioxide business. Specifically, in fiscal 2025, we will stop business related to pigment-grade titanium dioxide, which has particularly low profitability. On the other hand, through bold measures to improve the profitability of the zinc business, resin additives business, catalyst business, consigned processing business, hygienic materials business, and medical business, we will enable these businesses to generate stable cash flows for the future.

This replacement of our business portfolio is a painful but necessary decision for the Group. In particular, our employees will face a drastic change in their working environment and a reassessment of their career plans. In recognition of these challenges, our entire Group will work together and make every effort to successfully carry out these structural reforms. These efforts will include enhanced reskilling and career education for employees.

In terms of finances, Transformation: BEYOND 2030 defines the need to act with a strong focus on capital efficiency, thereby enabling the Group to quickly achieve an ROE that exceeds our cost of capital. Specifically, in addition to the aforementioned business portfolio replacement, we will implement measures such as reducing assets and reviewing our shareholder return policy. As for asset reduction, we will gradually reduce inventories with the aim of shortening the cash conversion cycle (CCC). We will also sell idle non-current assets.

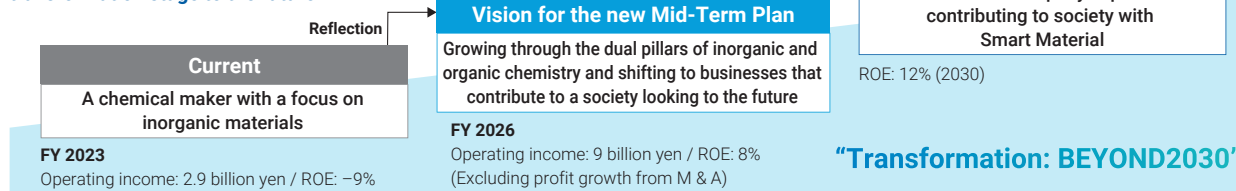
Furthermore, we have changed our shareholder return policy in consideration of the balance between growth and return. We will revise the previous dividend payout ratio target of 30% or higher to a dividend on equity (DOE) of 3%. Moreover, we will consider additional shareholder returns if profit plans are exceeded.

The Group is also increasing opportunities for constructive dialogue with investors by publishing this report (integrated report) and enhancing IR/SR activities. We seek to optimize our capital cost by correctly understanding the expectations and opinions of investors, while at the same time ensuring that investors fully understand our business, management strategy, ESG initiatives, and other policies.

Through these efforts, the Sakai Chemical Group will achieve operating profit of ¥9 billion and an ROE of 8% in fiscal 2026. Going forward, the Group aims to achieve an ROE (return on equity) of 12% by 2030.

Positioning for the Medium-Term Management Plan “Transformation: BEYOND 2023”

Focusing intensively on shifting to high-value-added products as the transformation stage to the future



Human capital combined with core technologies
Promoting total participation management in which all members of the Sakai Chemical Group are moving forward on the same page

As expressed by the name of the Medium-Term Management Plan "Transformation: BEYOND 2030," the Sakai Chemical Group now needs to enact a transformation. Our Group can only change if each and every employee also undergoes a personal transformation. Through Transformation: BEYOND 2030, we aim to become a strong company that is based on employees who believe in themselves and relationships of trust among employees, and that can grow sustainably. We will achieve these goals by having each employee of the Sakai Chemical Group take the initiative to solve individual and organizational problems.

First, we emphasize the importance of having management provide information to employees, forming closer relationships through dialogue, and encouraging each employee to consider the meaning and purpose of their work. The Group will establish a system that realizes diverse working styles for employees and a system for self-design of future careers.

In April 2024, based on a proposal from a group of employees, we launched the Human Capital Committee. The founding members of the Human Capital Committee recognized issues which needed to be addressed, obtained buy-in from colleagues, and took bold action from the same perspective as management. I fully support the Human Capital Committee's efforts and look forward to cooperating toward our goals.

One specific initiative of the Human Capital Committee at Sakai Chemical Industry Co., Ltd. is *Syain kai* meetings, which give opportunities for employees to fulfill a leading role. *Syain kai* meetings are held monthly as a forum for

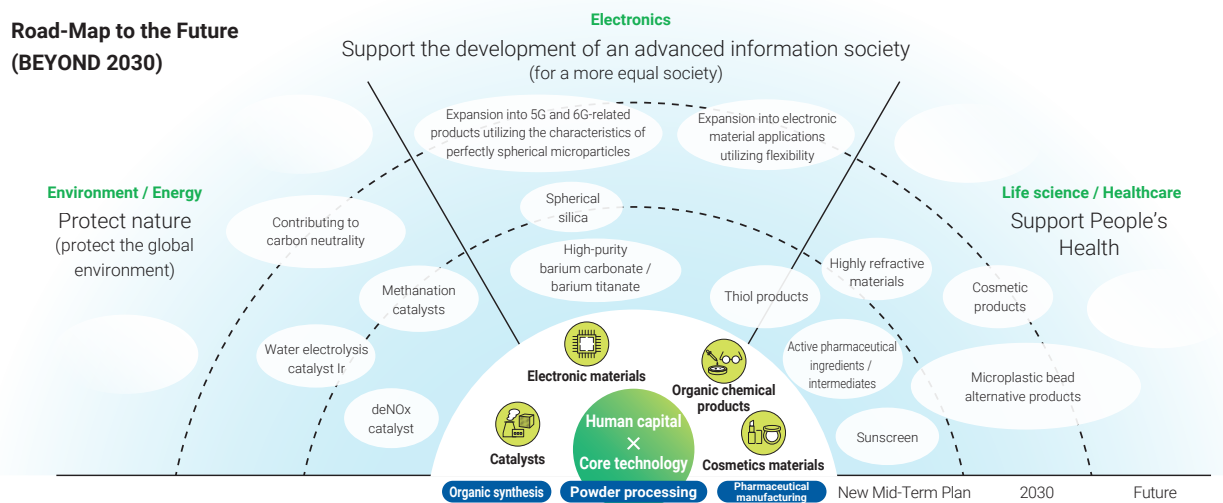
dialogue between management and employees. Participants share the goals and current situation of the Company and its businesses. I hope that these employee-led *Syain kai* meetings will encourage employees to consider the relationship between their own work and the Company's performance.

In addition to human capital, core technologies are another important element to become an excellent company capable of contributing to society with Smart Material. Through its original businesses of zinc oxide and titanium dioxide, the Sakai Chemical Group has acquired a wealth of technology and know-how for handling inorganic and powdered substances. Going forward, the Group's main business will shift to electronic materials, cosmetic materials, and organic chemicals. Even so, the technologies we have accumulated so far will undoubtedly continue to fuel the growth of our businesses in the future.

It is also important to use core technologies to create new businesses. To develop new businesses, we need a healthy exchange of wisdom and opinions from diverse human resources. Accordingly, it is extremely important to ensure diversity, equity, and inclusion and psychological safety in the workplace. Furthermore, as part of creating an environment from which new businesses can be born, we will increase personnel exchanges between group companies and increase personnel transfers across departments such as sales, manufacturing, and corporate. This will facilitate the accumulation of diverse knowledge and experience within the organization and individual employees.

Fortunately, the seeds (technology and know-how) of new businesses are already beginning to sprout. Promising themes have emerged in the fields of environment and energy, electronics, and life sciences and healthcare. To help these budding themes grow big and strong, all employees of the Sakai Chemical Group will share common values, respect each other, and build closer relationships of mutual cooperation.

Road-Map to the Future (BEYOND 2030)



Robust management system for protecting quality, safety, and the environment throughout the Group

I believe that transformation has both offensive and defensive aspects. In terms of defense, I would particularly like to emphasize delivering safety and security to stakeholders. As an operator of chemical and medical businesses, quality, safety, and the environment are of utmost importance and take priority over everything else. However, in the past few years, there have been a series of serious problems and accidents related to quality and safety. Examples are a violation of the Pharmaceuticals and Medical Devices Act at Kaigen Pharma Co., Ltd., an explosion and fire at Sakai Chemical Industry Co., Ltd.'s Yumoto Factory, and a fire at a titanium dioxide factory. Once again, I would like to offer my sincere apologies for the concern and inconvenience caused by these incidents.

The Group recognizes the seriousness of these incidents. Accordingly, we have positioned the rebuilding of quality and safety management systems as a key issue for the Sakai Chemical Group, and are making every effort to prevent recurrence.

Kaigen Pharma Co., Ltd. was subject to administrative sanctions for violating the Pharmaceuticals and Medical Devices Act in December 2023. The company is currently working to reform its management structure, strengthen education for executives and employees, and establish a compliance management system. I also believe that the root cause of the recent quality issues lies in issues with group governance and corporate culture. In our previous approach, group companies acted independently in pursuit of business growth. Although this approach was effective in enabling rapid decision-making and detailed management judgment, it ultimately resulted in the Group losing control over quality and safety. Going forward, we will

strengthen group governance and establish a system that enables Sakai Chemical Industry Co., Ltd. to demonstrate strong leadership, especially in terms of quality and safety.

The Group also needs to change our corporate culture. Recent quality misconduct occurred because we failed to uphold the basic principle of emphasizing quality even if it means stopping shipments. Management must continue to praise and encourage employees who stop shipments due to quality issues. Unfortunately, failure to provide such feedback was at the core of the quality issues. This series of scandals involving quality is not the fault of employees; rather, it is the responsibility of management. In response, management will continue to act and communicate appropriately, and to promote activities for fostering a culture of quality.

In regard to safety, Sakai Chemical Industry Co., Ltd. experienced a series of explosions and fires at its Yumoto Factory (May 2021) and its Onahama Manufacturing Site

(March 2023). We will never forget the severity of these accidents. Everyone from management to on-site employees will work together to ensure thorough implementation of safety measures and to strengthen safety education. The Group will take every possible measure to prevent accidents. For example, we are upgrading our equipment for safer work without compromising productivity and adopting a preventive maintenance approach that updates equipment before abnormalities occur.

Efforts toward quality, safety, and the environment often conflict with short-term sales and profits. However, in the medium to long term, positioning these concepts as our top priority will lead to sustainable improvements in corporate value. That is why the management team must exercise leadership and continue to send a strong message to all stakeholders to prioritize quality, safety, and the environment, even if it means sacrificing immediate sales and profits.

Complete Quality/Safety Issue Recurrence Prevention

Rebuild a quality and safety management systems and strengthen group governance

| | Kaigen Pharma Order to suspend business (violation of PMD* Act) | Yumoto Factory zinc dust plant explosion and fire accident | Onahama Manufacturing Site Titanium dioxide plant fire accident |
|--------------------------------|--|--|--|
| Date of occurrence | December 22, 2023 (administrative disposition) | May 11, 2021 | March 30, 2023 |
| Cause | <ul style="list-style-type: none"> Inadequate management and supervision system Closed organizational culture (Kaigen Pharma) | <ul style="list-style-type: none"> Accumulation of deposited particles Damage to rotor | <ul style="list-style-type: none"> Malfunction of special equipment |
| Individual measures | Kaigen Pharma: <ul style="list-style-type: none"> Management structure reform Reorganization of the entire company structure and system establishment Resource management and job rotation Strengthening education for executives and employees Establishment of a compliance management system (Clarification of responsibilities and scope of duties of directors, internal reporting system promotion, and fostering a quality culture) | <ul style="list-style-type: none"> Removal of dust accumulated during processing Improvement of dust removal frequency | <ul style="list-style-type: none"> Improvement of similar equipment for defect resolution |
| Entire company measures | Sakai Chemical: <ul style="list-style-type: none"> Promotion and supervision of improvement plans (Increase the number of external directors dispatched to Kaigen Pharma to two for strengthened monitoring) | <ul style="list-style-type: none"> (1) Thorough safety awareness: Thoroughly instilling awareness that "just because something hasn't happened yet doesn't mean it's safe" <ul style="list-style-type: none"> Regular communication of top messages (not letting accidents be forgotten) (2) Safety measures: Implementation of safety and health activities by everyone from management to site workers <ul style="list-style-type: none"> Resolution of issues identified in external risk assessments Conducting training to demonstrate more effective risk management Continuously review safety and health standards | |

* PMD Act: Law concerning the assurance of quality, efficacy, and safety of pharmaceuticals and medical devices, etc.

Initiatives for diversity, equity, and inclusion Creating an environment where diverse backgrounds, knowledge, and experience can be utilized

Finally, I would like to once again discuss our human resources and organization. I admire employees who possess motivation, ambition, and the courage to take risks. I would like to do everything in my power to support and encourage such employees. Until now, the Group had failed to provide enough opportunities for employees to realize their dreams and take on challenges. Going forward, I want to make significant changes to our operations and provide fair opportunities so that everyone can pursue meaningful work and challenges, regardless of gender, nationality, age, or career. For example, at Sakai Chemical Industry Co., Ltd., the opportunity to work overseas was mainly provided to managers. Non-managerial employees and young employees did not have such a chance. However, we have revised our personnel system to create a path for employees who wish to work overseas. At our overseas subsidiaries, we are promoting human resource development so that local hires can grow into important positions.



We also recognize that diversity of knowledge and experience is needed to revitalize the Group. At the management level, we have staffed the Board of Directors with outside directors who possess extensive experience in global management, quality control of electronic materials and pharmaceuticals, and corporate finance. This has increased its effectiveness of the Board. In terms of on-site measures, we are increasing the number of experienced technical personnel we hire and sending researchers to external research and academic institutions.

It is important to foster a culture of inclusion while pursuing diversity. We aim to create an organization that accepts all people, eliminates discrimination and exclusion, and allows everyone to participate equally. I believe that innovation is born from an environment in which diverse human resources can thrive. Therefore, we will promote interaction between employees with diverse backgrounds.

Changing the awareness of employees toward transformation Pursuing an autonomous organization where each employee drives change

The Sakai Chemical Group is currently facing a tough business environment. However, I view challenge as a new opportunity, not as a headwind. Both management and employees are essential for taking advantage of this opportunity. Each individual must act as a leader, promote change, and take personal responsibility for driving change in the Group. No matter how small the theme, great value as a team is created when each employee takes the initiative to act.

Going forward, everyone in the Group will create the story of transformation. Employees will be faced with major changes that they have never experienced before. This may

result in feelings of confusion and anxiety—perhaps even anger or sadness. Nevertheless, it is precisely when facing such difficulties that each employee must remember their purpose, take a central role, and provide leadership in their organization. To encourage such awareness, I will continue to engage in dialogue with employees and do my best to create an environment where each individual can maximize their abilities. The growth of our Group is extremely important. However, growth should not come at the expense of employees. Enabling employees to work with peace of mind and live fulfilling lives will lead to the sustainable growth of the Group.

The Sakai Chemical Group will become an autonomous organization in which each employee drives change. We will pursue the sustainable growth of the Company and the happiness of all stakeholders, including customers and employees, and create “Chemistry for a Friendly Future” in which everyone can feel pride.

External evaluations

The Onahama Manufacturing Site of Sakai Chemical Industry Co., Ltd. has received a gold rating for four consecutive years in a sustainability evaluation conducted by EcoVadis (France). The Sakai Manufacturing Site has received a silver rating for two consecutive years. In the 2023 survey, companies in the top 5% of all surveyed companies were awarded a gold rating, and companies in the top 15% were awarded a silver rating.

