

Building a Transparent and Strong Management System

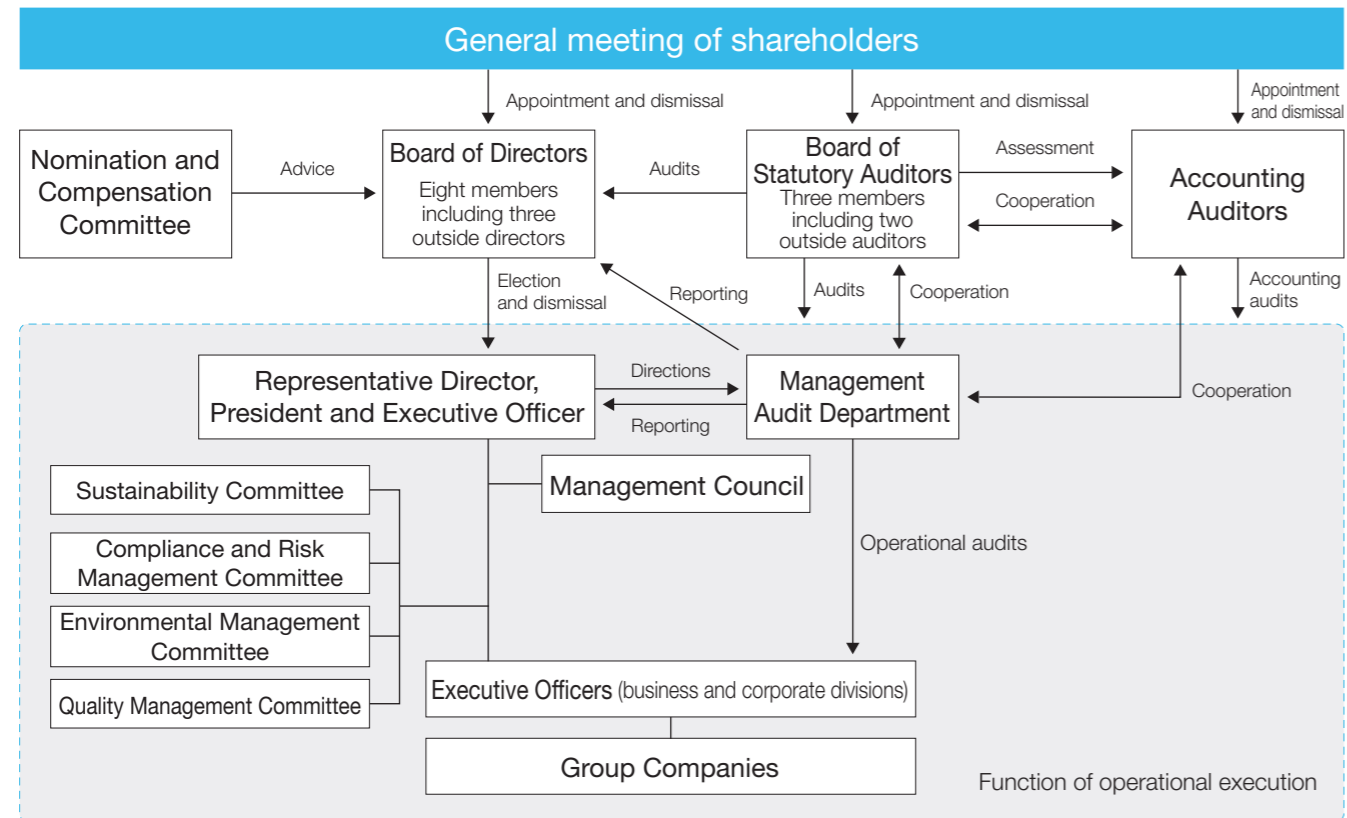
Corporate Governance

Corporate governance structure

Sakai Chemical Industry has adopted a system for a company with a board of statutory auditors. The three members of the Board of Statutory Auditors, including two permanent outside auditors, play their roles from a neutral and objective standpoint, based on their vast professional experience and extensive knowledge, by asking questions at meetings of the Board of Directors, giving advice to directors, and exchanging opinions with directors. They also cooperate with the Company's department in charge of internal audits and accounting auditors in ensuring that the auditing function is fulfilled completely. In addition, on June 28, 2022, the Company appointed an auditor in reserve in case the number of the Statutory Auditors required by law is no longer met, in order to achieve perfect operation of the system.

The Board of Directors comprises eight members (as of the end of June 2023). Three of them are outside directors, each of whom has worked in the food industry, at a general electrical appliance manufacturer, or in the pharmaceutical industry and has extensive experience in corporate management. To ensure that the Company will fulfill its mission "Chemistry for a Friendly Future," the Board of Directors makes important decisions on business management and supervises its members' execution of duties. Since FY2021, the Company has adopted an executive officer system and clearly defined the executive officers' responsibility and authority for operational execution in order to make the Company's management more agile and strengthen its corporate governance. For the Basic Policy on Corporate Governance and the Corporate Governance Report, visit Sakai Chemical Industry's website.

Overview of Sakai Chemical's corporate governance (as of the end of June 2023)



Board of Directors

The Board of Directors meets at least once a month, in principle, with the attendance of the statutory auditors. Throughout FY2022, 17 Board of Directors meetings were held. The subjects and numbers of resolutions adopted and reports deliberated on at the Board meetings in FY2022 are as shown in the table on the right.

Subjects and numbers of resolutions and deliberated reports recorded in the minutes of the Board of Directors meetings in FY2022

Subjects	Resolutions	Deliberated reports
Matters related to corporate management, the operation of the Board of Directors, and corporate governance	4	11
Matters related to research and development, production technology, and capital investment	4	1
Matters related to business strategy and marketing	1	6
Matters related to finance, accounting, and settlement of accounts	9	3
Matters related to human resources and organizational administration	7	1
Legal affairs and risk management	—	5
ESG and the SDGs	3	2
Other	3	6

Director skills matrix

Embracing "Chemistry for a Friendly Future" as its mission, Sakai Chemical Industry aims to solve various social issues by leveraging the power of chemistry. We have examined and defined the skills that directors and other management team members need to have to ensure that the Company will completely execute its management plan by transforming into an "Exciting Company" that can not only achieve organizational growth but also allow its employees to achieve personal growth and can share joy with its stakeholders. Below are the skills matrix for the current directors and the definitions of skills necessary in each field.

Skills matrix

Director	Gender	Corporate management	R&D and production technology	Business strategy and marketing	Finance and accounting	Human resources and organizational administration	Legal affairs and risk management	ESG and the SDGs
Masaaki Yabe	♂	●		●				●
Toshiyuki Yagura	♂	●		●		●	●	●
Shinji Nakahara	♂	●	●	●				●
Yasuhiro Okamoto	♂		●					●
Hiroyuki Hattori	♂				●		●	●
* Yoshikazu Ito	♂	●	●		●	●		
* Hiromi Wada	♀		●	●		●		●
* Mitsunori Matsuda	♂	●	●			●		

* Outside director

Definitions of skills

Field of skills	Definition of necessary skills
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
R&D and production technology	Skills in creating new businesses based on one's mastery of R&D, manufacturing, quality control, etc.
Business strategy and marketing	Skills in working as a person responsible for business strategy based on one's mastery thereof
Finance and accounting	Skills in accurately assessing the Company's business performance, making right investment decisions, and communicating effectively with the capital market
Human resources and organizational administration	Skills in organizational development and personnel management based on one's mastery of human resources and organizational administration
Legal affairs and risk management	Skills in addressing obvious business and management risks based on one's mastery of legal affairs concerning corporate activities
ESG and the SDGs	Skills in submitting proposals on sustainability-focused corporate management and performing such management based on one's understanding of the positioning and roles of the Company's businesses in society

Assessment of the effectiveness of the Board of Directors

As a measure for the Board of Directors' self-evaluation, the Company conducts an annual questionnaire survey on the effectiveness of the Board of Directors with all members of the Board of Directors and the Board of Statutory Auditors as respondents. To clearly divide between responsibility for supervision and responsibility for execution, the Company introduced an executive officer system in FY2021. Under this system, executive officers who are not directors also attend Board of Directors meetings once every three months to receive reports on the status of business operations.

Based on the results of the FY2022 assessment of its effectiveness, the Board of Directors will not only make improvements in the fields where Board members assessed their own effectiveness as inadequate but also work to further increase its effectiveness in the other fields. By doing so, the Board aims to operate the Company through more active and productive discussions.

Nomination and Compensation Committee

Sakai Chemical Industry has in place a Nomination and Compensation Committee as a voluntary advisory body in order to ensure the fairness, objectiveness and transparency of the Board of Directors' decision-making processes concerning the appointment of and compensation for directors and other personnel. The Nomination and Compensation Committee comprises five members, three of whom are independent members, to take independent, objective perspectives. This committee deliberates on the appointment and dismissal of directors and other personnel, plans and training for management member candidates, compensation for current directors and other personnel, and so on, and it reports the deliberation results to the Board of Directors.

In FY2022, the Nomination and Compensation Committee met four times mainly to confirm progress in the development of management human resources, discuss whether the current compensation system for directors, executive officers, etc. should be reviewed, and deliberate on the structure of the management team for the next fiscal year.

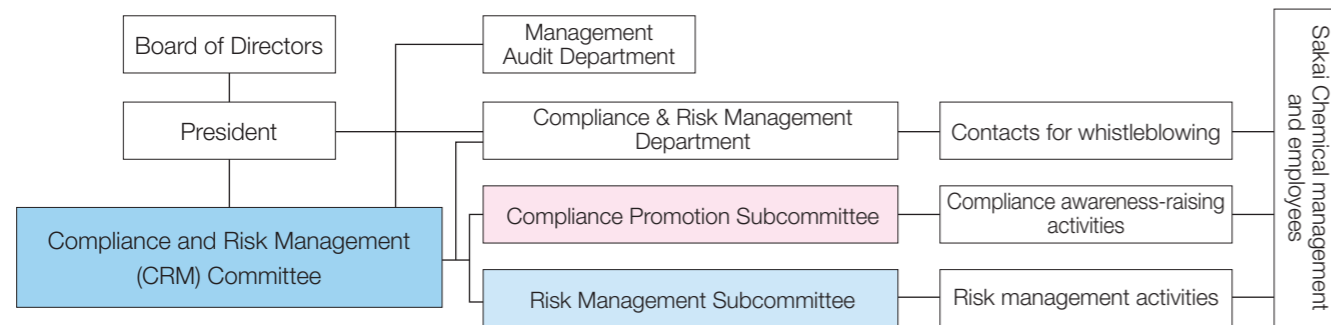
Governance

Risk Management

Compliance and risk management (CRM) system

Sakai Chemical Industry has formed a Compliance and Risk Management (CRM) Committee as an organization that facilitates both compliance and risk management activities, with the Compliance Promotion Subcommittee and the Risk Management Subcommittee under its umbrella. Under this CRM system, the Company has designated risks that can have considerable impacts on the Group's business operations as "significant Group-wide risks" to devote united efforts to risk management.

Overview of the compliance and risk management promotion system



Compliance promotion activities

● Compliance Promotion Month

The Company has defined every October as "Compliance Promotion Month," during which various activities are conducted to raise compliance awareness among employees, including holding department-level case study workshops, administering mini-tests for executives and managers, and calling for compliance slogans and senryu poems. From among the submitted slogans, excellent entries are selected and displayed on posters put up at each workplace. The Company therefore strives to instill greater compliance awareness into every employee.



Compliance Handbook



Compliance slogan poster

● Enhancement of systems and regulations

[Creation of a compliance manual]

1) Whistleblowing

In response to the revision of the Whistleblower Protection Act in June 2022, the Company has revised its whistleblowing system. The main feature of the revised system is the designation of contacts for whistleblowing in the former system as "persons engaged in the activity of dealing with whistleblowing disclosures" to ensure higher importance being placed on the protection of whistleblowers in the new system. In addition, the Company clearly explains about the new whistleblowing system to all employees so that they are appropriately informed of and educated about the new system.

2) Handling of entertainment and gifts

To conduct business in a transparent manner and maintain sound and fair business transactions, the Company prohibits all management members and employees from requesting counterparties to offer entertainment or gifts, whether explicitly or implicitly. Even if they are offered entertainment or gifts within the scope of generally accepted common practice, they are obligated to report the fact to their superiors and keep records thereof in the management register of the receipt of entertainment and gifts. Through these thorough measures, we prevent corruption.

[Operation of the whistleblowing system in FY2022]

In FY2022, six whistleblowing reports were submitted, and appropriate responses were made to all of them in line with the applicable regulations. Those reports were all on harassment, with none of them concerning serious compliance violations (serious violations of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade [Antimonopoly Act] or serious cases of corruption). If any case of a possible serious violation is detected in the future, we will adopt necessary corrective measures and strive to prevent the occurrence of similar cases.

● Compliance awareness-raising activities

Sakai Chemical Industry provides compliance education for new employees, new managers, and mid-career hires. Specifically, we have them view compliance education videos, hold a department-level Compliance Handbook reading session every six months, and deliver weekly online reports on compliance-related cases. Additionally, to raise compliance awareness among our employees, we provide them with training on the subjects shown below. In FY2022 in particular, the training was aimed at preventing the leakage of trade secrets, whose importance as a social issue has recently been increasing. We also broadened the scope of our awareness-raising activities to encompass our Group companies with the aim of enhancing group governance. We will continue to constantly hold training sessions focusing on various applicable laws and regulations in order to further heighten compliance awareness among our employees.

- 1) Lecture on contract work (July 2022)
- 2) Seminars on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Subcontract Act) (July and August 2022)
- 3) Lecture on prevention of the leakage of trade secrets (November 2022) *Intended for managers
- 4) Briefing on contracts and lecture on the Subcontract Act (November and December 2022) *Intended for Group companies
- 5) Lecture on the Antimonopoly Act (March 2023)

Risk management activities

● Measures to address significant Group-wide risks

Sakai Chemical Industry has created a Company-wide risk map. Based on this map, the Company designates significant risks for every fiscal year and devotes efforts to addressing them. The significant Group-wide risks designated as targets of our focused efforts in FY2022 were the risk of information leakage, environmental risks (air and water pollution risks), and the risks of fires and explosions, all of which had been designated in the previous fiscal year, plus cyber security risks, which were designated in response to a ransomware-based cyber attack on Kaigen Pharma Co., Ltd., a Sakai Chemical Group company, in FY2021. In the next fiscal year as well, we will implement comprehensive countermeasures against various risks, including those that we are currently addressing. We will also identify new significant high-priority risks while updating the Company-wide risk map in consideration of emergent risks in order to devote further efforts to addressing those risks.

● Risk management training

Enhancing the risk management system requires increasing each employee's skills in implementing risk management measures (identifying risks, creating risk scenarios, assessing risks, creating risk maps, and devising countermeasures).

In FY2022, we identified problems and necessary improvements in the training on risk management methods provided for section managers in FY2021 with the aim of improving that training. We then designed a new training program that reflects those improvements and provided it for a wider range of trainees, including department managers and the heads of other in-house organizations. We also conducted a follow-up questionnaire survey on the training contents. The survey results will be used to increase the effectiveness of risk management training. We will continue to provide risk management training while enhancing its contents with the aim of improving the accuracy of our risk assessment and becoming able to identify more significant risks to the Company.

Information security

Sakai Chemical Industry has established a Company-wide information management system and formulated the following information-related rules: Information Management Rules, which define the basic method of managing confidential corporate information; Information Security Rules, which define the appropriate handling of electronic information assets; Rules on the Handling of Designated Personal Information, which define the appropriate handling of designated personal information concerning the Company's employees and other people; and Rules on the Protection of Personal Information, which are aimed at preventing the Company from losing corporate profits due to the leakage of personal information or other information-related problems.

In FY2022, we mainly implemented information security measures on a regular basis, focusing on increasing employees' skills: conducting drills against targeted email attacks and providing information security education. We also used an external vulnerability diagnosis service to investigate our network and the status of information leakage, thereby confirming that there was no major problem.

We will continue to implement technical, administrative, operational, and employee-focused measures to address diversifying information security risks.

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 losing customers and market share, lowering corporate value, etc. by avoiding suspending important operations or, even if business activities are suspended, by striving to resume the operations within the target recovery time.

Initiative to formulate and implement business continuity plans (BCPs)

Sakai Chemical Industry has formulated Rules on the Business Continuity Management System (BCMS Rules) and a business continuity plan (BCP) for each of its major bases in Onahama, Sakai and Tokyo.

The Sakai Manufacturing Site in particular faces many potential disaster risks, including the risk of being affected by tsunamis caused by a possible Nankai megathrust earthquake, the risk of being flooded with water from the nearby Yamato-gawa River when it overflows, and the risk of being flooded by a typhoon-caused storm surge because the site is located near a port. The Company is currently adopting countermeasures against these risks mainly in facility terms.

In FY2022, we conducted a drill in a simulation of the occurrence of a Nankai megathrust earthquake to train executives in initial emergency responses.