

Risk management **Group governance**



In the past few years, there have been a series of quality and safety-related accidents and problems, such as the explosion and fire at Sakai Chemical Industry Co., Ltd.'s Yumoto Factory, the fire at the titanium dioxide factory of the Onahama Manufacturing Site, and the scandal at Kaigen Pharma Co., Ltd. These incidents have significantly damaged the trust placed in the Company by society. I would like to offer my sincere apologies. 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 working to prevent recurrence through measures such as strengthening governance.

Progress in rebuilding the quality control system

Following Kaigen Pharma's being subject to a business improvement order for violating the Pharmaceuticals and Medical Devices Act, we formulated an improvement plan that includes

Causes of quality and safety issues and measures to prevent recurrence

	Kaigen Pharma Co. Ltd. Business suspension order and business improvement order resulting from violations of the Pharmaceuticals and Medical Devices Act*	Yumoto Factory zinc dust plant, Sakai Chemical Industry Co., Ltd. Explosion and fire accident	Onahama Manufacturing Site, Sakai Chemical Industry Co., Ltd. Titanium dioxide plant fire accident
Date of occurrence	December 22, 2023 (administrative disposition)		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 Malfunction of special equipment
Individual measures	Kaigen Pharma Co. Ltd. <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) 	Sakai Chemical Industry Co., Ltd. <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"> Removal of dust accumulated during processing Improvement of dust removal frequency Improvement of similar equipment for defect resolution
Entire company measures	<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 		

* Pharmaceuticals and Medical Devices Act: Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices

corrective measures and measures to prevent recurrence. This plan was based on guidance from administrative authorities and recommendations on preventing recurrence from the Special Investigation Committee.

We also established an Improvement Plan Promotion Headquarters with the President and Representative Director of Kaigen Pharma as the director and the Head of Manufacturing and Sales as the deputy director. We are currently engaging in various initiatives for developing sustainable measures to prevent recurrence and for ensuring a stable supply of pharmaceuticals and other products that can be used with confidence.

The Sakai Chemical Group will properly manufacture and inspect products that comply with the statutory inspections required by law and the specifications and quality agreed upon with customers. We constantly strive to provide safe, high-quality, and reliable products and services.

Progress in rebuilding the safety management system

We deeply apologize for the inconvenience caused to many people, including those affected by the accident, local residents, and customers. We are determined to never let such an accident happen again, and are continuing our activities to prevent accidents.

Sakai Chemical Industry Co., Ltd. has set "fires and explosions" as a major risk for our entire group and is working to reduce that risk. In addition, we designated the date of the explosion and fire in the zinc dust manufacturing plant at the Yumoto Factory as Safety Declaration Day. Every year, our president sends a message to all employees on that day.

In addition to ongoing efforts against fires and explosions, we also conduct safety patrols at the factories of each domestic group company. During these patrols, we confirm that measures are being taken against past workplace accidents and that thorough efforts to prevent recurrence are being implemented.

Source of value creation (capital)

Risk management **Compliance** **Crisis response** **Business risks**

Compliance and risk management system

Sakai Chemical Industry Co., Ltd. has established the Compliance and Risk Management (CR) Committee as an organization directly overseen by our president. The committee promotes compliance and risk management activities. Furthermore, the Compliance Promotion Subcommittee and Risk Management Subcommittee operate as subordinate organizations of the CR Committee.

Diagram of promotion structure for compliance and risk management at Sakai Chemical Industry Co., Ltd.



Risk management activities

From among the risks that have a significant impact on business operations, we determine and manage company-wide important risks each fiscal year. For fiscal 2024, we have selected three themes as significant company-wide risks: information management, establishment of an initial response system in the event of an emergency, and proper management of chemical substances (toxic and hazardous substances).

Compliance promotion

We believe that each employee’s high awareness of compliance and continued engagement in business activities in a fair and honest manner will contribute to improving corporate value. Based on this concept, we have implemented various training sessions, video viewing sessions, compliance handbook reading sessions, and other opportunities for raising awareness. We will continue to implement these sessions in fiscal 2024. Our main activities in fiscal 2023 were as follows.

- **Whistleblowing**
There were seven whistleblowing reports. We dealt with all the reports appropriately in accordance with the regulations.
- **Information security incidents**
There were 10 reports, none of which were serious.
- **Corruption incidents**
There was one report and it was not serious.
- **Compliance training**
Training for core employees: 587/662 people (89%), training for managers: 133/133 employees (100%)

BCM (business continuity management) and BCP (business continuity plan)

Sakai Chemical Industry Co., Ltd. has set a basic policy for BCM. We also formulated BCMS (Business Continuity Management System) regulations and a BCP. We emphasize effectiveness in operation and have strengthened training such as safety confirmation drills and drills for using stockpiled materials. In particular, from the perspective of prioritizing human life, we review safety confirmation methods and conduct repeated training.

Basic Business Continuity Management (BCM) Policy

1. Always put the security of people’s lives first.
2. Strive to prevent secondary disasters so as not to inconvenience local communities.
3. In the event of a disaster, work for the recovery of affected areas in collaboration with local communities, local governments, business partners, etc.
4. In the event of a disaster, reduce the risks of customers going elsewhere, losing market share, lowering corporate value, etc., through actions such as avoiding suspending important operations or, even if business activities are suspended, by striving to resume the operations within the target recovery time.

Information management

Sakai Chemical Industry has established a company-wide information management system and formulated information-related rules such as Information Management Rules, which define the basic method of managing confidential corporate information, and Information Security Rules, which define the appropriate handling of electronic information assets. Furthermore, we periodically hold education and training on security.
We will continue to implement technical, administrative, operational, and employee-focused measures to address diversifying information security risks