

# Corporate Governance TM

Based on the Company mission, “Establish a better society through our corporate activities,” the Sanyo Chemical Group will realize sustainable growth toward the future by enhancing both economic and social values in close cooperation with all stakeholders. To this end, we consider the establishment of corporate governance that is trusted by stakeholders to be one of the highest priority management issues.

## Corporate governance system

We are a company with an Audit & Supervisory Board. The Company has also introduced the executive officer system, under which Executive Officers execute business in accordance with the management policy, etc., determined at meetings of the Board of Directors. In this manner, the Company clearly separates the management decision-making and supervisory function from the business execution function.

### Directors and the Board of Directors

The term of office of Directors is one year. With the objective of strengthening the management supervisory functions, three out of nine Company’s Directors are independent Outside Directors; moreover, the Chairman of the Board is appointed from among Directors who are not involved in the execution of business. The Board of Directors holds a meeting, in principle, once a month. It makes decisions on important matters, such as management policy, and supervises the status of business execution by Directors and Executive Officers. In fiscal 2022, 15 meetings of the Board of Directors were held.

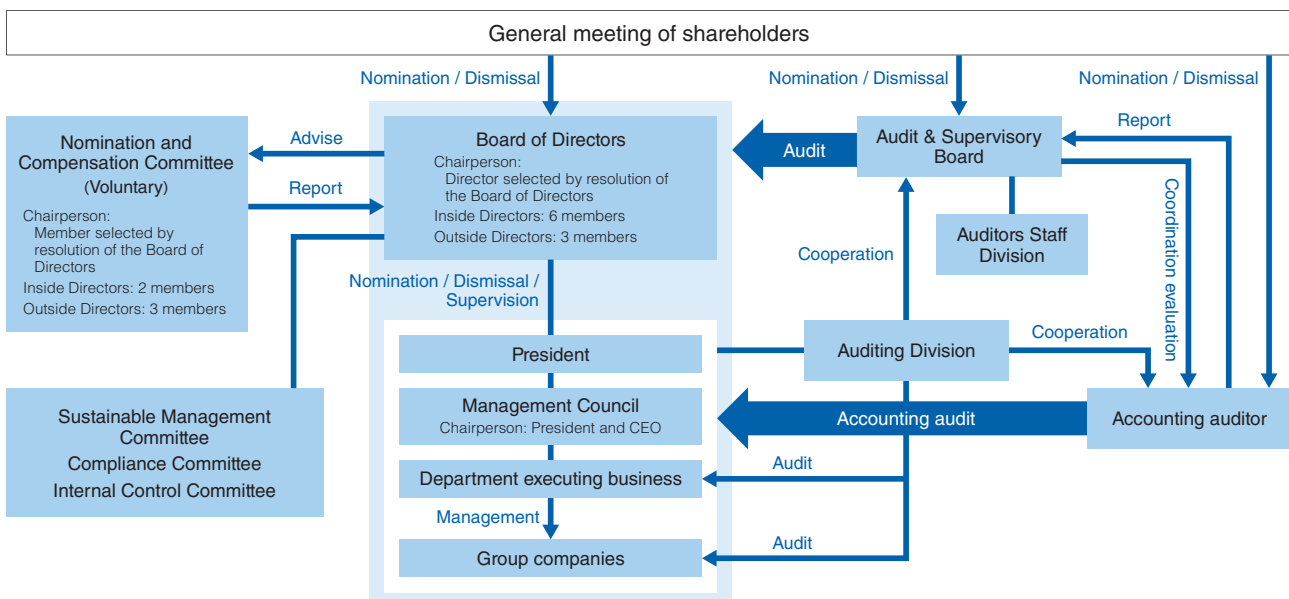
## Audit & Supervisory Board Members and the Audit & Supervisory Board

Of four Audit & Supervisory Board Members, three are Outside Audit & Supervisory Board Members. The Audit & Supervisory Board Members not only attend Board of Directors’ meetings, Management Council meetings, and other important meetings, but also inspect important approval documents. They thus audit the status of Directors’ business execution, capitalizing on the knowledge of inside members who are well versed in the wide range of businesses of the Company, as well as the expertise of outside members with experience relating to financial and accounting affairs or with business management experience. In addition, as an organization under the direct control of the Audit & Supervisory Board, the Company has established the Auditors Staff Division. The Division staff who assist the Audit & Supervisory Board Members in their duties are independent of the Directors. By establishing this structure, we strive to secure the effectiveness of audits.

### Management Council

The Management Council meets once a month, in principle, to make decisions on important matters regarding business execution by Executive Officers, based on the management policy, etc., determined at meetings of the Board of Directors.

### ▶ Corporate governance structure



## Committees

### Nomination and Compensation Committee

**Chairperson:** Chairman of the Company

**Frequency of meetings:** Five times (FY2022)

**Role:** An advisory body to the Board of Directors. The majority of its members are Outside Directors. The Committee reports to the Board of Directors the results of its deliberation on matters regarding the nomination of Directors and compensation for them.

### Sustainable Management Committee

**Chairperson:** President and CEO

**Frequency of meetings:** Twice (FY2022)

**Role:** As a body under the direct control of the Board of Directors, the Committee deliberates and makes decisions on the policy for responding to important matters to be addressed with high priority, regarding the process for sustainable growth, the environment, society, and governance.

### Compliance Committee

**Chairperson:** President and CEO

**Frequency of meetings:** Once (FY2022)

**Role:** As a body under the direct control of the Board of Directors, the Committee deliberates and makes decisions on basic policies and measures to ensure full compliance with laws and regulations.

### Internal Control Committee

**Chairperson:** President and CEO

**Frequency of meetings:** Twice (FY2022)

**Role:** As a body under the direct control of the Board of Directors, the Committee makes decisions on the entire internal control system, and provides instructions and supervision for the internal control system's development, operation, evaluation, and improvement activities.

## Standards for selection of Directors

The Company's policy is to form a Board of Directors consisting of inside directors who have objective judgement, foresight, and insight into management issues based on the expertise, knowledge, and experience they have accumulated in sales or research, or production or general affairs departments, and Outside Directors who can proactively provide advice and suggestions based on their rich experience from an objective perspective. In line with this policy, the Company selects candidates while taking into account the balance and diversity of the Board of Directors, and other elements.

## Standards for selection of Audit & Supervisory Board Members

The Company's policy is to form an Audit & Supervisory Board consisting of outside members who have legal independence in addition to high levels of expertise and discernment based on their experience in serving as a manager or person in charge of accounting in a listed company, and inside members who can express their opinions regarding objective auditing based on their knowledge and experience of finance and accounting or other specialized fields and who are sufficiently qualified to ensure their independence from those involved in business execution. In line with this policy, the Company selects candidates for the Audit & Supervisory Board with its agreement.

### ► Reason for selection as Outside Director

Name	Independent Director	Supplementary explanation of applicable items	Reason for selection
Aya Shirai	○	No applicable items	We have designated Ms. Aya Shirai as an independent Director since she meets the Company's independence standards and is therefore deemed to have no conflict of interest with our general shareholders. She has a wealth of experience gained through administrative activities from her many years of involvement in municipal administration. In addition, she has experience and achievements from having been involved in corporate management as an outside director of other listed companies. She was selected as an Outside Director because she is expected to contribute to the continuous enhancement of our corporate value by offering useful findings and opinions from an independent standpoint based on her extensive experience and knowledge.
Hideaki Obata	○	No applicable items	We have designated Mr. Hideaki Obata as an independent Director since he meets the Company's independence standards and is therefore deemed to have no conflict of interest with our general shareholders. In addition to extensive practical experience in administrative departments mainly in HR and general affairs, he has many years of experience and a track record in management of companies with broad business domains. He was selected as an Outside Director because he is expected to contribute to the continuous enhancement of our corporate value by offering useful findings and opinions from an independent standpoint based on his extensive knowledge and experience.
Yumi Sano	○	She is a business executive (Kansai Office General Manager) of the Japan Institute for Women's Empowerment & Diversity Management, which is an outsourced contractor of the Company. Since the annual amount of actual transactions in the latest fiscal year is less than 2% of the ordinary profit of the said institute, it is not considered to be an organization whose main client is the Company.	We have designated Ms. Yumi Sano as an independent Director since she meets the Company's independence standards and is therefore deemed to have no conflict of interest with our general shareholders. She has a wealth of practical experience in promoting diversity and developing human resources in a listed company and a public interest corporation. In addition, she has experience and achievements from having been involved in corporate management as an outside director of another listed company. She was selected as an Outside Director because she is expected to contribute to the continuous enhancement of our corporate value by offering useful findings and opinions from an independent standpoint based on her extensive experience and knowledge.

## Diversity of the Board of Directors

The Company selects candidates for its Board of Directors by comprehensively considering each member's personality and other aptitudes, in order to form a Board of Directors with a good overall balance of knowledge, experience, and ability to effectively perform its roles and responsibilities. It should also ensure it maintains an appropriate size and diversity, including in terms of gender, internationality, professional experience, and age. To enhance our corporate value in the medium to long term in keeping with the basic philosophy described below, the Nomination and Compensation Committee held discussions on the skill items required for the Company's Board of Directors, and decided on the following eight items: corporate management; compliance and risk management; understanding of diversity and sustainability; international business; R&D, production, and new business development; sales and marketing; human resources development and training; and finance and accounting. These skill items will be reviewed and revised, if necessary, in the light of the business environment and social circumstances.

### Basic philosophy

- Contribute to society through fulfillment of the Company mission: "Establish a better society through our corporate activities"
- Steadfastly maintain a stable management base and proactively develop new businesses while leveraging the strength of our existing businesses
- Realize a WakuWaku company that respects diversity and where all employees enjoy high job satisfaction

The current Board of Directors consists of nine directors with knowledge in line with these skill items (including three independent Outside Directors, two of whom are female) and four Audit & Supervisory Board Members (one of whom is an independent Outside Audit & Supervisory Board Member). Independent Outside Directors include members who have management experience at other companies.

### ► Skills matrix

Name	Position	Outside	Independent	Skills							
				Corporate management	Compliance and risk management	Understanding of diversity and sustainability	International business	R&D, production, and new business development	Sales and marketing	Human resources development and training	Finance and accounting
Takao Ando	Chairman of the Company			●	●	●	●	●	●	●	
Akinori Higuchi	Representative Director, President and CEO			●	●	●	●	●	●	●	
Kohei Maeda	Representative Director			●	●	●		●	●		
Masahiro Harada	Director				●	●		●	●		
Hiroyuki Susaki (newly appointed)	Director				●	●	●		●		
Kenichi Nishimura	Director				●	●	●				●
Aya Shirai	Director	●	●	●	●	●				●	
Hideaki Obata	Director	●	●	●	●	●	●	●		●	
Yumi Sano	Director	●	●		●	●				●	
Hirokazu Kurome	Audit & Supervisory Board Member	●		●	●	●	●	●			
Takafumi Horie	Audit & Supervisory Board Member			●	●	●		●			
Jun Karube	Audit & Supervisory Board Member	●		●	●	●	●		●		
Yusuke Nakano	Audit & Supervisory Board Member	●	●	●	●	●					●

► Compensation for Directors

Classification of Directors	Total amount of compensation, etc. (million yen)	Total amount by type of compensation, etc. (million yen)			Number of applicable Directors (number of persons)
		Basic compensation	Bonuses (Performance-linked compensation)	Stock-based compensation (Non-monetary compensation)	
Directors (excluding Outside Directors)	260	151	58	49	8
Audit & Supervisory Board Members (excluding Audit & Supervisory Board Members)	32	25	7	—	1
Outside Directors	26	26	—	—	3
Outside Audit & Supervisory Board Members	50	43	7	—	3
Total	369	246	74	49	15

(Notes) 1. The number of applicable Directors and the total amount of compensation, etc., include those of two Directors who retired during the period.  
 2. The amount indicated in the field of stock-based compensation is the amount transferred for the period regarding the provisions for the stock-based compensation during the fiscal year related to the stock-based compensation system.  
 3. No Directors or Audit & Supervisory Board Members received compensation, etc., of 100 million yen or more in total.  
 4. There is no salary for employees who concurrently serve as Directors.  
 5. In addition to the above, the total amount of compensation, etc., received by Outside Directors from subsidiaries as Directors during the fiscal year is 1 million yen.

Compensation and incentives for Directors

Compensation, etc., for the Company's Directors is designed to secure excellent human resources toward improving corporate performance, as well as to ensure that the compensation level and system reflect their duties. The compensation level and system are based on financial results, external objective data, and other factors, and the appropriateness thereof is verified by the Nomination and Compensation Committee, of which a majority of members are Outside Directors. The policy for determining compensation for Directors is deliberated on and determined at the Board Meeting.

The compensation for Directors consists of basic compensation, bonuses, and stock-based compensation.

► Overview of types of compensation, etc.,

Compensation type	Overview
Basic compensation	The basic compensation is based on the roles and responsibilities of each Director, and is determined by taking into account the status of financial results over the medium to long term and for the relevant fiscal year, as well as levels at other companies. It is paid on a monthly basis.
Bonuses	The consolidated ordinary profit, which is a benchmark for a corporation's profitability, is used as an index to raise awareness to improve the financial results. The total amount to be paid is calculated based on the status of financial results for the relevant fiscal year and over the medium to long term. Allocation is determined based on the roles and responsibilities of each Director. Bonuses are paid at certain timings each year.
Stock-based compensation	Points are granted depending on the position, etc. based on the Share Delivery Regulations. In principle, the shares of the Company are delivered depending on the number of points when Directors retire.

Training for Directors and Audit & Supervisory Board Members

For inside and full-time Directors and Audit & Supervisory Board Members, when they assume office, we provide explanations on relevant laws and regulations, the Company's Articles of Incorporation, the Board of Directors Regu-

lations, and other internal regulations. For Outside Directors and full-time Outside Audit & Supervisory Board Members, we facilitate their understanding of the Company's businesses by conducting inspection tours of our factories and other operation sites. We also offer opportunities to acquire necessary knowledge and information by such means as participation in external seminars on corporate governance.

Major discussion topics and themes

Board of Directors

- Formulation of the Medium-Term Management Plan and the Comprehensive Plan
- Policy on operating major businesses
- Matters regarding investment, financing, and donations
- Confirmation of the results of the effectiveness evaluation of the Board of Directors
- Matters on which to seek advice from the Nomination and Compensation Committee
- Approval of closed financial statements
- Matters regarding procedures for the general meeting of shareholders
- Resolutions on conflict-of-interest transactions, Directors' liability insurance, etc., appointment and dismissal of important employees, and matters related to compensation for Directors based on the Companies Act

Nomination and Compensation Committee

- Rearrangement of the structure (skills matrix) of the Board of Directors, including Audit & Supervisory Board Members
- Establishment of the ideal image of the President and CEO; study of a plan for the successor of the Representative Director, President and CEO, including the evaluation criteria and fostering method
- Study of evaluation indices for performance-linked compensation
- Study of the payment ratio by the compensation type

### Sustainable Management Committee

- Efforts to improve economic value
- Methods of disclosure of non-financial information
- Formulation of a human capital policy and a human rights policy
- Initiatives to address climate change

### Compliance Committee

- Implementation and planning of corporate ethics study meetings
- Results of the use of whistleblowing contact points for consultation or reporting
- Revision of the Whistleblowing Regulations
- Policy of risk management activities

### Internal Control Committee

- Results of the evaluation of internal control activities related to financial reports
- Regarding proposals for disclosing the operational status of the Internal Control System in the Business Report
- Results of the evaluation of the operational status of the Internal Control System regarding significant risks other than those included in financial reports

### Effectiveness evaluation of the Board of Directors

The Company conducts an anonymous questionnaire survey on the effectiveness of the Board of Directors targeting all the Directors (nine persons), including Outside Directors, and all the Audit & Supervisory Board Members (four persons), including Outside Audit & Supervisory Board Members and evaluates the effectiveness of the Board of Directors based on the results. In FY2022, the questionnaire survey on the Board of Directors was conducted based on the main items below.

- ① Composition and operation of the Board of Directors
- ② Discussions at Board of Directors meetings
- ③ Monitoring function of the Board of Directors
- ④ Performance of Directors
- ⑤ Support system and training for Directors and Audit & Supervisory Board Members
- ⑥ Dialogue with shareholders
- ⑦ Efforts made by each Director

Respondents were asked to rate each item on a five-point scale or give a comment based on free description for each question. The survey was conducted in March 2023 using a third-party system to ensure objectivity. The results were reported to the Board of Directors meeting held in May 2023. Discussions were held and analysis

was conducted based on the aggregate results of the ratings on a five-point scale and comments in the free description fields of the questionnaire survey, to evaluate the effectiveness of the Board of Directors. The previous year's evaluation results indicated that there was room for improvement in terms of "reinforcing the governance system," "improving discussions on management strategies from a medium- to long-term perspective," and "enhancing support to Outside Directors," in order to further improve the effectiveness of the Board of Directors. This year's results showed certain improvement in these matters. Based on the answers to the questions in the above questionnaire, it was evaluated that the effectiveness of the Board of Directors was generally ensured. Notably, regarding the operation of the Board of Directors, a Director who does not execute business serves as the Chairman of the Board of Directors to proceed with a meeting. We thereby endeavor to ensure operation from a fair viewpoint. Meanwhile, to further enhance the effectiveness of the Board of Directors into the future, we recognize the need for continuous improvement in terms of "reinforcing the governance system," "improving discussions on management strategies from a medium- to long-term perspective," and "enhancing support to Outside Directors," for which we previously found that there was room for improvement. We will be committed to making improvements to address these issues.

### Succession plan (plan to foster successors)

In FY2022, the Nomination and Compensation Committee discussed the establishment of "the ideal image of the President and CEO" in conformity with the corporate management principles and management strategies as well as the process to select a candidate for Representative Director, President and CEO and the systematic fostering method to achieve sustainable growth of the Company and improve the medium- and long-term corporate value, and made a report to the Board of Directors. In particular, regarding the "ideal image of the President and CEO," the committee identified the requirements that should be met by the next Representative Director, President and CEO to realize the vision of the Group by FY2030, which was specified in the management policy announced last year under the Company mission, "Establish a better society through our corporate activities." The Nomination and Compensation Committee also discussed the next-generation candidate in anticipation of the Representative Director, President and CEO in about 10 years' time and the method of fostering female candidates for Executive Officers, and made a report to the Board of Directors.

### Stakeholder communication

Information disclosure with high transparency to all stakeholders, including shareholders, investors, and employees, is important to build a relationship based

on trust and collaboration. In the medium to long term, such information disclosure leads to the enhancement of corporate value and sustainable growth. We will disclose information in a timely and appropriate manner.

Stakeholder	Policy / attitude	Main communication opportunities
Customers	We aim to improve customer satisfaction by offering safe and secure products that meet the needs of customers, and by responding promptly, appropriately, and wholeheartedly to their opinions and requests.	<ul style="list-style-type: none"> <li>● Direct communication through sales activities</li> <li>● Inquiries by phone or via the website</li> <li>● Social media</li> </ul>
Suppliers	We work on sustainable procurement with cooperation from suppliers, and maintain long-term trust based on fair and impartial transactions.	<ul style="list-style-type: none"> <li>● Direct communication through procurement activities</li> <li>● CSR questionnaires</li> <li>● Meetings to exchange opinions with suppliers</li> </ul>
Shareholders and investors	We disclose information about the Group in a timely, appropriate, and fair manner to help shareholders and investors correctly understand and recognize the corporate value of the Group.	<ul style="list-style-type: none"> <li>● General meetings of shareholders</li> <li>● Seminars for institutional investors and analysts and response to interviews</li> <li>● Seminars for individual investors</li> <li>● Research laboratory tours</li> <li>● Business reports</li> <li>● Website</li> <li>● Shareholder questionnaires</li> </ul>
Local communities	We deepen communication with local communities to help people understand the activities of the Sanyo Chemical Group and ensure harmony with such communities.	<ul style="list-style-type: none"> <li>● Social contribution activities, such as sponsoring events and supporting schools</li> <li>● Cooperation for disaster prevention and traffic safety</li> </ul>
Employees	We aim to create a workplace where every employee feels pride and satisfaction in his/her work.	<ul style="list-style-type: none"> <li>● Various education and training programs</li> <li>● Talks with the management</li> <li>● Personnel systems, such as workstyles and health management</li> <li>● In-house newsletters and Intranet</li> <li>● Whistleblowing contact point (hotline)</li> </ul>