

To Promote Responsible Procurement

Sakai Chemical Industry aims to promote responsible procurement in line with the Basic Procurement Policy and believes that the key to such procurement is to obtain its business partners' good understanding of that and related policies. Therefore, we are striving to build good relationships based on mutual understanding with our business partners.

Basic Procurement Policy

1. Compliance with Laws and Regulations

We will comply with all relevant laws and regulations in our procurement processes. In addition, we will renounce any acts or ideas that are contrary to our corporate ethics.

2. Consideration for the Environment, Quality and Safety

- We will give serious consideration to the environment and conservation in accordance with our Basic Environmental Policy.
- We will strive to balance economic efficiency with environmental considerations in our procurement.
- We will contribute to society by prioritizing product safety and achieving stable, high-quality supply at low cost, in accordance with our Basic Quality Policy.
- With our corporate social responsibility always in mind, we will carry out our duties with the aim of creating a sustainable society while giving consideration to the issues of environmental pollution, resource protection, safety, and human rights.

3. Fairness and Impartiality

- Our Purchasing Department will carry out its duties with its doors open wide to all suppliers.
- In the selection of suppliers, we will strive to make fair and impartial judgments and act with integrity.
- We will also deepen mutual understanding and build relationships of trust with our suppliers.

In addition, we have shared with our business partners a list of the following nine requests in order to seek their understanding and cooperation.

- Do not engage in unfair discrimination on the basis of race, gender, ethnicity, religion, nationality, or age or for any other reason.
- Do not engage in any form of forced labor or child labor. Do not allow unfairly low-wage labor or be complicit in human rights violations.
- Work to reduce environmental impacts and protect the environment, including ecosystems.
- Have no relationship with anti-social forces or organizations.
- Build good partnerships and conduct sound and fair transactions in order to achieve mutually prosperous relationships.
- For local communities, prioritize environmental preservation and safety in all aspects of operations.
- Ensure appropriate management of customers' important confidential information.
- Ensure the quality and safety of products and services and pursue customer satisfaction.
- Promote and manage responsible procurement in compliance with conflict mineral regulations and other applicable rules.

Supplier audits

To build and cement relationships of trust with our suppliers and enhance the quality and safety of raw and subsidiary materials, we audit our suppliers in cooperation with them. In FY2022, 13 of our suppliers underwent on-site audits, a significant increase in the number from FY2021 (three subject to on-site audits and three to document-based audits) due to the reduced impact of COVID-19 activity restrictions. The audit process mainly comprises checks on the quality control system and responses to various regulations based on a Supplier Audit Checklist. We also request our suppliers to fully understand our requirements for the quality of raw materials

On-site audit	13 suppliers
Document-based audit	46 suppliers

Initiatives for responsible mineral sourcing

There has been serious global concern about conflict minerals, which are likely to be a source of funds for armed groups committing inhumane acts. To prevent conflict minerals from being included in the materials we procure, we send the Supplier Audit Checklist, the Conflict Minerals Reporting Template (CMRT),* or the Extended Minerals Reporting Template (EMRT)* to our suppliers and request them to answer the questions and guarantee that their products are conflict-free.

Relevant substances procured by Sakai Chemical Industry:

Tungsten, tin, tantalum, gold, cobalt, and mica

* The CMRT and the EMRT are provided by the Responsible Minerals Initiative (RMI).

We recognize that, in recent years, the meaning of "responsible mineral sourcing" has been broadening to include action against not only risks related to conflict minerals and armed groups but also risks related to child labor and environmental destruction. From now on, we will work to formulate a Responsible Mineral Sourcing Policy, share it with our business partners, and seek their understanding.

Promoting the procurement of environmentally friendly materials and fuels

To contribute to the realization of a carbon neutral society by 2050, Sakai Chemical Industry started procuring carbon neutral LNG (CNL) through Tokyo Gas Co., Ltd. in April 2020. The Company also participated in the establishment of the Carbon Neutral LNG Buyers Alliance together with other 14 companies, including Tokyo Gas, in March 2021. To realize a sustainable society, we are seriously committed to ensuring more widespread use of CNL and improving the value of its use.

Carbon neutral LNG (CNL) is natural gas from which the entirety of CO₂ emissions, ranging from those from gas exploitation to those from gas combustion, are deemed to be completely offset by a CO₂ emissions reduction achieved by reforestation and other projects.

Our initiative to introduce CNL was launched at the Matsubara Factory, which manufactures cosmetic materials at the Onahama Manufacturing Site. Since April 2023, we have scaled out this initiative to the Otsurugi Factory, our main electronic material factory at the Onahama Manufacturing Site. We are thus making steady steps toward CO₂ emissions reduction.

Nowadays, public attention has focused on the reduction of not only Scope 1 and Scope 2 emissions directly from companies' business activities but also CO₂ emissions throughout the entire supply chain. The initiative to introduce CNL also contributes to reducing Scope 3 emissions on the users' side.

The cosmetic materials business and the electronic materials business are both growth businesses of Sakai Chemical Industry. We believe that not only the competitiveness of our products themselves but also the environmental procurement of energy, which is directly connected to the manufacturing of those products, will become even more important in the future. In consideration of economic aspects, we will start by increasing our CNL procurement and sourcing other raw materials and fuels that contribute to carbon neutrality in order to achieve our CO₂ emissions reduction target for 2030, one of our in-house KPI targets.



Acquisition of Certification from the Roundtable on Sustainable Palm Oil (RSPO) for a Cosmetic Material Product



In 2022, Sakai Chemical Industry obtained certification from the Roundtable on Sustainable Palm Oil (RSPO) for ultrafine titanium dioxide, a cosmetic material product that uses additives derived from palm oil. Our support for RSPO and acquisition of RSPO certification for relevant products will enable us to promote responsible procurement, which is one of our issues of materiality. Rather than simply procuring raw materials and using them to manufacture and ship our products, we must carefully monitor the production processes of those raw materials in order to be a responsible manufacturer.

Specifically, the thorough traceability of palm oil—where it is produced, how it reaches us, which of our products uses it, and which users we ship the product to—will not only enable us to be responsible for palm oil sourcing but also bring the users peace of mind and help them to be responsible for materials sourcing.

In this way, we will leverage RSPO certification to continue to promote responsible procurement that is friendly to both the environment and human rights with the aim of ensuring transparency throughout our supply chain and helping solve social issues.

Importance of our acquisition of RSPO certification

1 Environmental conservation

Preventing excessive deforestation and reducing the resulting negative impact on biodiversity, thereby achieving sustainable palm oil production

2 Social responsibility

Providing indirect support for manufacturing, such as respect for the human rights of local workers involved in palm oil production and the improvement of their working environments

3 Sense of security for users and establishment of a sustainable supply chain

Realizing the traceability of raw materials used based on 1 and 2, thereby not only ensuring sustainability but also providing users with a peace of mind that comes from our use of highly transparent raw materials in the cosmetic materials business, which we position as our growth business, as well as building a sustainable supply chain based on their choice of our products

Together with Customers and Business Partners

Utilization of the ESG information sharing platforms

Sakai Chemical Industry has registered with Sedex and EcoVadis, external evaluation platforms, to seek annual external evaluation of environmental initiatives, labor practices, respect for human rights, corporate ethics, and procurement, all of which are rapidly becoming more important in our business activities.

As a result of the latest EcoVadis evaluation, the Company achieved a "Silver" sustainability rating for its Sakai Manufacturing Site and a "Gold" sustainability rating for its Onahama Manufacturing Site.

The Company has been using this evaluation service since 2020 and has scored as shown in the table below over the past three years. Although the rating for the Sakai Manufacturing Site has changed from "Gold" to "Silver," this does not mean a decline in the quality of its ESG initiatives, as shown by the trend of the specific scores.

Recently, an increasing number of users of this platform have requested that our scores be shared with them. This fact has reminded

us that we are more strictly required to pay full consideration to the sustainability of the global environment and society as a whole in various aspects of our business operations, in parallel with conducting appropriate business activities in our main businesses. Therefore, as a manufacturer, we must not only provide products but also respond to all risks and opportunities associated with manufacturing. If the purpose of our efforts to improve our internal initiatives were raising our ratings in external evaluation, it would mean that we are mistaking the means for the end. We hope to utilize such objective evaluation to enhance our daily operations.



Period of evaluation work	Period of status	Sakai Manufacturing Site						Onahama Manufacturing Site					
		Assessment	Overall score	Environment	Labor and human rights	Ethics	Sustainable material sourcing	Assessment	Overall score	Environment	Labor and human rights	Ethics	Sustainable material sourcing
FY2020	FY2021	Gold	67	70	70	60	50	Gold	71	80	70	60	50
FY2021	FY2022	Gold	68	70	70	60	60	Gold	72	80	70	60	60
FY2022	FY2023	Silver	68	70	70	60	60	Gold	72	80	70	60	60

Voice Cheetan, tell me what "Smart Materials®" are!

Simply put, "Smart Materials®" embody Sakai Chemical's development policy.

The future society we envision can be described as a "healthy and comfortable society where abundant nature and convenient technology are in harmony." We will work to solve problems in the following three fields in order to "Solve Social Issues through Manufacturing," one of our issues of materiality we have identified toward the fulfillment of our future vision.

- 1) Life science and healthcare (including the food and water businesses)
- 2) Environment and energy
- 3) Electronic materials and information communication network

We have defined the Smart Material® initiative as making a positive contribution to these three fields through products and services and powder processing technology. Based on this definition, the Sustainability Committee examines and assesses each product and technology in terms of its level of contribution and certifies those that meet the criteria as "Smart Material®." The Smart Material® assessment is conducted through comprehensive comparison with conventional products or technologies from two perspectives: contribution to the fulfillment of our future vision and contribution to our technology. Importance is placed not only on contribution to the pursuit of profitability but also on contribution to solutions to environmental and energy issues and the reduction of

manufacturing-involved energy consumption and waste. The certification criteria will be revised as needed according to changes in our management strategy and the external environment. In FY2023, we will initiate preliminary screening of pre-launch R&D products to discover candidates for Smart Materials®.

Through Smart Materials®, we hope to contribute to solutions to issues in the three fields, thereby realizing both Sakai Chemical's corporate growth and our future vision.



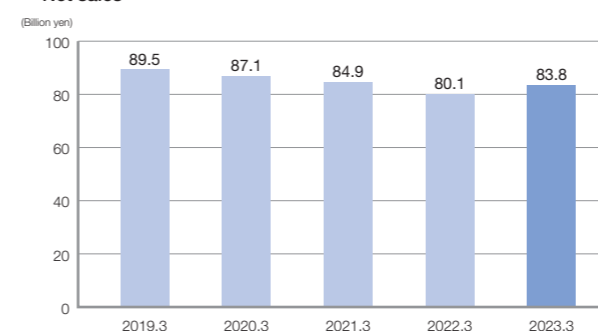
Financial Information

Fiscal year 2022 (from April 1, 2022 to March 31, 2023)

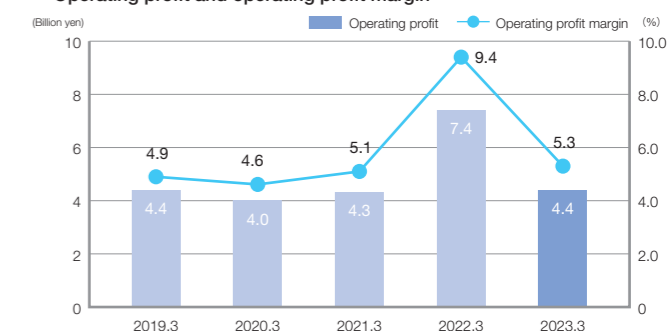
Net sales 83.8 billion yen (increased by 4.6% year on year)	Operating profit 4.4 billion yen (decreased by 41.2% year on year)	Ordinary profit 4.8 billion yen (decreased by 45.1% year on year)	Profit attributable to owners of parent 2.3 billion yen (decreased by 65.2% year on year)
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Capital investment: 2.6 billion yen / Depreciation: 4.4 billion yen / Total assets: 128.0 billion yen /
ROE: 2.9% / Dividend payout ratio: 51.8%

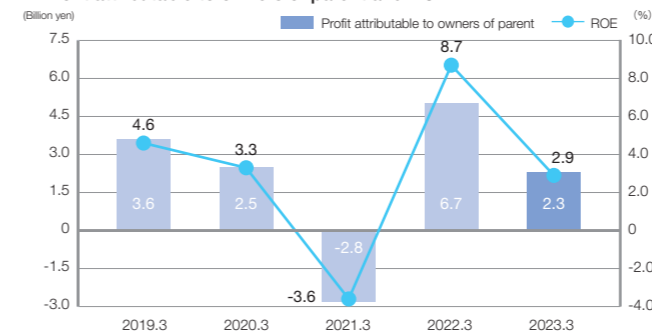
Net sales



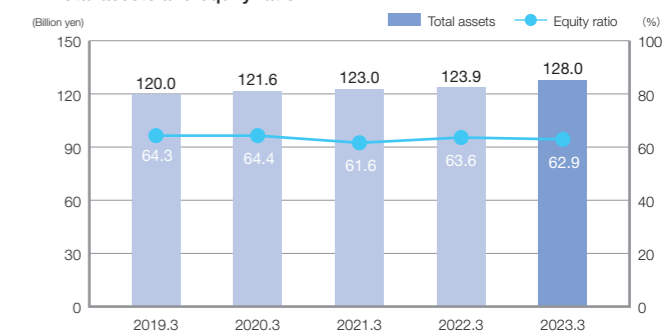
Operating profit and operating profit margin



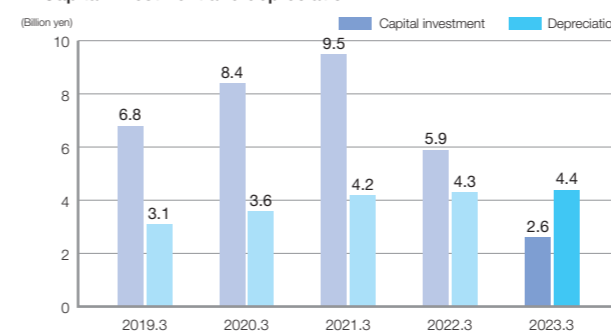
Profit attributable to owners of parent and ROE



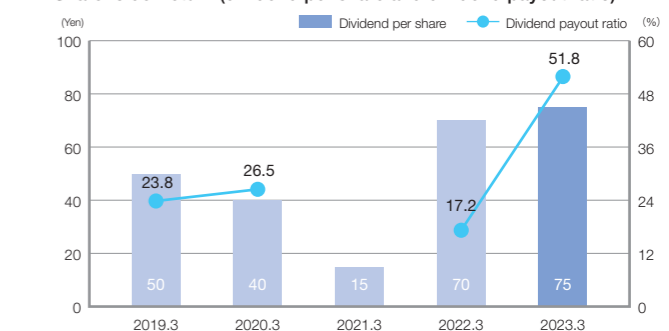
Total assets and equity ratio



Capital investment and depreciation



Shareholder return (dividend per share and dividend payout ratio)



* The dividend per share for FY2018 includes 10 yen added to celebrate the centenary of Sakai Chemical Industry's founding.
* For FY2020, only an interim dividend per share of 15 yen was paid.

Fire accident at the Onahama Manufacturing Site

On March 30, 2023, we caused a fire at the titanium dioxide manufacturing factory of our Onahama Manufacturing Site (Iwaki City, Fukushima Prefecture). We would like to sincerely apologize for the accident.

The fire broke out in a wet dust collector (mist Cottrell), which processes combustion exhaust gas, in the factory. However, the equipment was completely destroyed by fire, so the direct cause has not yet been determined. From the operating conditions at the time, we infer that the inside of the mist Cottrell had dried out, thereby producing sparks.

The accident occurred when we were implementing safety measures based on the lessons from the Yumoto Factory explosion two years ago. We have renewed our determination to devote all-out efforts to implementing and enhancing our safety measures with a sense of tension.