

Governance

Sakai Chemical strives to strengthen and enhance its corporate governance, which it positions as one of the important management challenges it must tackle.

Corporate Governance

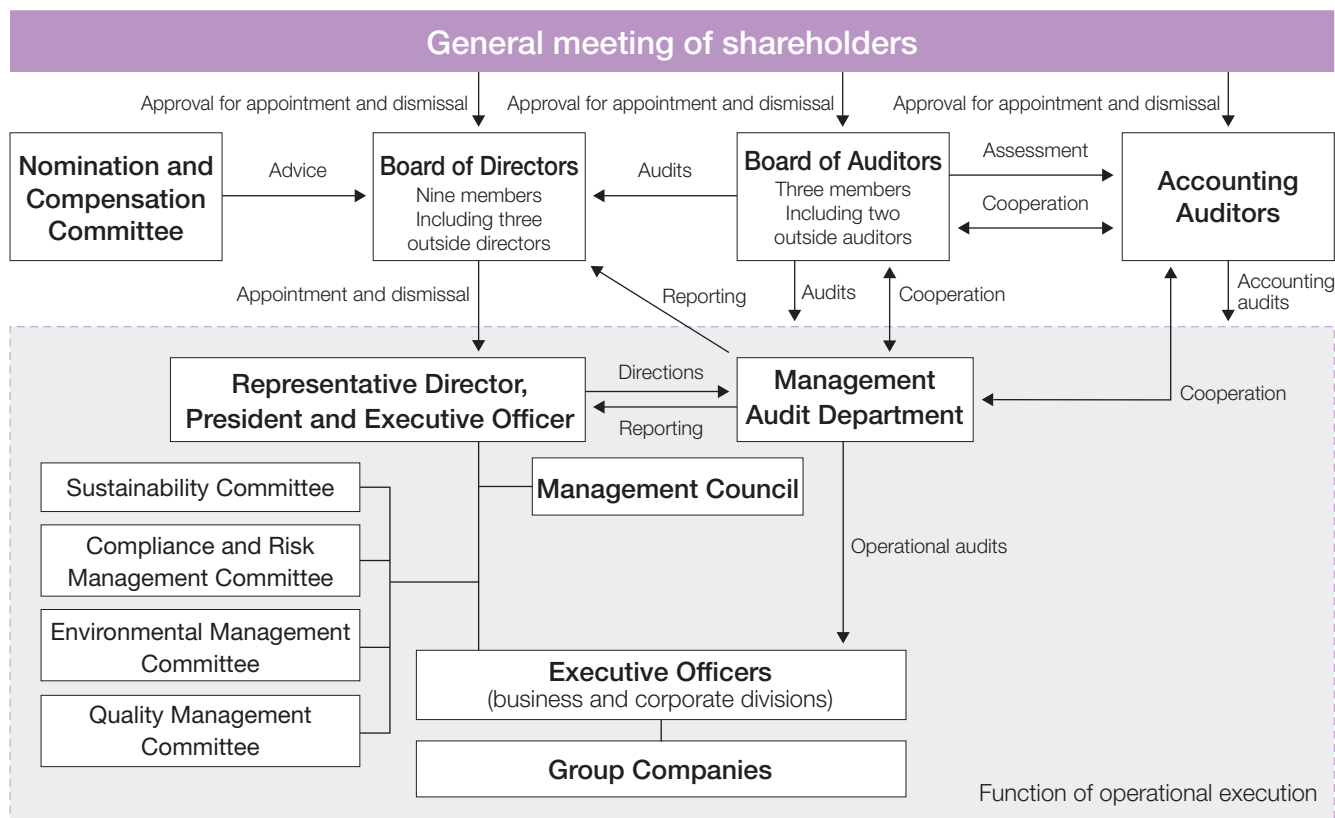
Corporate governance structure

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 the perfect operation of the system.

The Board of Directors, comprising nine members (including three outside directors), makes decisions on important management matters and oversees each director's performance 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 2022)



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 reports the deliberation results to the Board of Directors.

In FY2021, the Nomination and Compensation Committee met three 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.

Assessment of the effectiveness of the Board of Directors

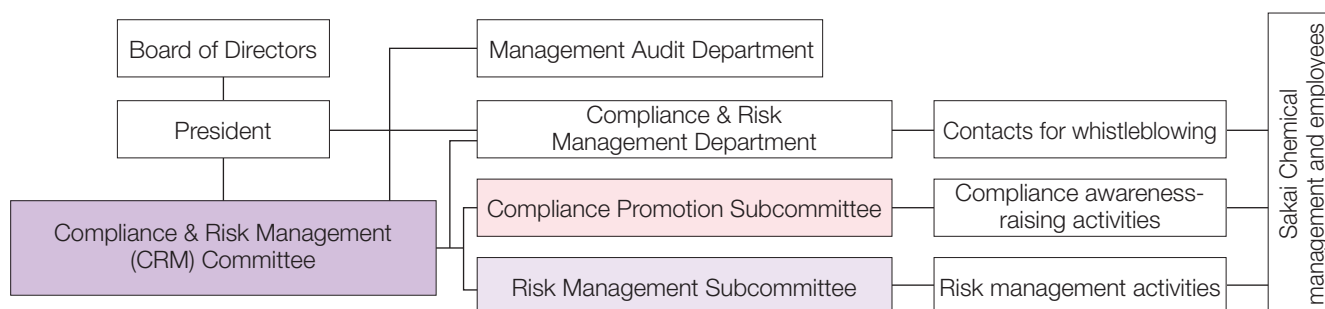
As a measure for the Board of Directors' self-evaluation, the Company conducts an annual questionnaire survey on the effectiveness of the Board of Directors with all members of the Board of Directors and the Board of Statutory Auditors as respondents. In FY2021, to clearly divide the oversight of corporate management from its execution, the Company adopted an executive officer system, in which executive officers who do not belong to the Board of Directors also attend meetings of the Board of Directors to receive reports on the status of operational execution every three months. In addition, in FY2021, discussions were held on how to raise employee awareness of the management mission and vision, human resource development, and other matters.

Risk Management

Compliance and risk management (CRM) system

Sakai Chemical Industry has formed a Compliance & 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 providing e-learning programs, holding department-level case study workshops and Compliance Handbook reading sessions, and calling for compliance slogans. 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 "staff in charge of responding to whistleblowing." In addition, the Company has held meetings to explain the new whistleblowing system to all employees.

2) Handling of entertainment and gifts

To maintain transparent, 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 them to their superiors and keep records thereof.

[Operation of the whistleblowing system in FY2021]

Under the whistleblowing system, reports from employees and other whistleblowers to internal contacts for consultation (helpline staff) and an external contact for consultation (a corporate attorney) are handled promptly through interviews, investigations, etc. If a report is recognized as concerning a factual law violation or any other kind of case that requires improvements, corrections and/or other responses will be made. In FY2021, the system was operated as shown in the table below.

Contacts for whistleblowing	Helpline	External contact	Total
Number of reports submitted	9	0	9
Number of reports accepted	9	0	9
Number of reports that led to investigations	9	0	9
Number of reports that led to corrections and/or other responses being made	8*	0	8

* There was one case that did not need any corrections or other responses. Major corrections and other responses: Improving the workplace system or environment; formulating or improving in-house rules; Human Resources Section adopting necessary measures

● Compliance awareness-raising activities

The Company has outsourced part of its manufacturing processes from cooperating companies operating at its manufacturing sites or temporary staff agencies. Therefore, all Sakai Chemical Industry staff are required to obtain correct knowledge of the outsourcing of operations and staff, and contribute to building an appropriate management system. Moreover, free and fair business activities involve full knowledge of competition law—in Japan, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. Accordingly, the Company implemented the following training programs in FY2021. We will continue to provide training programs on related laws and regulations to raise employee awareness of compliance.

1) Seminars on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (July 2021)

Five seminars on this act were held for staff in key positions (see page 17), with lecturers invited from the Fair Trade Institute.

2) Seminars on the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (February 2022)

The corporate attorney gave seminars on this act to the directors, auditors and executive officers of Sakai Chemical Industry and Sakai Chemical Group companies.

3) Outsourcing seminars (March 2022)

The corporate attorney gave outsourcing seminars to Sakai Chemical Industry employees working at workplaces where subcontract and temporary staff work.

Risk management activities

● Measures to address significant Group-wide risks

In FY2021, in response to the explosion and fire accident at the Yumoto Factory, the Company added explosion risks to the two kinds of significant Group-wide risks it had identified in the previous fiscal year: information leakage risks and environmental (air and water) risks. Since then, we have worked to address these three kinds of significant Group-wide risks.

For each kind of risk, we have designated the main department in charge and collaborating departments, and identified specific risk factors that can have major impacts on our businesses. We aim to perform more reliable risk management by devising and implementing effective measures to reduce the impacts of risks in the event that such risks are realized.

● Risk management training

Enhancing CRM 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 FY2021, the Company provided section managers with training to enable them to deepen their understanding of risk management measures. We recognize that minimizing variations in risk assessment results between assessors will also help enhance CRM, so we will tackle this challenge in FY2022.

Information management system

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. Since FY2021, the Company has been conducting drills against targeted email attacks to raise employee awareness of diversifying information security risks and reduce those risks. In FY2021, Kaigen Pharma Co., Ltd., a Sakai Chemical Group company, was subjected to a cyberattack with ransomware, leading to the in-house system being put out of operation for one day. However, the system was restored with backup data and successfully returned to operation with neither payment of a ransom nor information leakage.

Basic 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 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.

We will continue to update the BCMS Rules and improve our way of applying them so that we will be able to secure people's lives and take appropriate action in the event of an emergency.

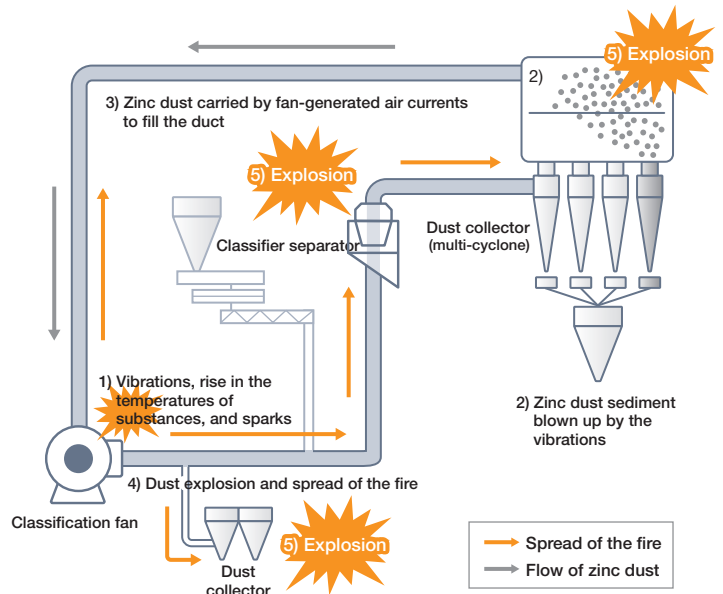
Investigation Report on an Explosion and Fire at the Yumoto Factory

An explosion and fire accident occurred at a zinc dust manufacturing facility at the Yumoto Factory on May 11, 2021. In the wake of this accident, Sakai Chemical Industry formed an accident investigation committee, which included three outside experts as third-party members. As a result of a detailed investigation into the cause of the accident and thorough discussions about measures to prevent the recurrence of similar accidents, the committee issued an investigation report concerning the accident on January 7, 2022. This investigation report is posted on the Sakai Chemical Industry website. We will apply lessons from this accident to our ongoing efforts to prevent similar accidents and make necessary improvements.

In addition, to our regret, we have decided to withdraw from the zinc dust business.

How the accident occurred (See diagram on the right.)

- 1) When a classification fan* was switched on, scales (zinc dust deposits) formed on the fan blades accidentally peeled off, leading to the shaft of the fan becoming eccentric and coming into contact with the motor casing, which generated heat. The heat raised the temperatures of the surrounding substances and produced sparks, which ignited a fire. (*Classification fan: Fan used to generate air currents to classify zinc dust into types by particle size)
- 2) The eccentric shaft caused abnormal vibrations, which blew up zinc dust sediment in a dust collection bin.
- 3) The blown zinc dust was carried by air currents generated by the fan to reach the fire.
- 4) A dust explosion occurred, spreading the fire throughout the system.
- 5) Explosions occurred at a dust collector, the classifier separator, and the multi-cyclone.



Measures to prevent the recurrence of similar accidents

We have devised many measures to prevent similar accidents, including facility-related measures, such as introducing an eccentricity detection system (which detects eccentricity problems in the classification fan with sensors and immediately stops the operation of machinery) and increasing the frequency of sediment cleaning, and human resource-related measures, such as providing employees with renewed thorough safety education.

Applying lessons from the Yumoto Factory explosion and fire accident

With decisive determination not to allow a similar accident to occur again, in parallel with the investigation conducted by the investigation committee, the Company surveyed the status of handling of category-II hazardous materials (combustible solids) defined by the Fire Service Act, and has adopted thorough preventive measures against explosions and fires. We also created a Company-wide list of powder products that can cause dust explosions, just as zinc dust had caused, and had a third-party organization (the Technology Institution of Industrial Safety) conduct explosivity tests on those materials, resulting in certain products being judged to be explosive. We are currently implementing measures to prevent those products from causing explosions on the advice of outside experts.

We have also been implementing preventive measures against similar accidents as shown below in line with the accident investigation report.

Removing dust deposits

- At each manufacturing site, checks on dust deposits were conducted, and any deposits discovered were removed. We will continue to implement this measure periodically.

Preventing the Yumoto Factory accident from being forgotten

- The top management will deliver a message on the anniversary day of the accident.
- The Company will hold safety seminars and other events intended for all employees.

Enhancing the Company's occupational health and safety initiatives

- On January 1, 2022, the Company brought into effect the Basic Occupational Health and Safety Policy. We have since worked to raise employee awareness of the policy. (See page 20.)
- Factories handling products judged to be at risk of causing dust explosions as a result of the risk assessment will review their operation manuals, clearly inform the staff about the risk, hold those materials in safe custody, and adopt other necessary measures.
- The Company has conducted a facility risk assessment. Based on the assessment results, we have been improving our facilities by installing safety measurement systems, outdoor dust collectors for combustible powder, pressure relief vents, etc.
- We will define warnings to be given to cooperating companies and further enhance safety education and audits.

From now on, we will not only implement measures to prevent the recurrence of similar dust explosion accidents, but also promote occupational health and safety initiatives with the aim of making our factories safer.