



2023

Environmental & Social Report

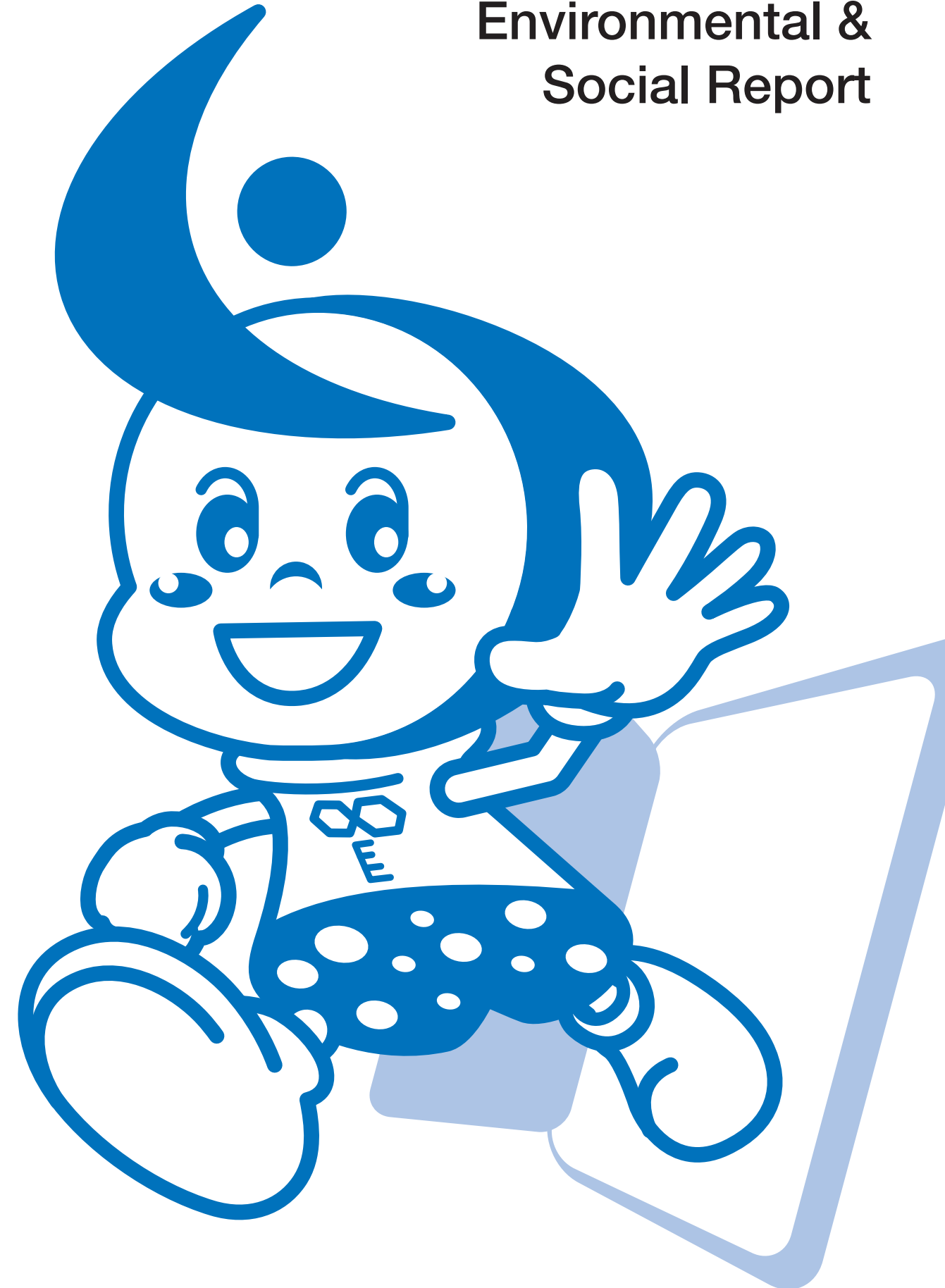


Sakai Chemical Industry Co., Ltd.

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About the picture on the front cover

Depicted on the front cover is Cheetan, Sakai Chemical Industry's mascot created in celebration of the centenary of its founding. Named after titanium dioxide, commonly called "*chitan*" in Japanese, one of the main products of the Company, he is a lively boy full of curiosity about everything. He is dressed nicely in a beaker-shaped outfit, with hair styled like the Company's logo. His bow tie with hexagonal ends and his polka-dotted pants are inspired by powder processing technology, in which one of the Company's strengths lies.



Sakai Chemical Industry Co., Ltd.

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Editorial Policy

This report explains to stakeholders how Sakai Chemical Industry Co., Ltd. carries out its social responsibilities in order to fulfill its management mission “Chemistry for a Friendly Future.” The report focuses on the environmental, social and governance initiatives the Company implements with the aim of realizing a sustainable society.

Period Covered

Fiscal year of 2022 (from April 1, 2022 to March 31, 2023)
Some events and activities outside the abovementioned period are also included in this report.

Basic Corporate Behavior Policy

- We will contribute to a prosperous future **for our customers** by providing high-value-added, socially beneficial products and services that meet the needs of the times while giving consideration to safety.
- **For the benefit of wider society**, we will comply with all laws and regulations and adhere to their spirit, have no relationships with antisocial forces, and strive to act sensibly.
- **For shareholders and investors**, we will disclose company information in a timely and fair manner, conduct sound and honest corporate management, and strive to continuously grow our business.
- **For our business partners**, we will build good partnerships and conduct sound and fair transactions in order to achieve mutually prosperous relationships.
- **For local communities**, we will prioritize environmental preservation and safety in all aspects of our operations and aim to be a good corporate citizen that earns the trust of the community by maintaining clean corporate behavior.
- **For employees and others who work with us**, we will aim to respect each other, promote diversity, and grow together in a safe and comfortable work environment.
- **To protect the company's assets**, we will manage the intellectual property and important confidential information held by the company appropriately, in accordance with our internal rules.

Scope of Reporting

This report mainly concerns the activities of Sakai Chemical Industry, but also includes some activities conducted by the other Sakai Chemical Group companies. In this report, “Sakai Chemical Industry” and the “Sakai Chemical Group” are defined as follows:

- Sakai Chemical Industry (or the “Company”) – Sakai Chemical Industry Co., Ltd.
- Sakai Chemical Group (or Sakai Chemical) – Sakai Chemical Industry Co., Ltd. and its consolidated subsidiaries

When the report mentions matters related to a particular portion of the abovementioned scope of reporting, that portion is specified.

Date of Issuance

August 2023



I would like to take advantage of the issuance of our Environmental and Social Report for FY2022 as an opportunity to give our stakeholders a message.

Sakai Chemical Industry originated from our predecessors’ efforts to commercialize zinc oxide with the aim of saving women and infants from lead poisoning due to white powder. Since then, the Company has broadened the ranges of its products and their applications so widely that Sakai Chemical materials currently support all aspects of human life. We believe that we can fulfill our mission “Chemistry for a Friendly Future” by solving social issues through these various materials. As part of our efforts to achieve this, we have decided to certify materials that help solve social issues as “Smart Materials*.”

Meanwhile, the entire product supply process involves many steps, from procurement of raw materials and fuels, through manufacturing, to shipment and delivery. Needless to say, these business activities themselves must be conducted in an environmentally friendly manner in people-friendly workplace environments. The scope of such environmental and workplace measures has recently expanded to encompass the entire supply chain. In addition, there has been growing public demand for companies to operate their businesses with a view to achieving harmonious co-existence and co-prosperity with society while anticipating changes in their business environment and working to identify risks entailed by those changes and create new business opportunities.

Sakai Chemical has defined four themes for its business operations: “Make People Happy,” “Protect the Global Environment,” “Solve Social Issues through Manufacturing,” and “Build a Transparent and Strong Management System.” Under these themes, we have identified a total of 11 issues of materiality and key performance indicators (KPIs) relevant thereto. I will give you an overview of them below.

Corporate Philosophy

Management Mission: Chemistry for a Friendly Future

Creating materials that support the comfort and security of society through compassion and technological innovation

Organizational Vision: Exciting Company

We will build an exciting company together.



Company Profile (as of March 31, 2023)

Company Name: Sakai Chemical Industry Co., Ltd.

Founded: June 25, 1918

Incorporated: February 25, 1932

Head Office: 5-2 Ebisujima-cho, Sakai-ku, Sakai City, Osaka, 590-8502, Japan

Paid-in Capital: 21,838 million yen

Number of Employees: 2,013 (consolidated); 769 (non-consolidated)

Production Bases: Sakai Manufacturing Site; Onahama Manufacturing Site; Yumoto Factory; Semboku Factory; Otsurugi Factory; Matsubara Factory

Fields of Business

The history of Sakai Chemical Industry dates back to 1918, when it succeeded in developing an improved method of manufacturing zinc oxide. Since then, in accordance with changes in people's lives and values, the Company has enhanced its core technologies for inorganic powder processing, organic synthesis, and pharmaceutical manufacturing, based on barium and titanium dioxide, thereby commercializing products that can meet the needs of the times. Today, the Company supports the most advanced manufacturing of smartphones, automobiles, cosmetics, and other products.

Sakai Chemical Group Network

In Japan	
Manufacturing	Sakai Chemical Industry Co., Ltd.; Kaigen Pharma Co., Ltd.; Osaki Industry Co., Ltd.; Resino Color Industry Co., Ltd.; Kyodo Chemical Co., Ltd.; SC Organic Chemical Co., Ltd.; Nippon Color Industry Co., Ltd.; Katayama Seiyakusyo Co., Ltd.
Sales	Sakai Trading Co., Ltd.
Outside Japan	
Manufacturing	Sakai Chemical (Vietnam) Co., Ltd. Siam Stabilizers and Chemicals Co., Ltd. PT. S&S Hygiene Solution
Sales	Sakai Trading New York Inc. Sakai Australia Pty Ltd. Sakai Trading (Shanghai) Co., Ltd. Sakai Taiwan Co., Ltd. Sakai Trading (Thailand) Co., Ltd.

[Environment]

We are implementing various measures to achieve carbon neutrality by 2050 in line with the public policy on response to climate change (based on the Task Force on Climate-Related Financial Disclosures [TCFD] Recommendations). As our first step, we have set a medium-term target of reducing CO₂ emissions by 30% (versus the FY2013 level) by FY2030. In addition to CO₂ emissions reduction, we are also working on waste reduction through the effective use of resources. Against a backdrop of growing public awareness of the impacts of CO₂ emissions and waste on a company itself and its entire supply chain, we will make steady forward steps from a medium- to long-term perspective.

[Society]

In March this year, a fire occurred at a titanium dioxide factory at the Onahama Manufacturing Site. I apologize for the concern and inconvenience this accident caused to those involved and all other stakeholders. It is deeply regrettable that we allowed such an accident to occur while we were working to improve our risk management and occupational health and safety after the explosion at the Yumoto Factory. Fortunately, the fire did not injure anyone, but it has reminded us of the latent risk of accidents causing injuries to our employees. We will adopt thorough measures to create a safe and secure workplace. We will also provide our employees with greater occupational health care and support their health enhancement efforts.

Meanwhile, the ongoing diversification of work styles and work-related values has increased the importance of a company's commitment to enabling its employees to adopt flexible work styles, thereby increasing their motivation for work and maintaining a diverse workforce. Two years have passed since Sakai Chemical Industry introduced a new personnel system. Diverse employees' efforts to increase their own skills and raise their levels of

performance will benefit both themselves and their company. Therefore, we will devise and implement effective measures to unlock the potential of individual employees, focusing on fostering a corporate culture abundant in vitality and diversity.

[Corporate governance]

In the current age of upheaval, we are facing two important governance challenges: reviewing our business portfolio and developing management human resources. To address the business-portfolio challenge, in FY2022 we divided our various businesses into three categories: growth businesses, stable businesses, and businesses requiring streamlining measures. From now on, we will have to achieve the desirable outcomes of our operation of these three categories of businesses. We also need to develop management human resources who can review the portfolio according to the times. We will make a serious commitment to solving these important challenges while having close dialogue with our stakeholders.

The ongoing war in Ukraine has reminded us of geopolitical risks, while rapid situational changes, including more frequent extreme weather events worldwide and the wider use of AI, have increased the uncertainty of the future. Even under such circumstances, we will remain committed to our consistent business activities as a “company with deep chemistry” that continues to provide value to society while changing flexibly with the aim of realizing “Chemistry for a Friendly Future.”

We look forward to continued support and guidance from our stakeholders.

矢倉敏行
Toshiyuki YAGURA

President and Representative Director

Materiality and Key Performance Indicators (KPIs) for Sakai Chemical

Management Mission

Chemistry for a Friendly Future

—Creating materials that support the comfort and security of society through compassion and technological innovation—

Organizational Vision



Social Issues



Theme	Issue of materiality	Our major initiatives	Key performance indicators (KPIs)		
			KPIs	Targets	Results
Make People Happy	(1) Foster human resources and create a corporate culture where employees can feel their growth	Building mechanisms to allow employees to take up new challenges and act on their own initiative Promoting diversity	Results of stress checks Deviation value of the score for the evaluation item “Consideration for employees’ career development”	Exceed the deviation value of chemical companies’ stress check scores and aim to rank higher Reach a deviation value of 50.4 in the chemical industry for FY2021 (Sakai Chemical Industry’s actual deviation value for FY2021: 46.9)	Deviation value in the chemical industry for FY2022: 50.5 (Sakai Chemical Industry’s actual deviation value for FY2022: 47.5)
	(2) Create a comfortable working environment	Introducing a new personnel system Improving the working environment (in terms of both time and space) Making each workplace livelier	Frequency rate (number of occupational fatalities and injuries per one million actual working hours) Severity rate (number of working days lost due to accidents per 1,000 actual working hours) Promotion of digital transformation (DX)	Create a safety-first workplace environment Eclipse a frequency rate of 0.93 in the chemical industry for FY2020 (Sakai Chemical Industry’s actual frequency rate for FY2020: 0.70) Eclipse a severity rate of 0.03 in the chemical industry for FY2020 (Sakai Chemical Industry’s actual severity rate for FY2020: 0.00) Continue to promote DX	Frequency rate in the chemical industry for FY2021: 1.07 (Sakai Chemical Industry’s actual frequency rate for FY2021: 0.69) Severity rate in the chemical industry for FY2021: 0.02 (Sakai Chemical Industry’s actual severity rate for FY2021: 0.00)
	(3) Contribute to local communities	Having close dialogue with local communities Supporting or participating in local associations	Number of opportunities for dialogue that Sakai Chemical Industry has with local communities through the Responsible Care® and other initiatives Number of social contribution activities in which Sakai Chemical Industry participates among those conducted by the local associations that the Company supports or has a membership in	Have one or more dialogue opportunities a year Participate in one or more social contribution activities a year	Had dialogue opportunities through the Watanabe Shimomachi-ku Specialist Committee, the Shimogawa Studies Group, the Izumi Furusato Festival, and the Sakai Festival Participated in the Iwaki Sunshine Marathon, Sakai Science Education Festa, etc.
Protect the Global Environment	(4) Manage chemical substances appropriately, reduce environmental impact, and implement measures to improve product safety	Making a fuel switch from crude oil to LNG; replacing motors and lights with highly efficient motors and LED lights, respectively; installing solar power panels; working to recover NH ₃ , CO ₂ , and H ₂ ; raising levels of pollution prevention and chemicals management	CO ₂ emissions reduction rate (versus the FY2013 level) Number of serious environmental accidents	Achieve a 30% reduction by FY2030 Achieve zero accidents throughout the year	FY2021: Achieved a 14% reduction FY2022: One incident occurred (a fire at the Onahama Manufacturing Site)
	(5) Reduce industrial waste emissions	Promoting the 3Rs (“reduce,” “reuse” and “recycle”) Reconsidering raw materials, fuels, and the manufacturing processes Recycling industrial waste	Industrial waste reduction rate (versus the FY2021 level)	Achieve a 25% reduction by FY2025	
	(6) Give consideration to biodiversity	Continuing to conduct monitoring activities near disposal plants Contributing to biodiversity using voluntary credits for carbon neutral LNG (CNL)	Status of surveying animals, plants and ecosystems as a post-assessment after an environmental impact assessment Introduction of CNL	Conduct a survey on the occasion of disposal plant construction work Continue to use CNL	FY2022: Continued to use CNL
Solve Social Issues through Manufacturing	(7) Create products and services that help solve environmental and social issues	Developing and/or manufacturing solid-state battery materials, synthetic ammonia catalysts, substitute products for microplastic beads, 5G-related (low-expansion, heat-radiating, low-dielectric-loss, and/or flame-retardant) materials, carbon recycling catalysts, and antibacterial and antiviral materials	Number of developments certified as Smart Material®	Launch five Smart Material® products by FY2030	
	(8) Promote responsible procurement	Providing information to suppliers and asking for their cooperation; auditing business partners; etc.	Percentage of business partners whom we request to conduct a customer satisfaction survey	100%	Started conducting the survey in FY2023
Build a Transparent and Strong Management System	(9) Increase the effectiveness of the Board of Directors	Implementing an annual questionnaire to evaluate the effectiveness of the Board of Directors Making improvements based on the questionnaire results Formulating plans to develop management human resources Operating the Nomination and Compensation Committee	Following indicators based on the results of the questionnaire on the effectiveness of the Board of Directors 1) Number of challenges identified 2) Number and total hours of discussion sessions on each challenge 3) Number of countermeasures devised 4) Number of countermeasures implemented	Identify challenges based on the results of the questionnaire on the effectiveness of the Board, and make necessary improvements	FY2022: Identified challenges based on the questionnaire results and made necessary improvements
	(10) Understand risks and take countermeasures	Conducting risk and compliance education, training and awareness-raising activities Operating committees and subcommittees effectively	Number of serious compliance violations Ability to maintain a Company-wide risk management system	Achieve zero serious compliance violations throughout the year Maintain the effectiveness of the system	FY2022: Achieved zero violations throughout the year FY2022: Maintained system effectiveness
	(11) Ensure timely and appropriate information disclosure	Stimulating IR and PR activities; enhancing PR for crisis management	Compiling and providing an integrated report or information equivalent to the content of such a report	Provide an integrated report or information equivalent to the content of such a report from FY2022	Planning to issue an integrated report for FY2023 while abandoning the plan for a FY2022 report

Building a Transparent and Strong Management System

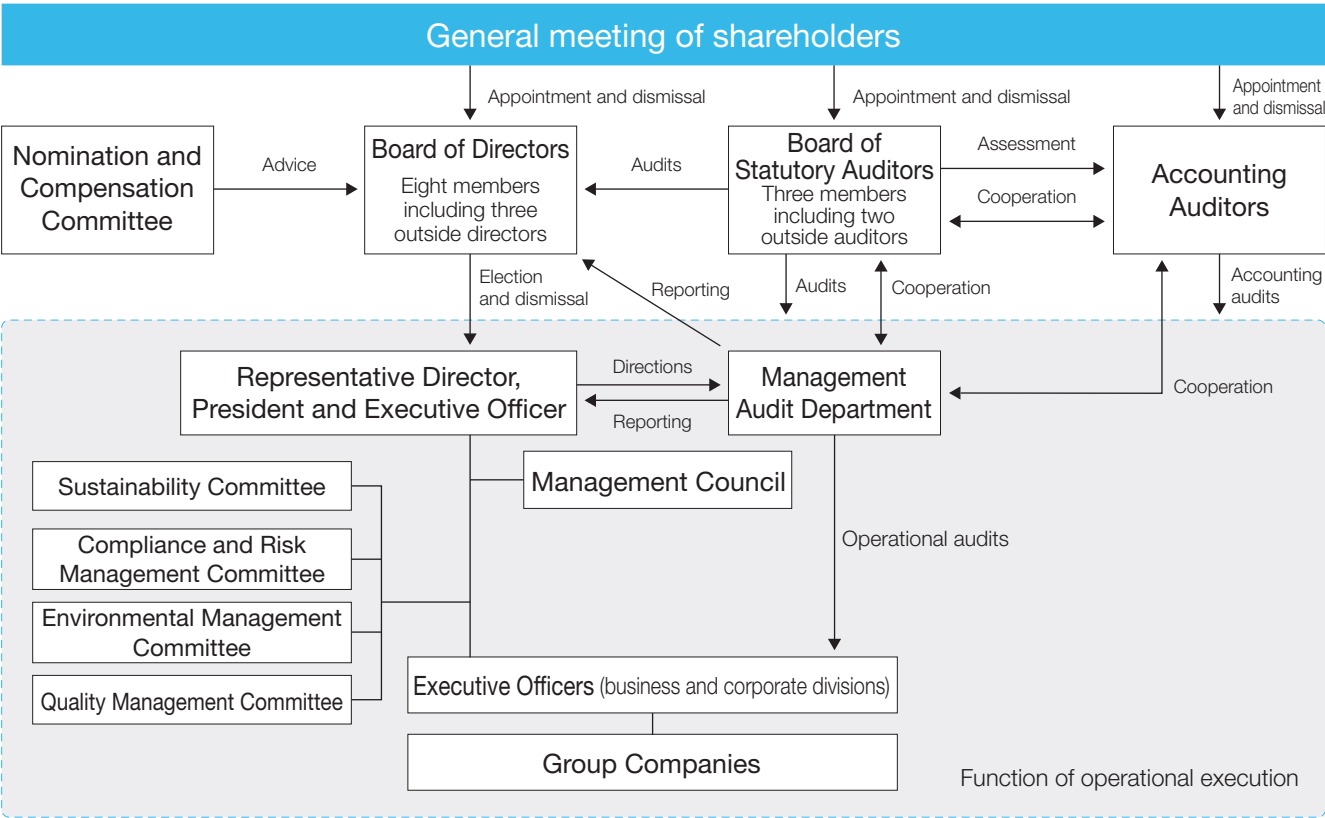
Corporate Governance

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.

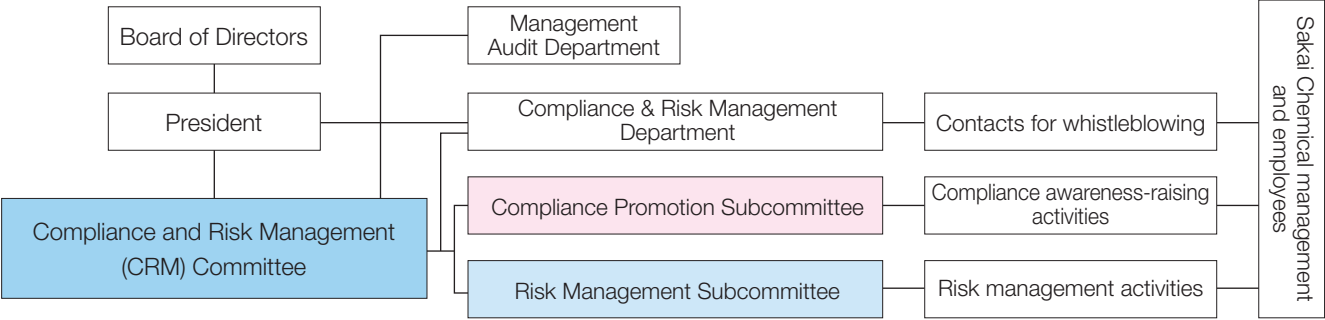
In FY2022, the Nomination and Compensation Committee met four times mainly to confirm progress in the development of management human resources, discuss whether the current compensation system for directors, executive officers, etc. should be reviewed, and deliberate on the structure of the management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

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.

Commitment to Promoting Human Rights

To Fulfill Corporate Responsibility for Respecting Human Rights

Everyone has the right to assure their own safety, enjoy freedom, and lead a happy human life. However, it is unforgivable to sacrifice other people's happiness for the sake of one's own happiness. We believe that this philosophy of respect for human rights is essential in our commitment to solving social issues through our business activities. Therefore, we formulated the Sakai Chemical Group Basic Human Rights Policy on October 1, 2022.

This basic policy has undergone an external review by Baker & McKenzie (Gaikokuho Joint Enterprise), our corporate attorney.

The Sakai Chemical Group Basic Human Rights Policy

The Sakai Chemical Group has been engaged in businesses that have contributed to people's safe and healthy lifestyles since its foundation. Sakai Chemical Industry Co., Ltd., the core company, expresses the aspiration of the Sakai Chemical Group towards people through its management philosophy "Creating a Friendly Future through Chemicals." To realize this philosophy, we believe it is important to respect the human rights of relevant stakeholders in all countries and regions in which we conduct our activities.

This Human Rights Policy promises that the Sakai Chemical Group will fulfill its responsibility to respect human rights based on its management philosophy and international norms.

1. Basic principle

The Sakai Chemical Group will comply with laws and regulations governing the human rights norms applicable in countries and regions where we conduct our businesses, and support and respect the norms of the international human rights. These include the United Nations' International Bill of Human Rights, which contains the "Universal Declaration of Human Rights," the "International Covenant on Civil and Political Rights" and "International Covenant on Economic, Social and Cultural Rights," as well as "ILO Declaration on Fundamental Principles and Rights at Work," etc., which provides for the freedom of association and the right to negotiate, the prohibition of forced labor, the effective abolition of child labor and the elimination of discrimination in employment and occupation. Furthermore, we will be engaged with respect in human rights based on the "United Nations' Guiding Principles on Business and Human Rights" and the National Action Program on Business and Human Rights (NAP).

2. Scope

This Human Rights Policy will apply to all officers and employees of the Sakai Chemical Group (including all full-time, fixed term, temporary, dispatched, part-time, and other employees). We also encourage all business partners of the Sakai Chemical Group to understand and comply with this Human Rights Policy.

3. Human rights due diligence

The Sakai Chemical Group will establish human rights due diligence system to identify negative impact against human rights, make efforts to prevent the occurrence of such impact or reduce the risk of its occurrence.

4. Establishment of a remedy system

The Sakai Chemical Group will establish system to allow relevant stakeholders to report any human rights concerns. If any negative impact against human rights is identified or is likely to be identified, we will make efforts with relevant stakeholders to reduce negative impact.

5. Dialogue

The Sakai Chemical Group will recognize the importance of dialogue with relevant stakeholders to identify negative impact against human rights, and make efforts to engage in timely dialogue to understand, reduce and resolve human rights issues.

6. Employee training

The Sakai Chemical Group will provide the necessary training to ensure that this Human Rights Policy permeates throughout the Group and that all officers and employees have proper understanding of human rights and can effectively reflect the understanding in their business activities.

7. Information disclosure

The Sakai Chemical Group will disclose information about its human rights efforts through its website and various reports, as appropriate.

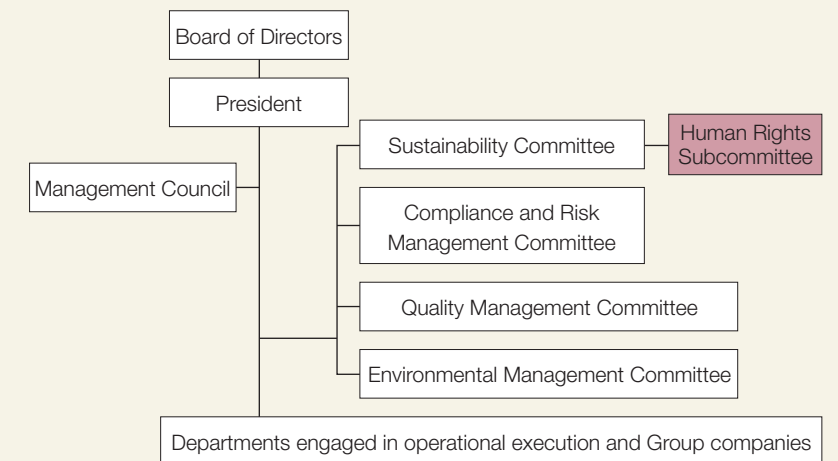
This Human Rights Policy was approved by the Board of Directors of Sakai Chemical Industry Co., Ltd. on September 26, 2022.

Human Rights Promotion System

On October 1, 2022, Sakai Chemical Industry established a Human Rights Subcommittee as an organization that implements initiatives to address human rights issues. Positioned under the Sustainability Committee, which is responsible for achieving ESG management, the Human Rights Subcommittee also works with the Company's sustainability promotion system.

The Human Rights Subcommittee scopes human rights issues that Sakai Chemical Group should address by priority in the future (scoping) with the aim of promoting Group-wide initiatives to solve human rights issues.

Chart of the human rights promotion system



Human Rights Education

Executive training

In December 2022, we provided executive training for the directors and executive officers of all Sakai Chemical Group companies in Japan and abroad with the aim of ensuring that corporate responsibility for respecting human rights would be reflected in management plans in a more effective manner.

We invited Ms. Emi Omura, an attorney-at-law (Japan and NY) and a human rights expert who serves as a Steering Committee Officer of the Business and Human Rights Lawyers Network Japan, to give a lecture on the theme "Responsibility for Respecting Human Rights as a Compliance Issue."



Scene from an executive training session

Employee training

From November 2022 to February 2023, we provided employee training for all employees of all Sakai Chemical Group companies in Japan and abroad so that every employee engaged in business activities would be able to carry out the Group's Basic Human Rights Policy in their own work.

Focusing on providing training tailored to the Sakai Chemical Group's businesses, we built a system whereby all employees could attend the training by adopting such measures as making archived training videos available online for later use.



Scene from an employee training session at an overseas subsidiary

Establishment of a Remedy System

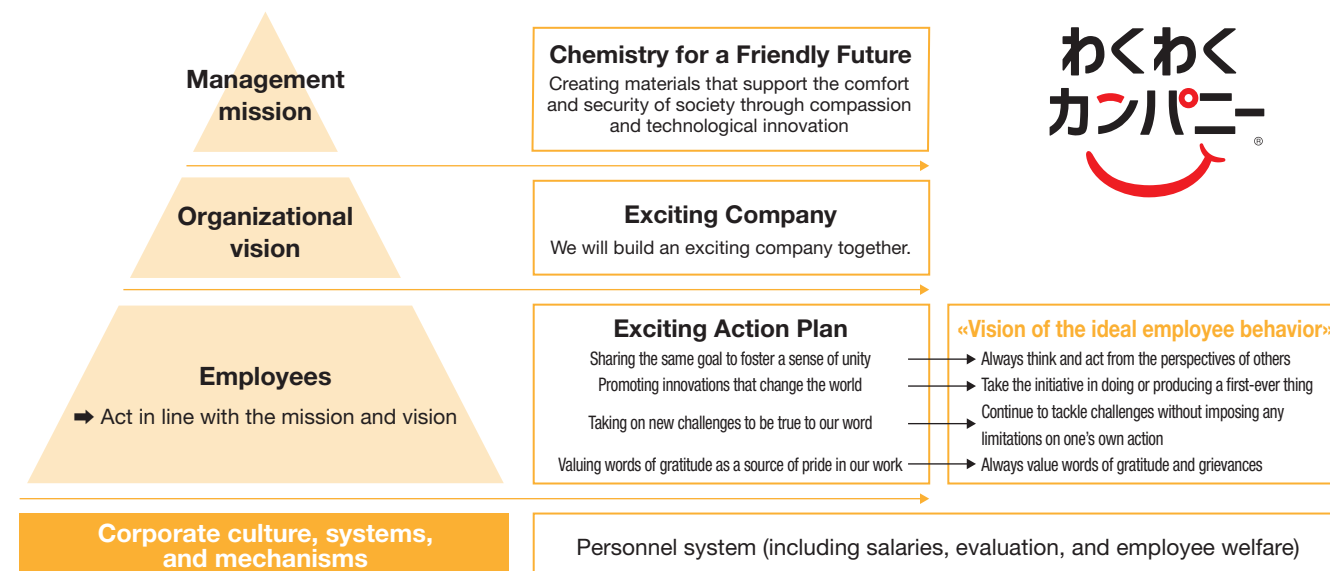
Joining JaCER, an organization that redresses grievances about human rights infringement

In November 2022, we gained a full membership in the Japan Center for Engagement and Remedy on Business and Human Rights (JaCER) with the aim of establishing a remedy system as envisioned in the Sakai Chemical Group Basic Human Rights Policy.

JaCER is an organization that aims to build a non-judicial platform for redressing grievances and to act in a professional capacity to support and promote redress of grievances by member companies based on the United Nations Guiding Principles on Business and Human Rights. We will devote serious efforts to establishing an effective remedy system by adopting such measures as utilizing a contact for grievance filing provided by JaCER.



Aiming to Become an “Exciting Company”



We are working to create a comfortable working environment through the measures described below so that our employees can feel proud of, confident in, and satisfied with their own work, which means that they can work with excitement.

Foster Human Resources and Create a Corporate Culture Where Employees Can Feel Their Growth

Basic Human Resources Development Policy

1. Enhance commercialization awareness through active work-related communication with internal and external parties
2. Develop a flexible environment where diverse personnel can work in good health
3. Systematically implement hiring and training to ensure diversity
4. Encourage self-development and the acquisition of official qualifications
5. Implement measures to support employees' understanding and action regarding the realization of a sustainable society

● Career development support

Sakai Chemical Industry has all employees submit a self-assessment sheet every year. They review their own personal growth over the past year, set their own action goal to advance to the next step, and have a career interview with the manager of the organization to which they belong. Aside from the personnel evaluation results, they confirm their own achievements to date, based on which they set their goal for the next term.

Nevertheless, Sakai Chemical Industry's deviation value in the FY2022 engagement survey result was 47.5, while that in the entire chemical industry was 50.5. This figure suggests that the Company should solve the challenge of adopting measures to allow employees to readily accept the personnel evaluation results and feel their own growth, including creating such an environment. We will work on human resources development so that the growth of our employees will lead to the growth and development of the Company.

● Development of management human resources

To develop the next generation of management talent, Sakai Chemical Industry provides education for candidates for next-generation executives selected from among a range of managerial staff, from newly appointed ones to department managers.

The executive officer in charge of each candidate formulates and implements an annual development plan, which includes external training for corporate executives, so that the candidate can have the kind of experience that allows him or her to outgrow his/herself through his/her work. The progress of the development plan for each candidate is reported to and deliberated and verified by the Council for the Development of Management Human Resources, which comprises the president and other executive officers, and the Nomination and Compensation Committee at the interim report meeting in November and the final report meeting in March. From now on, we will increase our pool of human resources by adopting such measures as improving system operations and broadening the scope of candidates.

Creating a Comfortable Working Environment

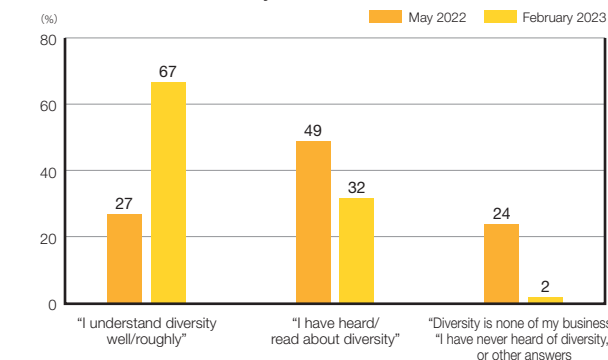
Diversity initiatives

● Promotion of diversity

Sakai Chemical Industry has established a Diversity Working Group to raise diversity awareness among employees. In FY2022, the Company had employees respond to a diversity-awareness questionnaire twice.

1st questionnaire survey conducted in May 2022: 350 respondents
2nd questionnaire survey conducted in February 2023: 461 respondents
The number of respondents who answered “I understand diversity well/roughly” has increased approximately 2.5-fold over the past year.

Permeation level of diversity awareness



In FY2022, we also held three events focusing on unconscious biases, including a seminar and workshop-style lectures (“Majikira-kai”). The email magazine Diversity Report, published once every three weeks, features interviews with employees about their unconscious biases that they are aware of. As a result, unconscious biases have become a hot topic in daily workplace conversations in such a form as “That’s an unconscious bias, isn’t it?”

● Support for the career development of female employees

Sakai Chemical Industry devotes active efforts to promoting the career development of female employees and aims to achieve the target of raising the ratio of female managers to 10% or higher and that of female core human resources to 20% or higher by 2030. Currently, women account for 1.4% of all managers and for 7.9% of all core human resources. Creating diverse value urgently requires us to increase the proportion of women among core human resources so that more women can grasp opportunities that match their abilities. From now on, we will make further efforts for more proactive recruitment and human resource development.

Work-life balance

● Obtaining the right to carry the “Kurumin” certification logo

In September 2022, Sakai Chemical Industry obtained “Kurumin” certification, which the Japanese Ministry of Health, Labour and Welfare grants to companies that support employees’ childcare. The Company has now adopted the following measures and systems to promote activities toward a good work-life balance.

(1) Improving the working environment to help parenting workers achieve a good balance between their work and family life

- a) Introducing a general childcare leave system and a paternity leave system for male employees with newborn babies and encouraging the use of these systems
- b) Broadening the scope of application of the system of reduced working hours and imposing limitations on or giving exemption from overtime work

We have extended the period during which the system of reduced working hours is available from the period until the child’s enrollment in elementary school to the period until the end of the child’s first academic year at elementary school. We also ensure that employees who want to avoid overtime work despite not needing to use the system of reduced working hours can use the system of limitations on or exemption from overtime work by prior application.

c) Measures to help employees on leave to return to work

The Company utilizes the employee welfare website “Future Concierge for Parenting Workers.” We provide employees on maternity, paternity or childcare leave with useful information about childcare and short-term day care and promote the use of company-led childcare facilities in order to help employees on leave to return to work.

(2) Creating working conditions that allow diverse work styles, thereby contributing to work style reforms

a) System for enabling employees to select from global and limited-area careers

During their entire career, workers may sometimes wish to concentrate on career development, and at other times, they may wish to focus on looking after their children or other family members. We have adopted a system whereby employees can select from work styles in geographical terms according to their current life stage, being ready to be transferred between different operational locations or limiting the location of their work to a particular area.

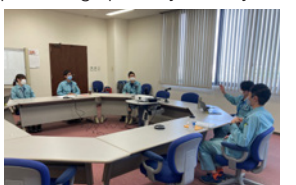
We are also implementing other measures for work style reforms, including adopting a telework system, defining No Overtime Days, and encouraging paid leave uptake.

● Promoting paternity leave uptake

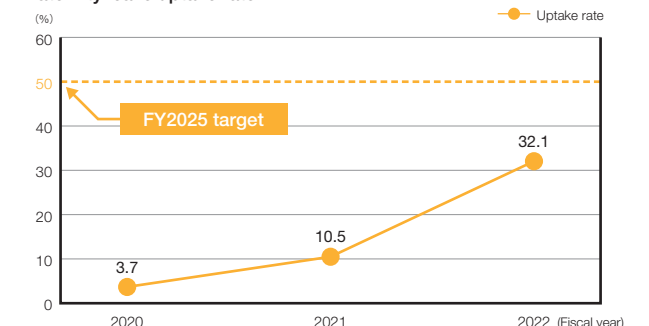
To make it easier for male employees to take childcare leave, in October 2022 Sakai Chemical Industry established a new paternity leave system for male employees with newborn babies. This system allows eligible male employees to take paternity leave for up to four weeks (28 days).

In FY2022, we held a Paternity Leave Roundtable, where employees of both genders who had childcare leave exchanged views with those who had not. The details of the discussions were later shared with all employees in the email magazine Diversity Report. These initiatives resulted in a paternity leave uptake rate of 32.1% for FY2022, an increase of more than 20 percentage points year on year.

We will continue our efforts to appropriately operate this system so that our employees can lead fulfilling lives both at work and at home. (We have set a target of raising the paternity leave uptake rate to 50% or higher by FY2025.)



Paternity leave uptake rate



For the Health and Safety of Employees

Basic Occupational Health and Safety Policy

Under the strong leadership of top management and supervisors, all of us will work together to achieve the goal of “zero accidents and zero illnesses.”

[Health and Safety Action Guidelines]

- 1. We will comply with health and safety laws and regulations and promote health and safety activities.
- 2. We will strive to create a safe workplace by conducting risk assessments.
- 3. We will prevent occupational accidents by implementing measures for handling near misses, danger prediction, and pointing and calling.
- 4. We will raise safety awareness through training and information sharing for safety and health.
- 5. We will work to promote mental and physical health by carrying out health maintenance and promotion activities.

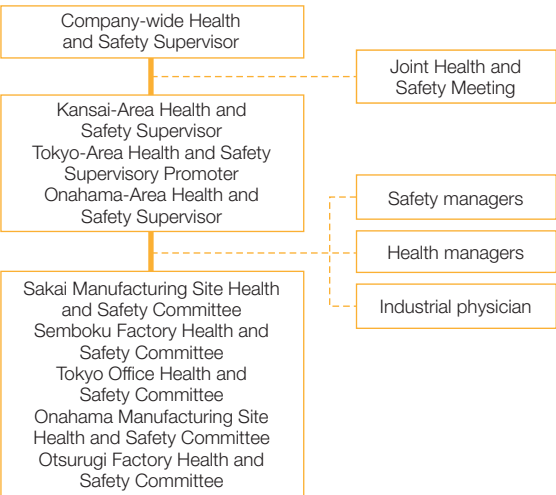
Occupational health and safety initiatives

Sakai Chemical Industry has in place the Basic Occupational Health and Safety Policy and the Health and Safety Action Guidelines. Under the policy and guidelines, the Company holds joint health and safety meetings, where Company-wide health and safety activities are mainly discussed. At each business location, a health and safety plan is formulated based on the deliberations at the Company-wide meetings, and its progress is managed under the leadership of the Health and Safety Committee of the business location.

In our safety activities, focus is basically placed on steady efforts to address near misses, predict danger, and ensure the practice of pointing and calling. We also work to prevent occupational accidents through risk assessments conducted at each workplace. To prevent the Yumoto Factory explosion accident, which we must never forget, from fading into oblivion, we deliver a message from the president titled “Pledge to Ensure Safety” on May 11, the anniversary of the accident, every year. We also hold a Safety Session at each business site every July, where the relevant Health and Safety Supervisor gives a lecture on the accident.

Our occupational health activities include having the industrial health staff provide health information on food and other topics, offering follow-up support to employees under a high level of mental stress, and utilizing health-related services provided by external organizations. We therefore continue to work to help our employees enhance their mental and physical health.

Organizational structure for health and safety management (as of the end of March 2023)



Occupational accident in FY2022

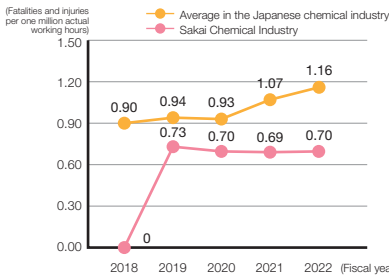
In FY2022, a lost-time accident occurred, with an employee falling and having to take leave. To prevent employees from falling, we have included fall prevention activities in our monthly priority activities. We are therefore actively committed to preventing the recurrence of similar accidents under the leadership of the Health and Safety Committees.

Number of lost-time accidents

Fiscal year	2018	2019	2020	2021	2022
Number of accidents	0	1	1	1	1

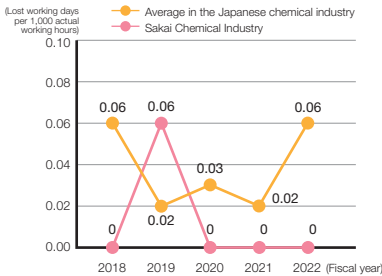
Frequency rate

Number of occupational fatalities and injuries involving leave of one day or more, per one million actual working hours. A higher value means greater frequency.



Severity rate

Number of working days lost due to accidents per 1,000 actual working hours. A higher value means greater severity.



Safety promotion activities incorporating external perspectives

To have our workplace health and safety activities reviewed from external perspectives, in FY2022 we hired safety consultants to provide safety diagnoses to our business locations in the Kansai area. On the advice of the consultants, we are implementing improvement measures, including clearly zoning footpaths to completely separate them from roadways at our factory sites and adopting heatwave countermeasures. We are planning to receive a safety diagnosis for the Onahama Manufacturing Site in FY2023. We also hold safety education seminars and lectures from external perspectives with the aim of achieving zero accidents.

Chemical substance risk assessment seminars

We held seminars using the Ministry of Health, Labour and Welfare (MHLW)'s on-site support program for chemical substance risk assessment. The seminars were aimed at giving attendees an outline of the revised provisions for the autonomous management of chemical substances in the Ordinance on Industrial Safety and Health and other related laws and regulations, thereby raising employee awareness of the importance of chemical substance risk assessment.



Seminar held in the Kansai area on February 17, 2023 using the MHLW's on-site support program



Seminar held in the Onahama area on February 24, 2023 using the MHLW's on-site support program

Lecture on fires and explosions

To prevent the Yumoto Factory explosion accident on May 11, 2021 from fading into oblivion, on May 11, 2023, the second anniversary of the accident, we held a lecture on combustion phenomena in fires and explosions, with Professor Ritsu Dobashi at the University of Tokyo, who had served as a member of the investigation committee for the accident, invited as a guest speaker. This lecture was also open to attendees from Sakai Chemical Group companies as a Group-wide activity aimed at preventing fires or explosions.



Safety lecture held on May 11, 2023

Encouraging Group companies to promote health and safety activities

Every quarter, Sakai Chemical Industry analyzes occupational accidents at each Sakai Chemical Group company and commuting accidents in which Group company employees are involved. Information about those accidents and analysis results are shared throughout the Group. The Company also holds Sakai Chemical Group Safety Meetings twice a year. At the FY2022 meetings, attendees exchanged opinions on chemical burns, the most frequent kind of occupational accident in the Group, and shared with each other information about the revised provisions for the autonomous management of chemical substances in the Ordinance on Industrial Safety and Health and other related laws and regulations.

Moreover, Sakai Chemical Industry sends staff to each Group company in Japan to conduct safety patrols. In FY2022, the staff confirmed the progress of measures to prevent the recurrence of occupational accidents of the kind that had occurred in the past, as well as the level of compliance with the Act on Comprehensively Advancing Labor Measures, Stabilizing the Employment of Workers, and Enriching Workers' Vocational Lives (the so-called "Power Harassment Prevention Act") and the status of use of personal protective equipment. In addition, at Group companies handling substances that might cause dust explosions, the staff sent by the Company confirmed that necessary measures had been adopted, including having workers wear antistatic shoes. We will continue this initiative in the future in order to improve the Group-wide level of occupational health and safety.

Various disaster drills

Sakai Chemical Industry conducts regular disaster drills at each manufacturing site so that all those involved will be prepared to take prompt responses in the event of an emergency.

At the Sakai Manufacturing Site, an evacuation drill is conducted on the occasion of the annual Osaka 8.8-million Drill. This evacuation drill includes travel to an evacuation site, the trial use of a personal safety confirmation system, and checks on whether emergency internet protocol (IP) radios are in working order.

At the Onahama Manufacturing Site as well, evacuation drills are conducted in a simulation of the issuance of a tsunami warning.

Each workplace also conducts an annual disaster drill according to schedule to enable employees to learn how to act on-site in the event of an accident or disaster and how to practice first-aid fire fighting using fire extinguishing equipment.



Removal of the Onahama Manufacturing Site's designation as a business site that needs special guidance on safety management

In FY2022, the Onahama Manufacturing Site was designated as a business site that needs special guidance on safety management. In response to this designation, we formulated a health and safety improvement plan, which includes conducting thorough risk assessments and providing employees with education focusing on fires and explosions. Based on this plan, we not only continuously engaged in the conventional kinds of health and safety activities but also implemented measures to raise employee awareness of health and safety activities, such as holding risk assessment training sessions, where occupational safety consultants gave instructions from external perspectives, and providing health and safety education for managers. The progress of the plan was officially confirmed through monthly reports submitted to the Iwaki Labor Standards Inspection Office and four on-site inspections conducted by the authorities (in May, September, November, and February). On the authorities' advice given during the inspections, we made several on-site improvements, including those to speed limit signs for forklifts, and shared the advice with our business locations in the Kansai area. On March 31, 2023, after one year of our serious improvement efforts, the Onahama Manufacturing Site's FY2022 designation as a business site that needs special guidance on safety management was removed. We will leverage this experience in our future health and safety activities with the aim of making our manufacturing sites and factories even safer.



Speed limit sign (at Plant F of the Otsurugi Factory) improved on advice given during the on-site inspection on September 9, 2022



Risk assessment training session held on July 22, 2022



Safety education session for safety managers held on March 28, 2023

Together with Employees

Health checkups and related initiatives

● Enhancing optional items in health checkups and sharing the checkup results

Since FY2021, the Company has added tumor markers to its regular health checkup and has also introduced optional checkup items, such as ultrasonic diagnosis. In addition, since FY2023, we have enabled female employees to have a health checkup for women, allowing them to select optional items related to diseases specific to women. We therefore work to provide our employees with the opportunity to have further enhanced health checkups according to their needs. Furthermore, in accordance with the applicable laws and regulations, the Company gives a special health checkup to all employees who handle organic solvents or specified chemical substances at work to prevent and detect at an early stage health damage on the occasion of the health checkup.

We also operate a system for sharing the health checkup results across the Company and managing them in a unified manner so that employees can continue to receive consistent health guidance from the health staff of each area no matter where they are transferred. By doing so, we aim to visualize the health condition of the entire workforce of the Company or each area, identify challenges based on the visualized data, and make our health guidance more appropriate, thereby helping our employees enhance their health.

Health activities utilizing external organizations

● Utilizing counseling services

Sakai Chemical Industry has established a system for its collaboration with external organizations in allowing its employees to receive advice from outside experts. Our use of external organization has enabled employees to consult not only about their work and workplace but also about their private lives and has allowed even their family members to seek consultation services, thereby contributing to the availability of both mental and physical health support.

● Cooperation with the Osaka Yakugyo Health Insurance Society

Sakai Chemical Industry has regular contact with the Osaka Yakugyo Health Insurance Society, to which it belongs, and cooperates with the society, through a clear allocation of roles, in specific health guidance and the “Data Health” (data-based healthcare) project in order to enhance employees’ health. Through this cooperation, we perform comprehensive employee health management, including organizing health seminars taught by external guest instructors (FY2022 seminar topics: self-care training, training in “line care” [mental health care for workers on the same reporting or production line], and harassment prevention training), monitoring the health condition of the entire workforce of each business site based on data on hospital visits, and enhancing health guidance accordingly.

● Utilizing the results of the Survey on Health and Productivity Management

Sakai Chemical Industry is continuously responding to the Survey on Health and Productivity Management conducted by the Japanese Ministry of Economy, Trade and Industry (METI). We share with those involved the METI’s feedback on the survey results and provide the relevant health information for Health and Safety Committee members as a reference source. We therefore utilize the survey results to formulate an employee health enhancement plan.

Mental health care initiatives

● Mental health education for employees

Sakai Chemical Industry provides a wide variety of mental health education programs for its employees, including self-care education provided to new employees as part of induction education. In line with recent trends toward the diversification of society, the Company is seriously committed to raising itself into an organization where no one suffers mental health problems. The specific measures that the Company is implementing for that purpose include providing e-learning programs focusing on harassment prevention, online seminars taught by health staff, and “line care” training for managers.

● Support provided by industrial health staff and mental health specialists

Sakai Chemical Industry has full-time industrial health staff in addition to health managers and has in place a system whereby employees can consult those staff about their own mental and physical health without hesitation. The consulted industrial health staff cooperate with industrial physicians and supervisors in providing prompt support to employees suffering mental health problems, for example, by introducing to them medical institutions specializing in mental health as needed. We focus particularly on constantly interviewing employees at turning points in their careers, such as transfer to a business location in another area, rise in status, promotion, and employment (in the case of new-graduate and mid-career hires), with the aim of preventing mental health problems among them.

We also open a general mental health clinic on a regular basis to have mental health specialists provide consultation services at the request of employees. The clinic also provides consultation services online so that employees can have expert interviews no matter where they are working. This system also offers the opportunity to use consultation services to employees who have mental health concerns but are hesitant to visit the hospital.

● Workplace improvement initiatives based on stress check results

The results of annual stress checks are shared with department general managers and higher ranked management, including management team members. The results for each organization are analyzed, and each organization (department) utilizes the analysis results to devise and implement workplace improvement measures. Employees judged to be under high stress are interviewed individually by industrial health staff or mental health specialists with full consideration paid to their privacy.

In this way, we leverage the stress check results to encourage both individual employees and their organizations to make both work-related and life-related improvements with the aim of preventing mental health problems.

Encouraging Group companies to promote health activities

To raise health awareness among employees throughout the Sakai Chemical Group and enhance their physical and mental health, we encourage Group companies to promote health activities. For example, since FY2023, we have upgraded health lectures, which were previously provided only to health and safety personnel, to health and safety seminars and broadened the scope of their audience to encompass all Group company employees.

Voice Aiming to be a healthy “Exciting Company”

The ability to maintain good physical and mental health underpins the improvement of work performance. Sakai Chemical Industry has three industrial health staff members, including myself, in charge of providing health support for employees at each business site.

I am in charge of the Kansai area and plan and manage various seminars and health events to increase the health literacy of staff members. I help them maintain healthy lifestyles on their own by providing them with the opportunity to gain knowledge about health through seminars and encouraging them to continue health improvement activities through events.

I have recently focused particularly on health support for female employees. Last fiscal year, I began to hold seminars for female employees on health issues unique to women, such as menstrual abnormalities, menopause, breast cancer, and uterine cancer, to spread health knowledge and awareness among them. Last year, I also organized an event where participants had simulated experience of being a pregnant woman with the aim of making the Company more friendly to pregnant women.

I will continue to implement various initiatives so that many more employees can work healthily with excitement.



Akiko Hase
Public health nurse
Safety & Health Section
Operation Management Department,
Sakai Manufacturing Site

Harmony with Local Communities

Communication with Local Communities

Support for local events

● Head Office and Sakai Manufacturing Site

The Sakai Festival, one of the main events in Sakai, was held for the first time in three years. In addition to supporting the event, Sakai Chemical Industry also called for volunteers from among its employees, with a total of 23 volunteers helping collect waste and serving as guides during the festival. This initiative embodies our gratitude to local people, which we have few opportunities to express in our daily activities, and our hopes of helping further revitalize Sakai, the place of origin of Sakai Chemical.



● Onahama Manufacturing Site

We supported the Izumi Furusato Festival Gotcha Market in Iwaki City, where the Onahama Manufacturing Site, our main manufacturing facility, is located. We also set up a booth at the festival. This event was also held for the first time in two years due to the COVID-19 pandemic.

In addition to the festival, Sakai Chemical employees also participated in the Iwaki Sunshine Marathon, which was held for the first time in five years due to bad weather and the pandemic, with the aim of revitalizing the event and interacting with local residents.



Engagement with children

● Support for career education for elementary school students

We supported the publication of a supplementary reader used in career education for third and fourth graders at all elementary schools in Sakai City, where our Head Office is located. The reader introduces local businesses in a variety of industries. It explains the roles of our material products in relation to smartphones, games, and cars to inspire children’s imagination more effectively. The reader emphasizes that the entire material production process comprises various kinds of work, including procurement, manufacturing, analysis, and shipment.



● Exhibition at Sakai Science Education Festa

Sakai Chemical Industry participated in this event with the aim of allowing visitors to enjoy using image generation technology, focusing on AI as a recently high-profile topic. Held for the first time in about two and a half years due to the pandemic, the event bustled with many children and their parents. We were able to interact with local children through AI-assisted image generation, for the first time in a long period. We hope to continue to share the joy of science with children through this kind of event.



Response to Climate Change

(Disclosures in Line with the TCFD Recommendations)

History of Sakai Chemical’s initiatives to combat climate change through its products and businesses

Period	Initiatives	Subject
1970s	Started operating a DeNOx catalyst factory	Contributed to rendering harmless nitrogen oxides, which could cause photochemical smog and acid rain
1990s	Started operating an electronic material factory	Contributed to energy conservation by enhancing the efficiency of electronic parts
	Started operating a cosmetic material factory	Contributes to protecting human skin from increasing UV rays
2000s	Joined the Japan Responsible Care Council	
	Formulated a Basic Environmental Policy	Obtained ISO 14001 certification for the Otsurugi Factory
	Switched from crude oil to LNG	Made the fuel switch at the Sakai Manufacturing Site
2010s	Switched from crude oil to LNG	Made the fuel switch at the Onahama Manufacturing Site
	Developed substitute products for microplastic beads (MPB)	Developed the Sciqas™ series (spherical silica), LPZINC-S (large-particle spherical zinc oxide), Calmaru™ (spherical calcium carbonate), and Barimaru™ (spherical barium sulfate)
2020s	Formulated a Basic Procurement Policy Started using carbon neutral LNG Introduced solar power generation	Scope: Sakai Chemical (2020) → Scheduled to apply to all Sakai Chemical Group companies from 2023 At the Matsubara Factory in 2021 and at the Otsurugi Factory in 2023 At the Otsurugi Factory in 2023

1 Governance

In response to environmental changes that can pose risks to our corporate management, including climate change, we assess the levels of risks and opportunities, discuss appropriate countermeasures, and decide to implement such countermeasures under the oversight of the Board of Directors.

To mitigate impacts on environmental issues, including climate change, and contribute to solutions to social issues, the Sustainability Committee, chaired by the Representative Director, meets at least twice a year to deliberate on targets and strategies related to climate change while taking into consideration our business strategies to manage the progress of our initiatives.

2 Strategy (short term: shorter than one year; medium term: one to five years; long term: five to 30 years)

1 2°C scenario: Low-carbon, decarbonization, and carbon-recycling technologies will be used widely, and demand for sustainable products will grow.

Type	Environmental Changes	Expected Situations	Term Length	Major Countermeasures
Transition Risks	CO ₂ emission regulations	Growing need for fuel decarbonization Cost increase due to a switch to low-carbon emissions materials and processes	Medium term	<ul style="list-style-type: none">Using LNG combined with carbon creditsFurther enhancing the efficiency of energy useIntroducing renewable energy more widelyIntroducing carbon-recycling technology more widelyReconsidering the business portfolio and manufacturing processes with a view to reducing environmentally harmful emissions from the manufacturing processes
	Switch to low-carbon emissions products	Decline in demand for fossil fuel and petrochemical products (such as plastic products)	Short term	
	Changes in customer behavior	Increase in demand for low-carbon emissions products within the supply chain	Long term	
Business Opportunities	Increased demand for products that help mitigate climate change	Growing demand for carbon recycling, carbon-free fuel, carbon-absorbent products, and products related to power generation and storage	Long term	<ul style="list-style-type: none">Developing decarbonization products (secondary battery materials, materials for water electrolyzers, carbon-absorbent materials, carbon recycling catalysts, and synthetic ammonia catalysts)Enhancing the functions of electronic and energy materials (small-size, minute-particles [for higher durability] materials with uniform granularity distribution)
	Development of next-generation technologies	Electrification of mobility Use of hydrogen and ammonia as energy sources	Medium term	

2 4°C scenario: Low-carbon, decarbonization, and carbon-recycling technologies will not advance, thereby heightening the physical risks of the greater severity of extreme weather events and a rise in average temperatures.

Type	Environmental Changes	Expected Situations	Term Length	Major Countermeasures
Physical Risks	Greater severity of extreme weather events	Heavier wind and flood damage to our production bases Droughts and health damage in the summer, which can lead to suspension of production activities, delayed or disrupted logistics, and consequently massive damage to corporate activities in general	Short term	<ul style="list-style-type: none">Formulating a business continuity plan (BCP) for each production base in line with the scenarioConsidering optimal locations for production and diversifying raw material suppliersEnhancing measures to reduce health damage (such as heatstroke)Introducing unmanned operations by accelerating robotization and automation
	Rise in average temperatures	Increase in the cost of countermeasures against heatstroke and air-conditioning Decline in labor productivity in the event of a lack of appropriate countermeasures	Long term	
Business Opportunities	Growing demand for products that help adapt to climate change	Increased demand for healthcare products Increased demand for heat-insulating and heat-barrier products Wider spread of remote work Increased demand for antibacterial and antiviral materials	Short term	<ul style="list-style-type: none">Boosting sales of skincare products, including sunscreenDeveloping heat-insulating and heat-barrier materialsBoosting sales of antibacterial and antiviral materialsBoosting sales of 5G- and 6G-compatible productsDeveloping materials related to wastewater and water purification
	Diversification of raw material suppliers	Greater opportunity of replacement demand due to BCP measures	Long term	

3 Risk Management

Sakai Chemical has identified issues of ESG materiality and manages risks through Group-wide materiality management. We recognize responses to climate change as an extremely important issue from both our stakeholders’ and our own perspectives, and the Sustainability Committee deliberates on them. We take the initiative in climate-related risk management, which we believe is a fundamental requirement for the existence and activities of our Group.

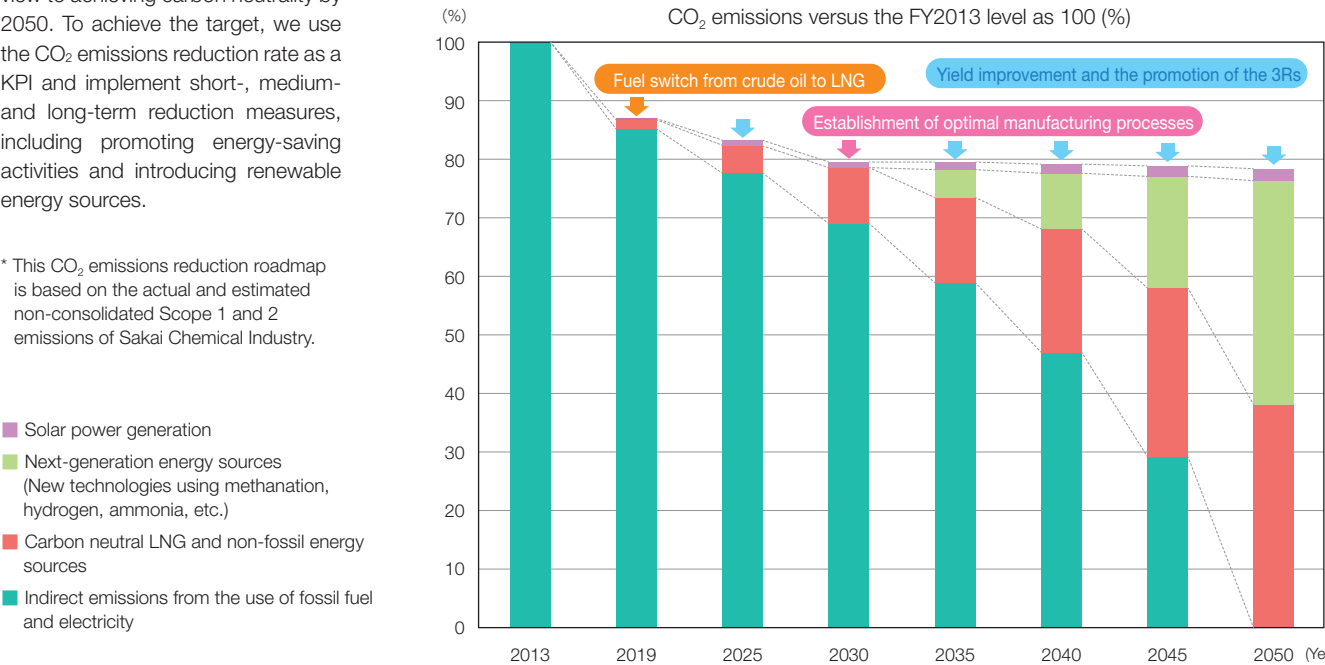
4 Metrics and Targets

Sakai Chemical has set a long-term CO₂ emissions reduction target with a view to achieving carbon neutrality by 2050. To achieve the target, we use the CO₂ emissions reduction rate as a KPI and implement short-, medium- and long-term reduction measures, including promoting energy-saving activities and introducing renewable energy sources.

* This CO₂ emissions reduction roadmap is based on the actual and estimated non-consolidated Scope 1 and 2 emissions of Sakai Chemical Industry.

Vision for Sakai Chemical’s transition to carbon neutrality

We tackle the challenge of achieving carbon neutrality by 2050 by accelerating decarbonization in line with progress in innovation.



Environmental Management

Basic Environmental Policy

1. We comply with laws and regulations related to the environment as well as other requirements to which we have agreed.
2. In consideration of our business activities, we will focus on the following items.
 - 1) We will develop and manufacture environmentally friendly products and procure environmentally friendly raw materials.
 - 2) We will improve our environment-related technologies and know-how.
 - 3) We will sell products that help our customers reduce their environmental impact and prevent pollution.
3. We will strive to conserve resources and energy and reduce industrial waste from a life cycle perspective at all stages of our business activities.
4. We will establish an environmental management system and plan for continuous improvement and pollution prevention.
5. We will set environmental targets and review them regularly.
6. We will ensure that all employees and related parties are made aware of this Basic Environmental Policy and promote education and dissemination activities to ensure that everyone can understand and act on it.
7. This Basic Environmental Policy will be made available to the general public as necessary.

Environmental management system (EMS)

Sakai Chemical Industry has created an Environmental Manual in line with ISO 14001 to clarify its environmental measures and promote environmental conservation activities effectively with the aim of reducing the environmental impact of our business activities, preventing pollution, and proactively conducting environmentally friendly business activities.

Acquisition of ISO 14001 certification

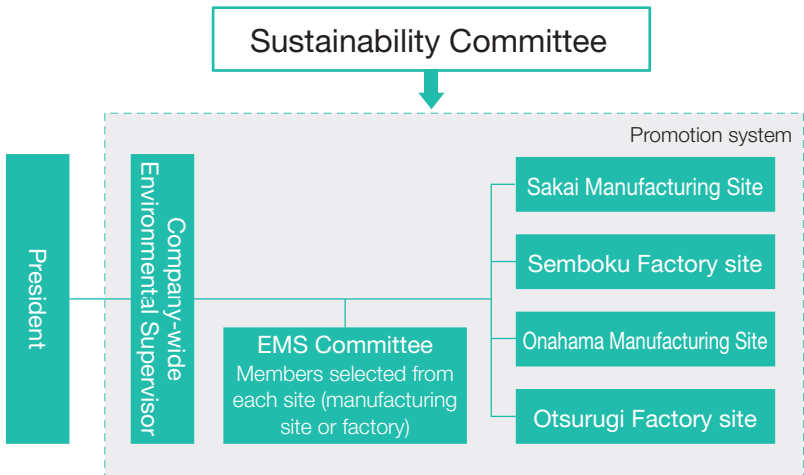
The Otsurugi Factory has ISO 14001:2015 certification and passed a renewal audit on August 1, 2023. We are also scaling out similar initiatives throughout the Company.

Promotion system

The EMS Committee shares information about and discusses risks and issues identified at each site based on the deliberations of the Sustainability Committee in order to facilitate Company-wide efforts to achieve environmental targets and solve environmental issues. Moreover, EMS-related executive responsibility and authority at each site has been delegated to the Site Environmental Supervisor so that environmental conservation activities can be promoted effectively at each site.

Environmental risk and compliance management

Business activities must not involve any legal violations. In FY2022, the EMS Committee discussed how to manage the list of environmental laws and regulations and launched an initiative to improve it. In addition, each department identifies and assesses environmental risks and strives to reduce those risks by working to achieve environmental targets set based on high-priority challenges. We will prevent the unintended discharge of environmentally hazardous substances and environmental accidents by implementing environmental risks and compliance management initiatives.



Promotion of education

Aiming to spread environmental conservation activities throughout the Company and upgrade them, Sakai Chemical Industry provides in-house e-learning and allows employees to attend an ISO 14001 internal auditor training course run by an external organization.

FY2022 targets and results

Sakai Chemical Industry set environmental targets for FY2022 to contribute to the development of a sustainable society by reducing both environmentally hazardous substances used in its business activities and environmental risks entailed thereby. The FY2022 results of our efforts to achieve those targets are as follows:

○: Target achieved ×: Target not achieved

Type		Targets	Results	Assessment	FY2023 target
Initiatives to mitigate climate change	CO ₂ emissions reduction	Reducing CO ₂ emissions by 30% (versus the FY2013 level) by FY2030	23% reduction	—	Continuing to strive for the same target
	Energy conservation	Reducing energy intensity by 1% year on year	4% increase	×	Continuing to strive for the same target
Resource recycling initiatives		Reducing industrial waste by 25% (versus the FY2021 level) by FY2025	16% reduction	—	Continuing to strive for the same target
Initiatives to prevent pollution and reduce environmentally hazardous substances		Meeting numerical regulation standards	Minor and temporary exceedance of standard values (in one indicator)	×	Continuing to strive for the same target
Biodiversity initiatives		Conducting environmental impact post-assessment (animal, plant, and ecosystem assessment) on the occasion of the construction of an in-house disposal site Continuing to use CNL	Applied for permission to change (expand) the size of the disposal site Continued to use CNL (Matsubara Factory)	○	Conducting environmental impact post-assessment on the occasion of construction after acquiring permission at the end of 2023 Continuing to use CNL and increasing its use
Environmental compliance initiatives		Zero serious environmental accidents	One serious environmental accident: Fire at the Onahama Manufacturing Site	×	Continuing to strive for the same target

* This assessment is based on values calculated in accordance with the Act on Rationalizing Energy Use and the Act on Promotion of Global Warming Countermeasures.

FY2022 environmental performance

Our business activities involves heavy consumption of energy, chemicals, water resources, etc. The environmental impact of our business activities for FY2022 was as follows:

INPUT				OUTPUT			
Raw materials				Energy			
Unit	FY2021	FY2022		Unit	FY2021	FY2022	
1,000 tons	297	249		1,000 kL	71	62	
				Water			
Unit	FY2021	FY2022		Unit	FY2021	FY2022	
1,000 m ³	33,757	33,859					
Products				Emissions to the atmosphere			
Unit	FY2021	FY2022		Unit	FY2021	FY2022	
1,000 tons	74	63		CO ₂	1,000 tons	134	119
				SO _x	Tons	53	31
				NO _x	Tons	59	34
				Pollutant Release and Transfer Register (PRTR)-listed substances	kg	43	22
				Discharges to water bodies			
Unit	FY2021	FY2022		Unit	FY2021	FY2022	
				Water discharge	1,000 m ³	33,765	33,844
				COD	Tons	164	221
				Total nitrogen	Tons	1,119	710
				PRTR-listed substances	Tons	290	261
				Waste			
Unit	FY2021	FY2022		Unit	FY2021	FY2022	
				In-house disposal	1,000 tons	48	40
				External disposal	1,000 tons	2	2
				PRTR-listed substances transferred	Tons	351	280

* The amount of energy is a conversion of the total usage of various fuels and electricity at the Company's factories into the amount of crude oil based on the Act on Rationalizing Energy Use.

* "Water" above includes supply water, ground water, industrial water, and seawater.

* CO₂ emissions are calculated in accordance with the Act on Rationalizing Energy Use and the Act on Promotion of Global Warming Countermeasures.

* The value of the chemical oxygen demand (COD) includes an equal conversion of the biochemical oxygen demand (BOD) of rivers.

* The value for "Products" in the OUTPUT table is the value of production volume used in the periodical report that the Company has submitted in line with the provisions of the Act on Rationalizing Energy Use. (It does not include by-products.)

Initiatives to Reduce Environmental Impacts

Initiatives to mitigate climate change

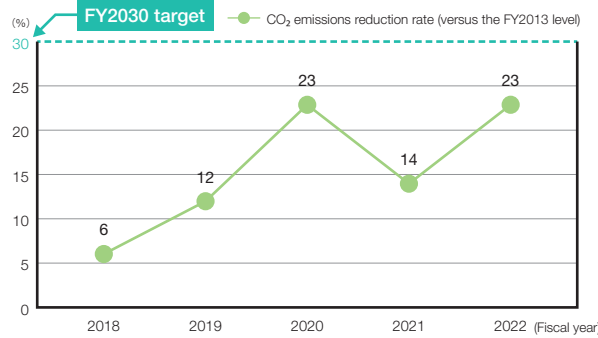
In line with the public policy on response to climate change (based on the Task Force on Climate-Related Financial Disclosures [TCFD] Recommendations), Sakai Chemical Industry has set a medium-term target of reducing CO₂ emissions by 30% versus the FY2013 level by FY2030. We will consider the introduction of renewable energy sources, strongly promote energy conservation activities, and continue to tackle the challenge of achieving carbon neutrality by 2050.

CO₂ emissions reduction and energy conservation activities

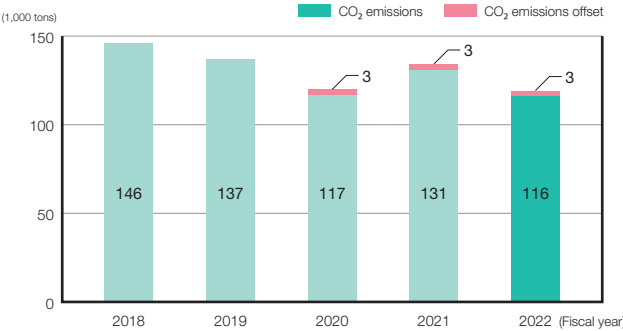
In FY2022, CO₂ emissions from our business activities decreased partly due to a decrease in production. Meanwhile, our energy intensity for FY2022 increased by 4% year on year.

This means that we failed to achieve our target of reducing energy intensity by 1% or more year on year despite our proactive measures to reduce steam loss, improve the efficiency of equipment operation, and replace conventional equipment with energy-saving equipment. We recognize that the main factors behind the deterioration of energy intensity include an increase in the proportion of high-value-added products, which use a large amount of energy.

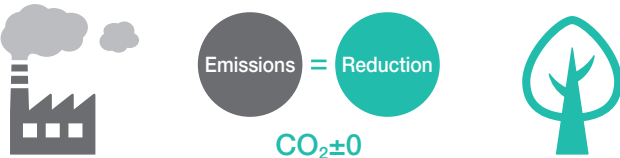
Materiality target achievement level



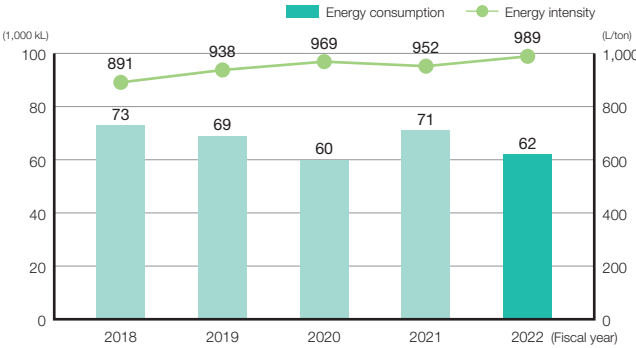
CO₂ emissions



* Calculated in accordance with the Act on Rationalizing Energy Use and the Act on Promotion of Global Warming Countermeasures
* Since FY2020, we have been using carbon neutral LNG at the Matsubara Factory, which manufactures cosmetic materials at the Onahama Manufacturing Site.
* Carbon neutral LNG 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 forestation and other projects.



Energy consumption (crude oil equivalent) and energy intensity



* Calculated in accordance with the Act on Rationalizing Energy Use
* Starting with the Environmental and Social Report for FY2022, the new calculation method for energy intensity has been adopted.
The data for the past five years are also calculated using the new method.
(Approved by the Kinki Bureau of Economy, Trade and Industry on January 23, 2023)

Initiatives to introduce renewable energy

Installing solar panels at the Otsurugi Factory

With the aim of reducing greenhouse gas emissions and conserving energy, we concluded a basic agreement on energy services with Tokyo Gas Co., Ltd. in June 2022 and installed solar power generation equipment using the power purchase agreement (PPA) model* at the Otsurugi Factory at the Onahama Manufacturing Site.

The equipment began to work in late June 2023, with an estimated power generation capacity of 1,411 MWh. This capacity accounts for approximately 17% of the Otsurugi Factory's electricity consumption in FY2022, with an expected CO₂ reduction of approximately 680 tons. This equipment will also enable us to more easily secure communication infrastructure and power necessary for the resumption of operations in the event of a large-scale disaster and the resulting malfunctioning of infrastructure. We will consider scaling out this initiative to other factories and work to achieve more widespread use of renewable energy.



* The power purchase agreement (PPA) model is a business model in which a PPA operator installs solar power generation equipment at its own cost on the premises of a counterpart company, which purchases the generated electricity.

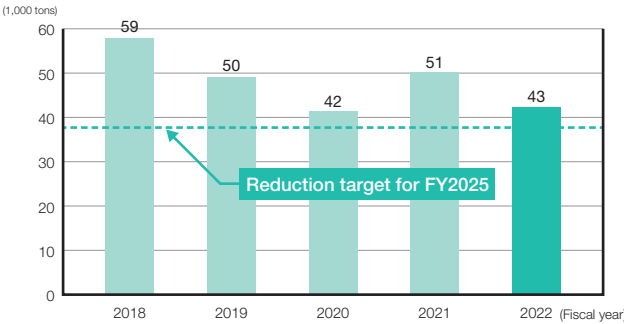
Resource recycling initiatives

As one of its medium- to long-term materiality targets, Sakai Chemical Industry has set a target of reducing industrial waste by 25% versus the FY2021 level by FY2025. We will promote the 3Rs ("reduce," "reuse" and "recycle") and work to reduce industrial waste through overall waste management measures.

Industrial waste

Industrial waste from our business activities decreased by 8,000 tons year on year partly due to a decrease in production. More than 90% of waste is disposed of in landfills at our in-house disposal site, and most of it is waste sludge derived from titanium dioxide discharged during production. We are currently considering the possibility of reducing waste sludge derived from titanium dioxide to achieve the relevant target for FY2025. (See "Voice" below.)

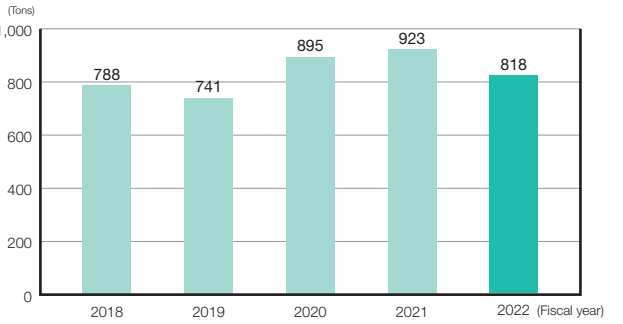
Industrial waste



Details of industrial waste disposal (FY2022)

		Quantity (t)	Proportion (%)
Disposal methods	Recycling	818.0	1.9
	Volume reduction and others	131.1	0.3
	In-house	40,390.5	94.8
	Landfill	1,286.3	3.0
Total		42,625.9	100.0

Amount of industrial waste entrusted to external parties for recycling



Management system for in-house industrial waste disposal sites

The Company possesses a managed final disposal site in Iwaki City and operates and manages it on its own responsibility. Furthermore, at the Watanabe final disposal site, we have set up a specialist committee with local residents to promote activities to conserve the abundant natural environment of the area around the disposal site while deepening mutual communication with local residents.

Plastic waste

In FY2022, we recycled 77% of plastic waste. We will ensure the complete separation and thorough management of plastic waste and carefully select a contract waste plastic disposal service provider in order to increase the percentage of plastic waste recycled or used for thermal recycling.

Plastic waste disposal (FY2022)

		Quantity (t)	Proportion (%)
Recycling	Recycling	309.9	77.2
	Thermal recycling	16.7	4.2
	Intermediate processing	32.7	8.2
Incineration (without thermal recycling)		29.0	7.2
Landfill		29.7	7.4
Total		401.3	100

* "Recycling" includes recycling into solid fuel.

Disposal of polychlorinated biphenyl (PCB) waste

With the aim of completing the disposal of flow-concentration PCB waste as early as possible, we are working to recover and restore the waste appropriately while managing progress at each site.

Voice New waste reduction initiative –Toward effective use of sludge–

We manufacture titanium dioxide products using iron-containing ores as raw materials. The iron and titanium dioxide residue after production form sludge. To reduce this kind of industrial waste, we are working to optimize the conditions for iron separation, improve product yield, and effectively use the iron residue. To effectively use the iron residue, we convert it into iron sulfate and further process iron sulfate into polyferric sulfate (Polytetsu®) to distribute iron sulfate and polyferric sulfate as products. In addition, last fiscal year, we started working out a new method of utilizing the iron residue as the key to waste reduction. We will continue our efforts to achieve our waste reduction targets.



Masayuki Asada
Production Technology Department,
Onahama Manufacturing Site

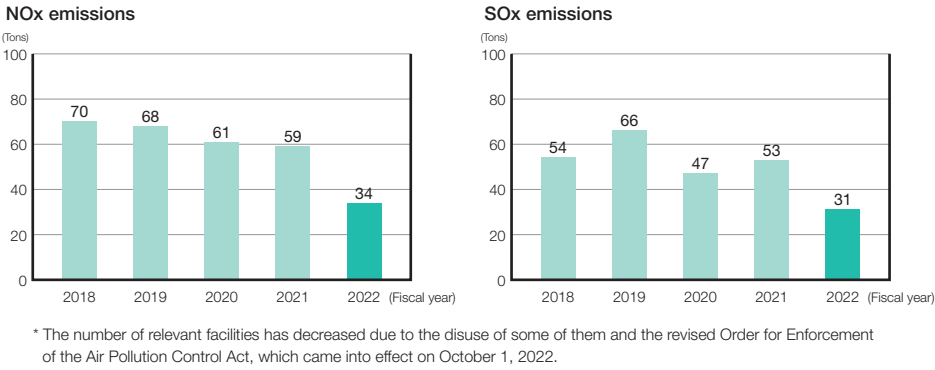
* Polytetsu® is the product name of an iron-based inorganic flocculant trademarked by Nittetsu Mining Co., Ltd.

Initiatives to prevent pollution and reduce environmentally hazardous substances

Environmentally harmful substances must not be discharged into the external environment. Sakai Chemical Industry will continue its efforts to enhance the system for monitoring these kinds of substances.

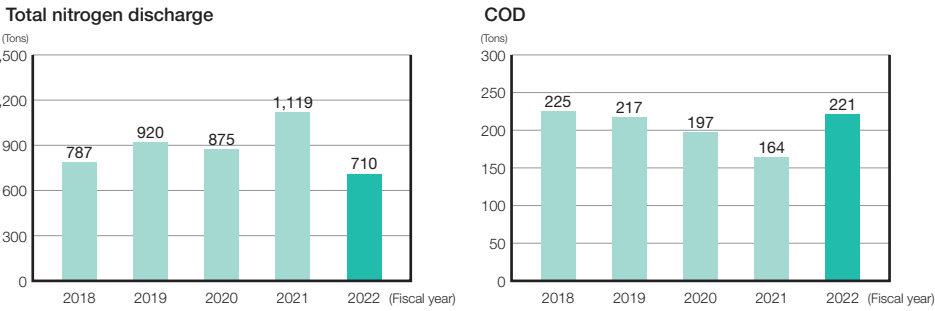
Air pollutant emissions

Compared with FY2021, both NOx and SOx emissions for FY2022 decreased. We believe this is due to a decrease in production volume in addition to the disuse of the relevant equipment. We will continue to tightly manage these air pollutants on our own through such measures as inspecting exhaust gas-emitting facilities to not only comply with applicable laws and regulations but also reduce pollutant emissions.



Water pollutant discharges

Compared with FY2021, the total nitrogen discharge for FY2022 decreased, while the COD for the same year increased. We will continue to strive to keep our water pollutant discharges lower than the regulation limit values by establishing and enhancing our wastewater monitoring system in order to control, maintain and manage water pollutants discharged in wastewater, such as nitrogen, as well as the values of indicators for the level of water pollution, including the COD.



Pollutant Release and Transfer Register (PRTR)-listed substances emitted and transferred

For FY2022, the amounts of PRTR-listed substances emitted into the air and discharged into water bodies, as well as PRTR-listed substances transferred, all decreased. We will continue to work to reduce PRTR-listed substance emissions and discharges by improving our production processes and enhancing the yield.

PRTR-listed substances	Emissions						Amount transferred		
	FY2020		FY2021		FY2022		FY2020	FY2021	FY2022
	Emissions to the atmosphere	Discharges to water bodies	Emissions to the atmosphere	Discharges to water bodies	Emissions to the atmosphere	Discharges to water bodies	Waste	Waste	Waste
Water-soluble zinc compounds	0.00	0.50	0.00	0.030	0.00	0.030	0.00	0.00	0.00
Antimony and its compounds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Calcium cyanamide	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cobalt and its compounds	0.00	0.00	0.00	0.040	0.00	0.00	0.00	0.00	0.00
2,6-di-tert-butyl-4-cresol	—	—	0.00	0.00	0.00	0.00	—	0.00	0.00
Organic tin	—	—	0.00	0.00	0.00	0.00	—	0.00	0.00
Thiourea	0.00	136.8	0.00	249.8	0.00	218.8	28.2	35.4	30.6
Copper water soluble salt	—	—	—	—	0.00	0.00	—	—	0.00
Lead compounds (specific class 1 designated substance)	0.00	0.00	0.00	0.00	0.00	0.00	3.8	2.7	3.1
Zirconium dichloride	0.00	0.00	0.00	0.00	0.00	0.00	2.4	0.92	2.3
Nickel compounds (specific class 1 designated substance)	0.00	0.18	0.00	0.65	0.00	0.45	3.5	14.2	12.6
Vanadium compounds	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.20	0.17
Boron and its compounds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Manganese and its compounds	0.00	23.6	0.00	35.1	0.00	37.0	273.3	297.0	230.2
Methylnaphthalene	0.048	0.00	0.043	0.00	0.022	0.00	0.00	0.00	0.00
Molybdenum and its compounds	0.00	2.7	0.00	3.9	0.00	5.0	0.15	0.73	0.74
Phthalic anhydride	—	—	0.00	0.00	0.00	0.00	—	0.00	0.00
Total	0.048	163.7	0.043	289.6	0.022	261.3	311.4	351.1	279.8

Relationships with Business Partners

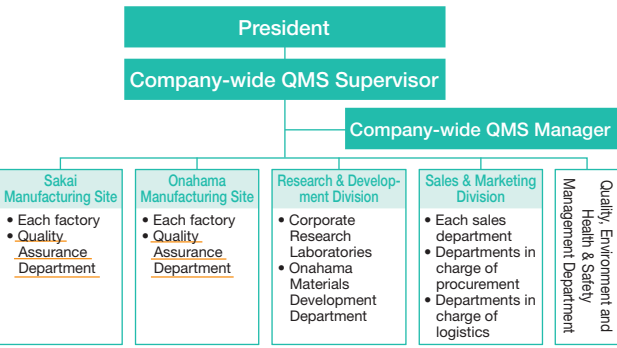
Basic Quality Policy

We will contribute to society by continuously improving the effectiveness of our quality management system, emphasizing product safety, and achieving stable, high-quality supply at low cost in order to improve customer satisfaction.

Quality management activities

Sakai Chemical Industry operates a quality management system (QMS) and is certified to meet ISO 9001, an international QMS standard. The 8th ISO 9001 renewal audit conducted in December 2022 confirmed that our QMS was maintained appropriately, with no nonconformities or minor defects. We are striving to provide greater customer satisfaction by managing our entire supply chain—from the procurement of raw materials through production to the delivery of products to customers—for quality assurance.

Organizational chart of the QMS functions (as of April 2023)



Initiatives for greater customer satisfaction

Enhancing the quality assurance system

The Quality Assurance Department, established at both the Sakai Manufacturing Site and the Onahama Manufacturing Site on April 1, 2022, utilizes the Company-wide system for issuing test records, which was introduced around the same time, to increase the reliability of product quality and more effectively prevent the release of nonconforming products due to misjudgments on test results or falsification of product test data. In addition, the Quality, Environment and Health & Safety Management Department hosts regular meetings with the department in charge of quality assurance of each division or manufacturing site to identify and resolve issues in order to improve the Company-wide QMS. In FY2022, we focused mainly on the following:

Since the criteria for treating customer inquiries as grievances or complaints against our products had been slightly vague, decision-making on the necessity of corrective measures and the processing of related documents had sometimes needed much time. To resolve this problem, we adopted clearer criteria and began to manage the inquiry treatment process through regular meetings. As a result, the speed of our response to grievances and complaints against our products has been improved. We have also established the rule to issue a change application before changing manufacturing processes, raw materials, etc. Those applications for changes are approved after being verified and deliberated on by the relevant departments. Our previous rules permitted the omission of application for low-risk changes, but we have revised the rules so that the omission will be permitted only if approved by the person in charge. We have also added new entry items to the change application form, including initial flow management measures to be implemented at the planning stage and a list of customers expected to be affected by the change, so that all necessary issues will be thoroughly examined. Furthermore, we have enhanced change management by standardizing change notification forms to be submitted to customers.

Initiatives for safe logistics

To ensure the safe transportation of products, the Company holds quality safety meetings with logistics companies, clearly informs those involved in logistics about rules applicable at the manufacturing sites, and patrols those sites. The Company also holds regular safety seminars intended for logistics companies to secure their cooperation in maintaining the safety of logistics. Moreover, in anticipation of accidents in the process of transporting chemicals, we have created an emergency contact card (“Yellow Card”), which carries information about what the driver, firefighters, the police, and other persons involved must do in the event of an accident. Copies of the card have been distributed to logistics companies.

Initiatives to manage chemicals contained in products

Creation and issuance of safety data sheets (SDSs)

To ensure that customers can use our products safely, we prepare safety data sheets (SDSs) in accordance with the applicable standards issued by Japanese Industrial Standards (JIS Z 7253:2019) to inform customers about the hazards and damage that chemicals contained in our products can cause. The SDS preparation task is concentrated in the Quality Assurance Department at the Sakai Manufacturing Site and the Onahama Manufacturing Site. We have also introduced an SDS creation support tool to streamline SDS creation and management. Additionally, we are devising a new method of providing SDSs with a view to beginning to use it within FY2023 so that we will be able to constantly provide the latest information.

chemSHERPA

We provide customers with information on chemical substances contained in products using chemSHERPA, a system developed and promoted for that purpose by the Japanese Ministry of Economy, Trade and Industry.

Responses to laws and regulations

Sakai Chemical Industry regularly collects information about applicable laws and regulations and shares it with all Sakai Chemical Industry staff and all Sakai Chemical Group companies. We will continue this initiative in order to perform chemical substance information management appropriately.

Chemical substance management education

We provide employee education using an e-learning system with the aim of improving their understanding of laws and regulations related to chemical substances. We will continue our efforts to enhance this kind of education to ensure Company-wide commitment to appropriate chemical substance management.

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 forestation 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.



		Sakai Manufacturing Site						Onahama Manufacturing Site					
Period of evaluation work	Period of status	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.

The development of Smart Materials® will lead to “Chemistry for a Friendly Future”! Let’s create an “Exciting Company” together!



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)

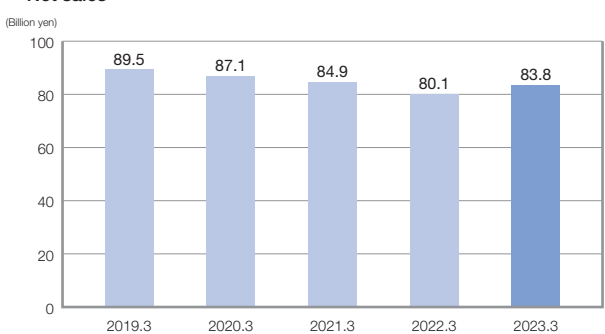
Operating profit
4.4 billion yen
(decreased by 41.2% year on year)

Ordinary profit
4.8 billion yen
(decreased by 45.1% year on year)

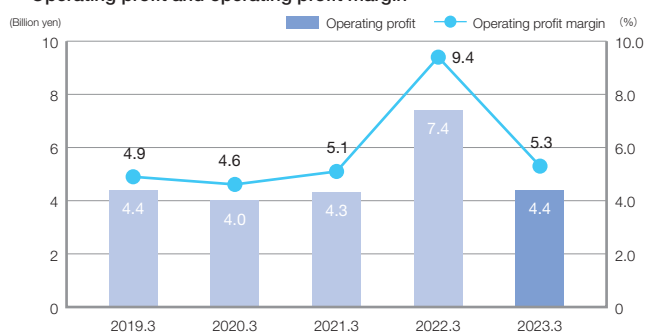
Profit attributable to owners of parent
2.3 billion yen
(decreased by 65.2% year on year)

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%**

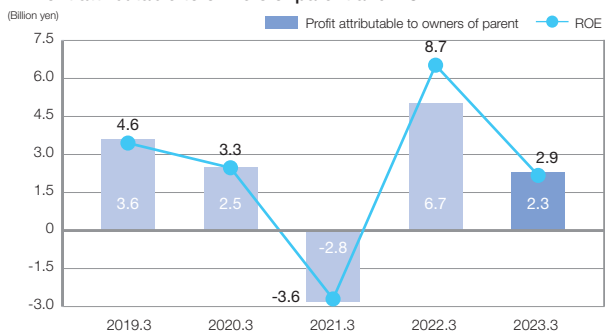
Net sales



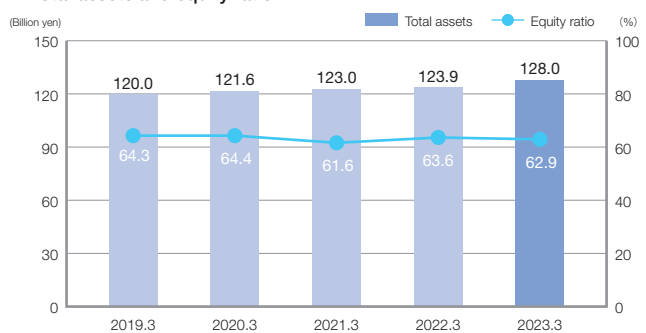
Operating profit and operating profit margin



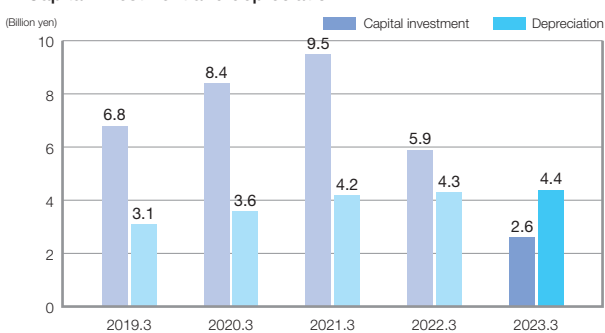
Profit attributable to owners of parent and ROE



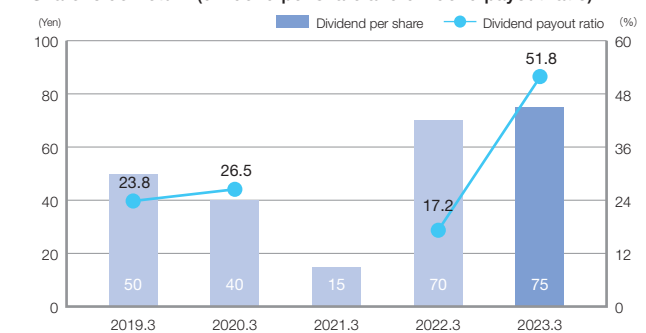
Total assets and equity ratio



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.

Find the Sakai Chemical Group in Your Daily Life

Our products support your life in every corner.



Electronic materials

The multilayer ceramic capacitor is an indispensable part of electronic devices, such as smartphones. Barium titanate and high-purity barium carbonate are used in the capacitor to enable the part to store and discharge a larger amount of electricity. Our high-quality, minute products help capacitors be not only of large capacity but also highly reliable (trouble-free), as required amid the recent development of electric vehicles, the IoT and 5G.*

* IoT: Internet of things
5G: 5th-generation mobile communication system

Titanium dioxide and zinc oxide products

Sakai Chemical Industry was founded as a manufacturer of zinc oxide, which was a material for white powder. After that, in pursuit of quality white pigment, our predecessors reached titanium dioxide. This substance is now used as the most stable pigment in a wide variety of applications, including paint, ink and fiber, and supports people's lives in many aspects. We focus especially on the manufacture of cosmetic materials, which was Sakai Chemical Industry's initial business. Microfine titanium dioxide and ultrafine zinc oxide produced through our proprietary powder processing technology block harmful UV rays and help make your skin more beautiful and healthier.

Plastic additives

PVC stabilizers are used in a wide variety of products, such as pipes, window frames, and insulating coatings for wires, to make PVC easier to shape and process and prevent it from deteriorating. These days, environment- and health-friendly non-lead stabilizers contribute to improving the lives of people in emerging economies in Southeast Asia and other regions, where the construction of infrastructure, including water supply and sewerage systems, is in progress.

Hygiene materials

The use of disposable diapers has now spread widely in parallel with the economic growth of developing countries and the progress of population aging, and demand for them is growing globally. We manufacture breathable film used in disposable diapers and sanitary napkins and sell a wide lineup of hygiene materials, including nonwoven fabric.

Environment-friendly

People-friendly

1 House

- Ultra-weather-resistant titanium dioxide for exterior walls
- UV-ray-blocking materials for building material coatings
- Various stabilizers for PVC window frames, gutters and downspouts
- Various stabilizers for wallpaper and flooring materials

1 Home medicines and health food

- Cold medicines
- Digestive medicines
- Health food (such as designated health food and cough drops)

2 Disposable diapers and hygiene materials

- Nonwoven fabric
- Breathable film
- Highly absorbent plastic
- Nickel catalysts for adhesive production

3 Bath salts

- Dispersing elements for bath salts

4 Food

- UV-ray-blocking materials for food packages

5 Eyeglasses

- Zirconia-based dispersing elements for optical materials
- Materials for plastic lenses

6 Cosmetics

- Titanium dioxide and zinc oxide for sunscreen
- Flake-shaped barium sulfate for foundation
- Fluorescent ingredients for cosmetics

7 Hospital

- Barium X-ray contrast agents
- Peptic ulcer agents
- Endoscope sterilizers
- Active pharmaceutical ingredients and intermediates

8 Waste incineration facility

- DeNOx catalysts (NOx removal catalysts)
- Dioxin decomposition catalysts

9 Digital devices and home appliances, such as computers, mobile devices (smartphones, mobile phones, etc.), and flat-screen TVs

- Dielectric materials for multilayer ceramic capacitors
- Plastic flame retardants
- Silica for semiconductor sealing materials and functional film
- Ink materials for printed circuit boards
- Zirconia-based dispersing elements for optical materials
- Adhesives for flexible printed circuit boards
- Materials for LCD film

10 Automobile

- Titanium dioxide and barium sulfate for coatings
- Zinc oxide for tires (rubber)
- Barium sulfate for brake friction pads
- Dielectric materials for multilayer ceramic capacitors
- Lubricating oil additives
- Adhesives for flexible printed circuit boards
- Masterbatch for headlight extensions

11 Road

- Road marking materials



- Braille sheets for people with visual impairments



Organic chemicals

β -Mercaptopropionic acid, an organic sulfur compound that only Sakai Chemical Industry manufactures in Japan, is used to increase the refractive indices of plastic eyeglasses, nowadays contributing to improving the vision of people in emerging countries. We are also engaged in the contract-based manufacturing and development of active pharmaceutical ingredients and intermediates according to the client company's development stage, from process development to commercial production, to help provide patients with reliable drugs as early as possible.

Catalysts

DeNOx catalysts contribute to protecting the global environment by removing nitrogen oxides (NOx) emitted from waste incineration facilities and thermal power plants. Process catalysts (nickel catalysts) are used for petroleum resin hydrogenation in the process of manufacturing optical film and adhesives for disposable diapers. We are also working to develop heavy-metal-free polyester polymerization catalysts and other novel catalysts that help resolve energy issues.

Healthcare

In the healthcare area in general, our strength lies in the digestive field. We have long provided barium X-ray contrast agents, in which we have a large share of the market, as well as ulcer agents. We also sell endoscope sterilizers, thereby supporting the medical field. To capture needs in an age of self-medication while providing OTC drugs, including the Kaigen cold remedy and health food, we have recently been entering into new fields, including the joint production of fillers for artificial bones, the field of cosmetic medicine (supplements and sunscreen), and clinical cancer examinations based on blood and saliva.

Research and development

By leveraging our proprietary inorganic powder technology and organic synthesis technology, we have been developing materials that society needs.

We will continue to take on the challenge of developing highly functional materials and composite technologies, thereby contributing to the fulfilling and secure lives of people in a wide range of fields, including automobiles, electronic devices, and cosmetics. Furthermore, in preparation for the arrival of a hydrogen society, a theme related to the SDGs, we are developing technologies for lowering the cost of hydrogen and carbon neutral technologies, which will help solve energy and global warming issues. By doing so, we aim to contribute to the creation of a sustainable society.

