

## Corporate governance

### Interview with outside directors



**Yoshikazu Ito**

Outside Director

**Hiromi Wada**

Outside Director

**Mitsunori Matsuda**

Outside Director

**Hisao Miyagawa**

Outside Director

We interviewed four outside directors in regard to the effectiveness of the Board of Directors, nominations and successor development for directors, and issues for sustainable growth

#### **Q. How will you improve the effectiveness of the Board of Directors going forward?**

**Ito:** At meetings of the Board of Directors, we hold thorough, fair, and reasonable discussions of each and every agenda item. I believe that discussion heightens the effectiveness of the Board of Directors. We must also constantly consider the optimal composition of the Board of Directors while recognizing the strengths and weaknesses as a team.

#### **Q. What are your thoughts on the nomination of directors and the development of successors?**

**Ito:** Nomination of directors and the development of successors are important management issues. However, we must consider human resources in a broader way. It is important to

establish various mechanisms for the certification and development of core human resources, and to recognize people who have the ability and motivation to garner expectations from others.

It is also essential to establish a human resources committee that will continuously follow up on core human resources. These are also important issues for consideration by the Nomination and Compensation Committee. Therefore, we will continue in-depth discussion on these issues in the future.

#### **Q. What are your thoughts on the compensation system?**

**Ito:** The Nomination and Compensation Committee proposed revising the compensation system for directors and other officers with an eye toward our Medium-Term Management Plan “Transformation: BEYOND 2030.” The new system adds non-financial items to the existing evaluation of operating profit margin and cash generating ability.

We believe that this revision is progress in terms of consistency with the Company’s current situation and management plans. Going forward, we must continue to flexibly change our system in response to the demands of the times.

#### **Q. In your opinion, what are the key issues for the sustainable growth of the Sakai Chemical Group?**

**Ito:** Under our Medium-Term Management Plan “Transformation: BEYOND 2030,” we are working to address the Sakai Chemical Group’s key issues. In order to advance our transformation to the next stage, it is key to develop the dynamism for expanding from a materials-centered company to consumer products (B2C) company, to strengthen our customer orientation, and to reform our profitability. Although there has been increased discussion among directors in regard to consumer products, we have not yet been able to determine a clear direction for the Company or to consider specific projects. Therefore, we will continue discussing consumer products as a key issue.



**Yoshikazu Ito**

Outside Director

Chairman of the Nomination and Compensation Committee

Ito has been involved in production technology and quality control for many years at a food manufacturing company that requires strict quality control, and possesses a wealth of management experience as a top executive.



**Hiromi Wada**

Outside Director  
Member of the Nomination and Compensation Committee

Wada possesses management experience through being involved in software development and quality control at a general electric manufacturer, and serving as director of a development center.

**Q. What do you think about discussions held at meetings of the Board of Directors?**

**Wada:** Meetings of the Board of Directors have an atmosphere in which everyone feels free to voice their opinion. Discussions are held freely and openly. However, we often ran out of time in the midst of passionate discussion. In response to this problem, since fiscal 2023, we started creating separate time apart from board meetings. This separate time allows for thorough discussion, which is beneficial in terms of effectiveness.

**Q. What are your thoughts on the nomination of directors and the development of successors?**

**Wada:** The Company's current program for developing human resources is insufficient, particularly in terms of utilizing external talent.

Currently, the Company mainly promotes

employees who are familiar with its businesses and have a track record of running those businesses. Of course, such employees are valuable human resources who deserve promotion. However, this cannot be the only path for successor development if the Company expects to achieve further business development through the active participation of diverse human resources. I would like to see the Company transform into one that makes use of diverse human resources, including management experts and experts in organization and human resource development in a broad sense.

**Q. In your opinion, what are the key issues for the sustainable growth of the Sakai Chemical Group?**

**Wada:** I believe that the key is ultimately human resources. I think it's necessary to make use of diverse human resources and increase productivity. The Sakai Chemical Group has created many products based on insights gained in R&D, as well as the challenges and needs of customers as identified by its sales team. Maximizing these strengths will lead to further enhancement of corporate value. It is essential to improve operational efficiency and streamline operations. It is also key to increase the productivity of each and every employee.

To achieve these goals, I believe that it is important for management to determine the best course of action and the appropriate changes to be made.

**Q. What is your evaluation for the effectiveness of the Board of Directors?**

**Matsuda:** I feel that the effectiveness of the Board of Directors has improved dramatically over the past two years. Outside directors speak freely from their respective experiences and external perspectives, as well as from a medium- to long-term viewpoint. The president and other executive directors in the Company listen sincerely to different opinions. There is a positive attitude of being willing to adopt good ideas, even if those ideas are different. I believe that board meetings function effectively for discussing management issues.

**Q. What are your thoughts on the compensation system?**

**Matsuda:** There has been a shift from evaluation and compensation based on evaluations that were biased toward single-year earnings to a system that reflects a medium- to long-term perspective, a shareholder perspective, ESG, and other factors. In general, I believe that the new form of evaluation is appropriate. I cannot definitively state that the current level of compensation is sufficient; however, once the Company has achieved its Medium-Term Management Plan and is at a stage where it can aim even higher, I believe that compensation should be revised to a level appropriate for an excellent company for all officers, managers, and general employees.

**Q. In your opinion, what are the key issues for the sustainable growth of the Sakai Chemical Group?**

**Matsuda:** The bulk business of titanium dioxide and inorganic chemicals has long supported the profits of the Sakai Chemical Group. This bulk business is approaching the end of its lifecycle, and the entire Group is undergoing a transformation in its business model. In order to continue providing value into the future, the current management team has begun the challenge of building a new business model that utilizes DNA of a company that has existed for over 100 years.

To succeed, it is essential that all Group employees take personal responsibility and participate in the challenge. I believe that reforming corporate culture based on changes in the awareness of each and every employee is currently the most important issue.



**Mitsunori Matsuda**

Outside Director  
Member of the Nomination and Compensation Committee

Matsuda possesses extensive management experience through work in CMC (Chemistry, Manufacturing and Controls) management and organizational management for many years at pharmaceutical companies where strict quality control is required.



**Hisao Miyagawa**

Outside Director

Miyagawa possesses extensive practical experience in capital markets and a wealth of knowledge and research achievements in business administration, particularly in corporate finance theory.

**Q. Director Miyagawa, you were appointed as an outside director of the Company in fiscal 2024. Upon taking on the position, what aspects of the Sakai Chemical Group’s management are you focusing on?**

**Miyagawa:** There are two main approaches to business strategy: one that focuses on a company’s management resources and one that focuses on industry positioning. The Sakai Chemical Group has clear strengths in terms of management resources, such as human resources and technological capabilities. However, I am focusing on the strategic nature of positioning; that is, how to compete in the industry. Positioning is akin to the concept of finding space and

attacking, which is a common strategy in sports such as soccer and rugby. Going forward, it will be important for the Sakai Chemical Group to clarify to shareholders and investors how its competitive advantage, as seen from our positioning, creates a system that generates profits.

A manufacturer is a complete corporate entity that encompasses all the elements of business administration—from purchasing and processing to commercialization and sales. By paying close attention to the flow of money and goods, it will surely be possible to identify various spaces to utilize the Group’s strengths; in other words, strategic concepts. I will carefully consider such concepts moving forward. From a third-party perspective, it is an interesting corporate group with a promising future.

**Q. What are your aspirations as an outside director?**

**Miyagawa:** From an academic standpoint, I am considering the application of scientific thinking and perspectives to management. Specifically, I will consider governance from the following scientific perspectives.

The first perspective is “clarifying causal relationships.” Does the Company’s organization clearly state the basis for its decision-making? Has the correctness of those causal relationships been sufficiently considered?

The second perspective is the “principle of reproducibility.” Science clarifies experimental methods and data for reproducing results. This guarantees that

anyone can freely try to reproduce the desired results. Is information open in the Company’s organization? Is everyone given a fair chance to use that information to accomplish something?

The third perspective is “guaranteeing criticism and refutation.” Scientific theories are constantly exposed to criticism and refutation. Theories develop through repeated experiments. The same is true in corporate organizations. Is free criticism and refutation always guaranteed in the Company’s organization? Are there people on-site who can properly criticize and refute? Is criticism and refutation taken seriously? Are proper objective explanations provided in response?

Organizations that can answer these three questions are less likely to have governance problems. Conversely, no matter how well-established a system is, problems will arise if these questions cannot be answered. Systems are not the only important element of governance; indeed, the organizational culture is also key. Although it may seem that culture does not change, there is actually a surprising amount of room for improvement in some areas.

Science provides people with the opportunity and power to think. However, science is not all-knowing. Scientific thinking provides people with the courage and wisdom to think and make decisions on their own while supported by basic principles. I hope to utilize this kind of thinking and culture in the discussions at the Company.

**Nomination and Compensation Committee**

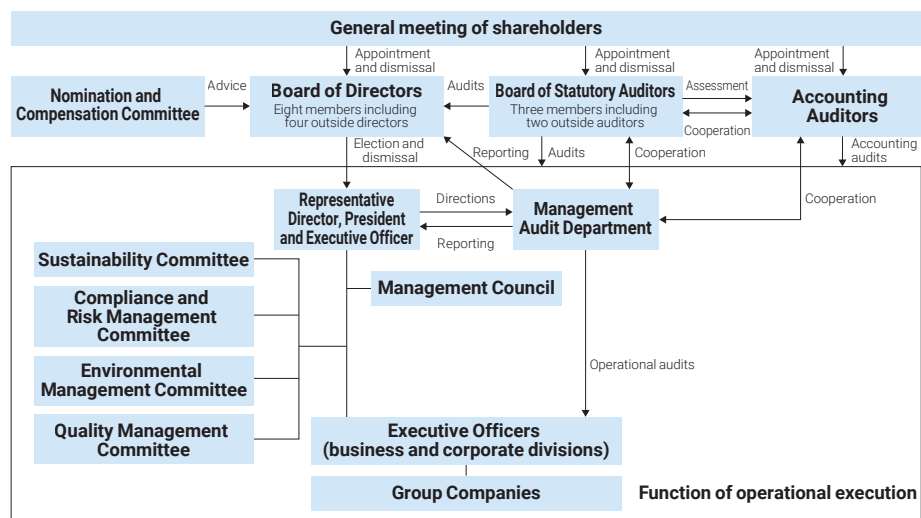
The Company has established a Nomination and Compensation Committee consisting of five members, the majority of whom are independent directors. A chairperson is selected from among the independent outside directors.

The Nomination and Compensation Committee mainly deliberates on the following matters and proposes the contents of its deliberations to the Board of Directors.

- (1) Matters related to the appointment and dismissal of directors, etc.
- (2) Matters related to succession planning and training for directors, etc.
- (3) Matters related to compensation for directors, etc.
- (4) Other matters that the directors deem necessary regarding the appointment and dismissal of directors, etc., compensation, etc.

### Corporate governance system

Sakai Chemical Industry Co., Ltd. has adopted the form of a company with an audit and supervisory board. We recognize the enhancement of corporate governance as an important management issue. Accordingly, we aim to increase corporate value by conducting business activities under a transparent and fair management system and pursuing the interests and satisfaction of stakeholders.



As of June 30, 2024

### Skill matrix of the Board of Directors

Skills	Yagura	Okamoto	Hattori	Magara	Ito	Wada	Matsuda	Miyagawa	Definitions of skills
(1) Corporate management	○				○		○		Skills in detecting current trends and implementing structural changes, including business reforms, business expansion, and the selling of businesses, based on one's experience of serving as CEO of a Sakai Chemical Industry subsidiary or another company
(2) R&D and production technology		○		○	○	○	○		Skills in creating new businesses based on one's mastery of R&D, manufacturing, quality control, etc.
(3) Business strategy and marketing	○			○		○		○	Skills in working as a person responsible for business strategy based on one's mastery thereof
(4) Finance and accounting			○		○			○	Skills in accurately assessing the Company's business performance, making right investment decisions, and communicating effectively with the capital market
(5) Human resources and organizational administration	○				○	○	○		Skills in organizational development and personnel management based on one's mastery of human resources and organizational administration
(6) Legal affairs and risk management	○		○						Skills in addressing obvious business and management risks based on one's mastery of legal affairs concerning corporate activities
(7) ESG and the SDGs	○	○	○	○		○		○	Skills in addressing obvious business and management risks based on one's mastery of legal affairs concerning corporate activities

### Compensation for directors (and other officers)

The basic policy for the compensation system for directors and auditors is to promote the sharing of value with shareholders, provide objectivity and transparency to fulfill accountability, consider a level of compensation for securing and retaining excellent human resources, and promote the sustainable growth of the Sakai Chemical Group and the increase of corporate value in the medium to long term.

#### Compensation system for directors

Application	Base compensation	Bonus (proportion assuming a 100% payment rate)	Restricted stock compensation
Executive directors	50%	30%	20%
Directors (excluding outside directors)	60%	30%	10%
Outside directors	100%	-	-

<ul style="list-style-type: none"> <li>The amount of base compensation is determined according to the position and responsibilities of each director, and is paid monthly</li> <li>From the perspective of ensuring independence, the compensation of outside directors consists of base compensation only</li> </ul>	<ul style="list-style-type: none"> <li>The amount of payment varies depending on the performance in each business year and the degree of achievement of the Medium-Term Management Plan</li> <li>The amount of payment is determined based on the final evaluation of three evaluation items, within a range of 50% to 130% of the prescribed amount according to position</li> <li>In principle, the bonus payment amount will be zero if there is a consolidated or non-consolidated ordinary loss</li> </ul>	<ul style="list-style-type: none"> <li>The transfer restriction period is 20 years, and the transfer restriction of the allocated stock is lifted when the director resigns</li> <li>The number of shares allocated is determined according to the amount of monetary compensation claims decided by the Board of Directors according to each director's position and responsibilities</li> <li>The total amount of monetary compensation claims shall be within ¥120 million per year, separate from the base compensation</li> <li>The total number of restricted stocks shall be within 100,000 shares</li> </ul>
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Evaluation items	Initiatives	Evaluation weight
(1) Performance indicators (consolidated and non-consolidated)	Operating profit margin, operating profit amount, operating CF earned amount	60%
(2) Non-financial items	Initiatives for the four areas listed in materialities	20%
(3) Priority themes	Initiatives for priority themes set for each fiscal year	20%

#### Compensation for corporate auditors

Compensation for corporate auditors consists of base compensation only. This is because corporate auditors are responsible for auditing the performance of duties across the entire Sakai Chemical Group.

Please see our website for more details. URL <https://www.sakai-chem.co.jp/jp/ir/governance/>