

Sanyo Chemical Group Integrated Report

2023

For the year ended March 31, 2023



Sanyo Chemical Group company mission

Establish a better society through our corporate activities

Vision 2030

Vision

Grow into a global, unique, and highly profitable company where every employee feels pride and satisfaction from his/her work

Values

- Inspire WakuWaku* feeling from all the stakeholders
- Co-create environmental, social and economic values with the stakeholders
- Facilitate every employee's value creation

* The Japanese word which express positive, bright, uplifting feeling inspired by inner motivations and/or own wills.

On the Publication of Integrated Report 2023

In FY2022, the Sanyo Chemical Group formulated the management policy “WakuWaku Explosion 2030” as a compass for achieving its Vision 2030. In order to create a sustainable society where everyone can shine, we are working together as a group to make changes under three pillars of “Contribution to carbon neutrality,” “Improvement of QOL (Quality of Life),” and “Improvement of job satisfaction.” We have published an Integrated Report since FY2022 with the aim of conveying our long-term vision and initiatives to achieve it in an easy-to-understand manner, and of deepening the understanding of the Group among shareholders and investors.

In May 2023, in order to clarify the path for sustainable growth toward the realization of our Vision 2030, which is envisioned in our management policy, we established the New Medium-Term Management Plan 2025 – Accelerate Transformation to Realize Our Vision – for the three years starting from FY2023.

In Integrated Report 2023, we explain the value creation process for achieving our Vision 2030, the business strategy in the New Medium-Term Management Plan 2025, and sustainable management based on material issues for the future. We have also reflected the advice that we have received on Integrated Report 2022, published last year, to enhance the content of Integrated Report 2023 so that it will be a more useful tool.

We hope that this report will help our shareholders, investors, and other stakeholders to better understand the Group. We look forward to your continued support in the future.

September 2023

Hiroyuki Susaki

Director, Managing Executive Officer
General Manager of the Corporate Planning Division

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Disclaimer

This document contains forward-looking statements regarding the plans, strategies, and performance of the Sanyo Chemical Group. These forward-looking statements are based on information available as of August 3, 2023. However, actual results may differ significantly due to economic conditions surrounding the Sanyo Chemical Group's business domains, competitive conditions, changes in product development status, related laws and regulations, exchange rate fluctuations, and other factors. Please note that factors that affect these statements are not limited to the factors above.

Sanyo Chemical Group History

The Sanyo Chemical Group began operation in Kyoto in 1907 as Tada Soap-Oleo Works, a general partnership company, which manufactured and sold high-quality soap. In 1949, during the recession in Japan after World War II, the company re-started as a joint venture (capital: 4 million yen, number of employees: 123) between Toyo Cotton Co., Ltd. and Toyo Rayon Co., Ltd. In 1963, the company name was changed to Sanyo Chemical Industries.



Tada Soap-Oleo Works at the time of its founding: Located around the current Kyoto Factory

- 1907** Tada Soap-Oleo Works established
- 1949** Sanyo Oil & Fat Industrial Co., Ltd. established
Investment: 50% each by Toyo Cotton Co., Ltd. and Toyo Rayon Co., Ltd.
Capital: 4 million yen; Number of employees: 123
- 1959** Research institute launched
- 1960** Kawasaki Factory, now San Chemical Co., Ltd., began operations.
- 1963** Corporate name changed to Sanyo Chemical Industries
- 1966** SAN NOPCO LIMITED established
San-Abbott Ltd., now San-Apro Ltd., established
- 1968** Stock listed on the Second Section of Osaka Stock Exchange and on Kyoto Stock Exchange (abolished in 2001)
Nagoya Factory began operations.

- 1976** Kashima Factory began operations.
- 1977** San-Petrochemicals Co., Ltd. established
- 1978** Stock listed on the First Section of Tokyo and Osaka Stock Exchanges
- 1982** San Chemical Co., Ltd. established
- 1989** SANAM Corporation, now Sanyo Chemical America Incorporated, established

1949 1955 1960 1965 1970 1975 1980 1985

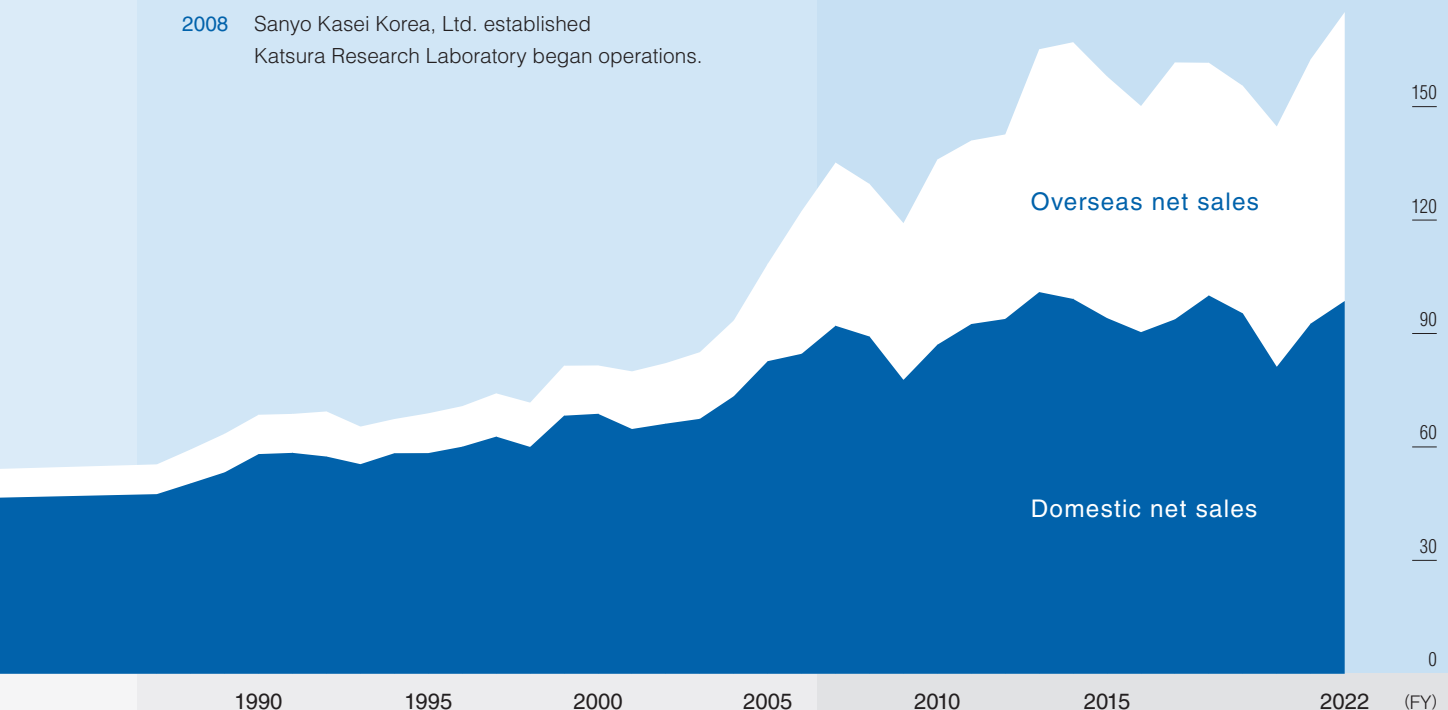
Development of New Products

- 1960** SANNIX raw material for polyurethane foams and PEG polyethylene glycol developed
- 1963** ACLUBE lubricant additive developed
- 1969** SANFLOC polymer flocculant developed
- 1972** HIMER toner resin developed
- 1977** SANWET superabsorbent polymer developed
- 1978** EIA diagnostic reagent developed
- 1982** CARRYOL cold flow improver for fuel oil developed
- 1986** SANELEK electrolyte for aluminum electrolytic capacitors and SANMODUR chemical board (tooling material) developed

- 1997 Sanyo Kasei (Thailand) Ltd. established
- 1999 Kinuura Satellite Factory, now Kinuura Factory, began operations.
- 2001 San-Dia Polymers, Ltd., now SDP Global Co., Ltd., established
- 2003 Code of Corporate Ethics enacted
Sanyo Kasei (Nantong) Co., Ltd. established
San-Dia Polymers (Nantong) Co., Ltd. established
Added Sunrise Chemical LLC as an affiliate
- 2005 Sanyo Chemical Texas, Inc., now Sanyo Chemical Texas Industries, LLC, established
- 2007 SANYO CHEMICAL (SHANGHAI) TRADING CO., LTD. established
- 2008 Sanyo Kasei Korea, Ltd. established
Katsura Research Laboratory began operations.

- 2010 SANYO KASEI (TAIWAN) LTD. established
- 2015 SDP GLOBAL (MALAYSIA) SDN. BHD. established
- 2017 GC Polyols Co., Ltd. established
- 2018 Sanyo Chemical Manufacturing Korea, Ltd. established
- 2019 Sanyo Chemical Foundation for Social Contribution established
- 2022 Transferred to the Prime Market of Tokyo Stock Exchange
FUJIFILM Sanyo Chemical Healthcare Corporation established

Consolidated net sales for FY2022
174.9 billion yen (billion yen)



1990

1995

2000

2005

2010

2015

2022 (FY)

* Disclosure of consolidated financial results started in FY1994
Full-fledged consolidated accounting started in FY1999

- 1992 UCOAT polyurethane emulsion developed
- 1994 PELESTAT permanent antistatic agent developed
- 1999 POWERELEK electrolyte for electric double-layer capacitors developed
- 2000 THERPUS thermoplastic polyurethane beads and NAROACTY synthetic higher alcohol-based nonionic surfactant developed
- 2002 ULTIFLOW, EXCELFLOW, and PRIMEPOL raw materials for polyurethane foams developed
- 2003 APEXNARROW polyester beads used as a core component of polymerization toners developed
- 2004 LEVEFLOW agent for slurry excavation developed
- 2005 EIA diagnostic reagent for small cell lung cancer developed
- 2006 LAUROMACROGOL 100 medical drug exclusively used in manufacturing developed
- 2007 HISTAT SK cutting fluid for silicon ingots developed
CHEMICLEAN PR cleaning agent for use in hard disk manufacturing developed
- 2008 SphereLight proBNP clinical reagent for diagnosis of heart failure developed
- 2009 SHARPFLOW raw material for polyurethane foams developed

- 2010 PELECTRON permanent antistatic agent developed
SANWET SG superabsorbent polymer developed
- 2011 Approved as a medical device business operator for the first time
- 2012 New manufacturing process for raw materials for polyurethane foams developed
- 2014 HYDROFIT surgical hemostatic agent launched as our first-ever medical device in Japan (The overseas trade name is AQUABRID®.)
- 2015 Magrapid magnetic particle for EIA diagnostic reagents developed
- 2016 CALPROTECTIN MOCHIDA received Japan's first approval as an in vitro diagnostic agent for Ulcerative Colitis.
- 2017 EMULMIN CS liquid laundry detergent base developed
- 2019 ALPHAPUR HSG cosmetic nonionic surfactant developed
- 2020 PIUSERIA AMC amino acid-type amphoteric surfactant developed
- 2021 SANNIX FA-817 raw material for urethane foams for bedding developed
- 2022 MICELAND SCD-100 laundry detergent base that contributes to reducing environmental impact developed

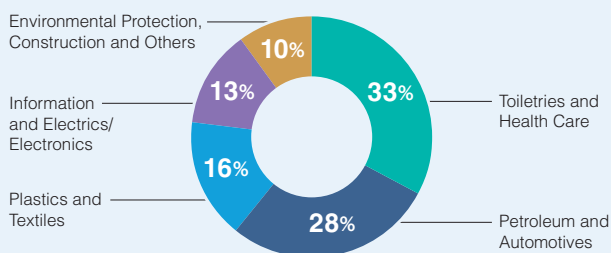
At a Glance

FY2022

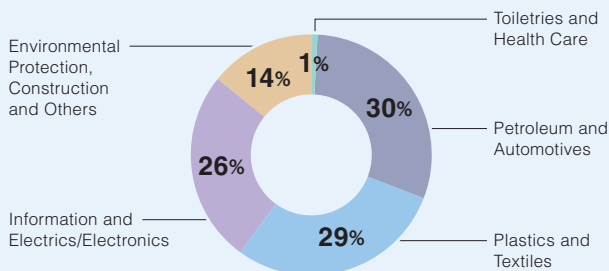
Net sales: **174.9 billion yen**

Operating profit: **8.4 billion yen**

► Sales composition ratio



► Operating profit composition ratio by segment



Net sales / Operating profit by segment

Main products



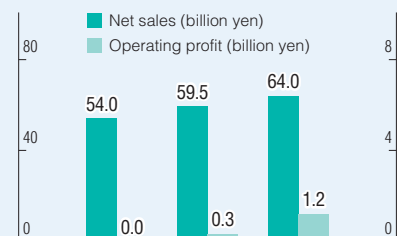
(Note) Operating profit for each reportable segment is calculated without including R&D expenses related to new businesses that do not belong to each segment.

Net sales for the current consolidated fiscal year amounted to 174.973 billion yen (an increase of 7.7% year on year) due to factors such as price revisions in response to rising raw material costs. In terms of profits, operating profit was 8.405 billion yen (a decrease of 29.2% year on year), ordinary profit was 9.918 billion yen (a decrease of 22.3% year on year), and profit attributable to owners of parent was 5.684 billion yen (a decrease of 15.2% year on year) due to a decrease in sales volume, an increase in selling and general administrative expenses, and other factors.

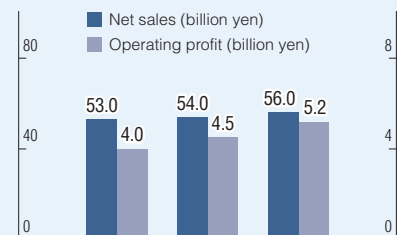
Overview of segments for the current fiscal year

In the Toiletries segment, although demand for polyethylene glycol declined due to the lockdown in Shanghai, China, sales of papermaking chemicals remained strong, resulting in steady sales. In the Health Care segment, sales of superabsorbent polymers decreased in volume in all locations. Although sales increased slightly due to the revision of selling prices in response to rising raw material costs, operating profit declined significantly. Total net sales in this segment increased by 3.9% year on year to 57.068 billion yen, and operating profit was 0.113 billion yen (a decrease of 94.2% year on year).

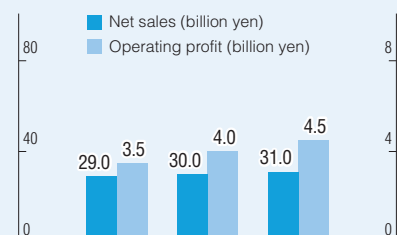
Targets in the New Medium-Term Management Plan 2025



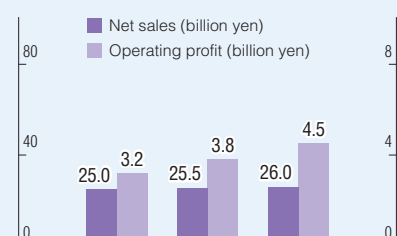
In the Petroleum and Automotives segment, sales increased due to price revisions caused by soaring raw material costs, despite a decrease in demand for raw materials for polyurethane foams used in automobile seats and other applications, thermoplastic polyurethane beads for interior parts of automobiles, and lubricant additives due to automobile production adjustments. Total net sales in this segment increased by 13.5% year on year to 48.279 billion yen, and operating profit was 2.988 billion yen (a decrease of 20.5% year on year) due to a decrease in sales volume.



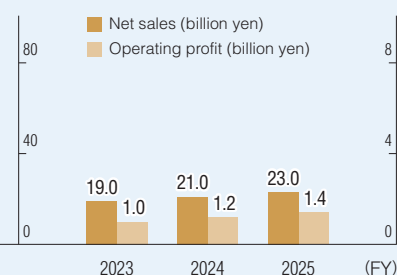
In the Plastics segment, although sales of permanent antistatic agents were weak, sales of paint coating agents and additives increased overseas, resulting in strong sales. In the Textiles segment, sales experienced a large increase as sales of chemicals for carbon fibers increased steadily and sales of polyurethane resins for synthetic leather and elastomer fiber were strong. Total net sales in this segment increased by 10.6% year on year to 28.177 billion yen, and operating profit was 2.837 billion yen (a decrease of 23.6% year on year) due to a decrease in sales volume.



In the Information segment, sales experienced a large increase. This was mainly due to recovery of office printing demand, which had stagnated due to the COVID-19 pandemic, as well as strong sales of raw materials for polyester beads as a core component of polymerization toners and pulverized toner resins. In the Electrics/Electronics segment, although demand for raw materials used in general-purpose resists declined due to the slowdown in the semiconductor market, sales of photosensitized materials used as raw materials in cutting-edge resists increased, and sales of electrolytes for aluminum electrolytic capacitors also increased, resulting in strong sales. Total net sales in this segment increased by 10.4% year on year to 23.163 billion yen, and operating profit was 2.558 billion yen (an increase of 1.9% year on year).



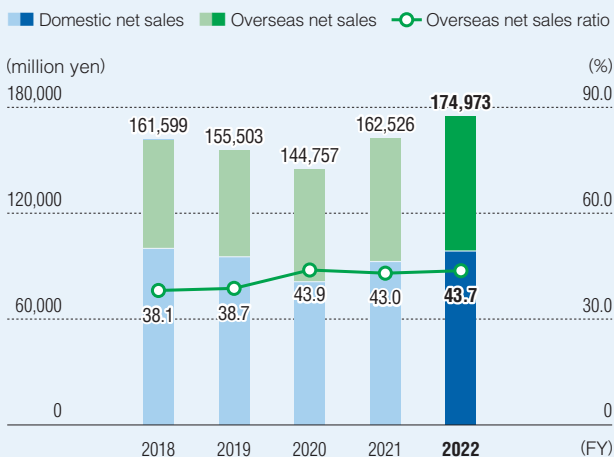
In the Environmental Protection segment, although demand for cationic monomers for polymer flocculants for overseas markets was sluggish, sales increased due to price revisions caused by soaring raw material costs. In the Construction segment, sales of raw materials for polyurethane foams mainly used in furniture and heat insulating materials were weak due to a lull in demand for staying at home. Total net sales in this segment decreased by 1.7% year on year to 18.284 billion yen, and operating profit was 1.408 billion yen (a decrease of 11.3% year on year).



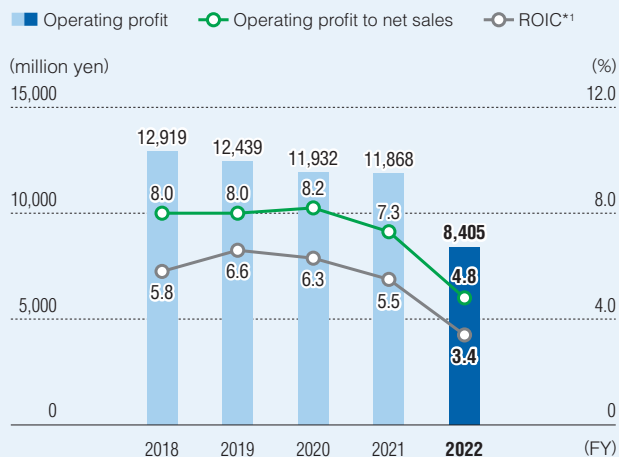
Financial and Non-financial Highlights

Financial highlights

Net sales / Overseas net sales ratio

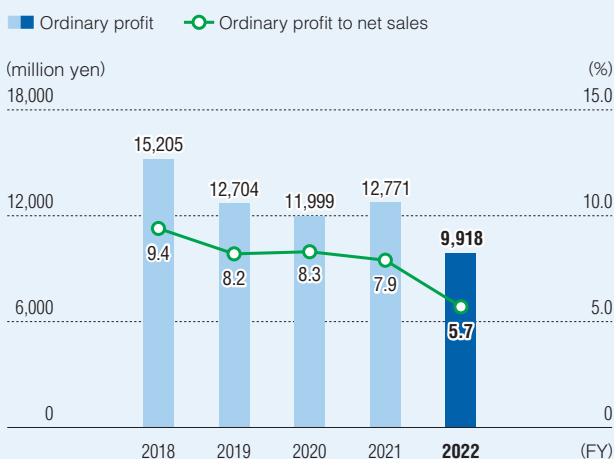


Operating profit / Operating profit to net sales / ROIC

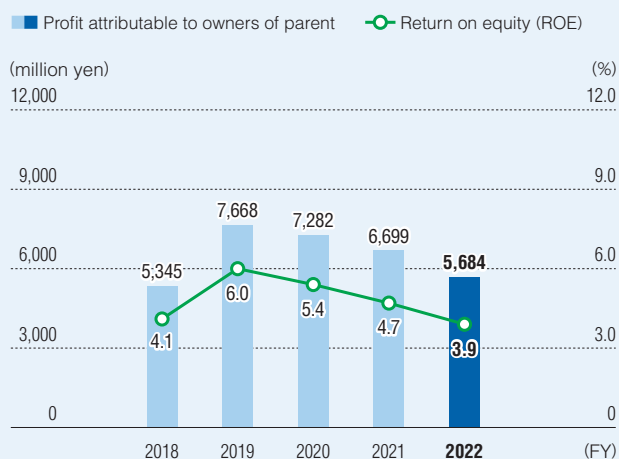


*1 (Operating profit - Corporate tax, etc.) ÷ Average invested capital during the period x 100

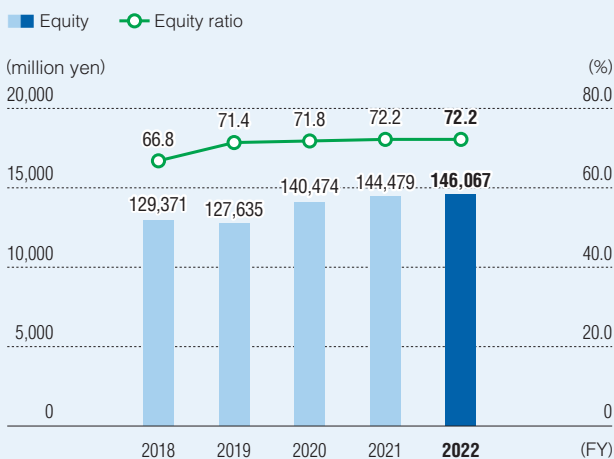
Ordinary profit / Ordinary profit to net sales



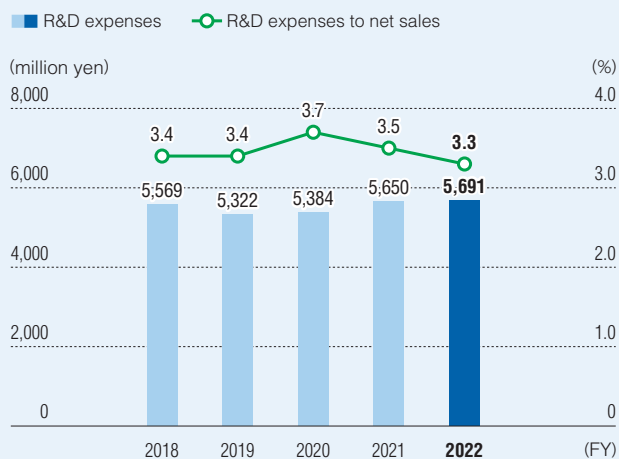
Profit attributable to owners of parent / ROE



Equity / Equity ratio



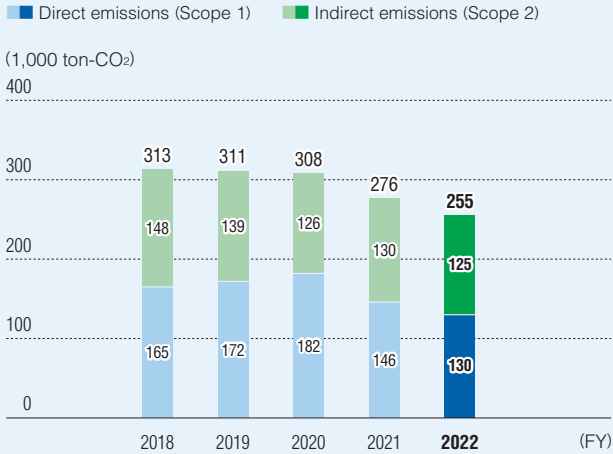
R&D expenses / R&D expenses to net sales



Non-financial highlights

CO₂ emissions

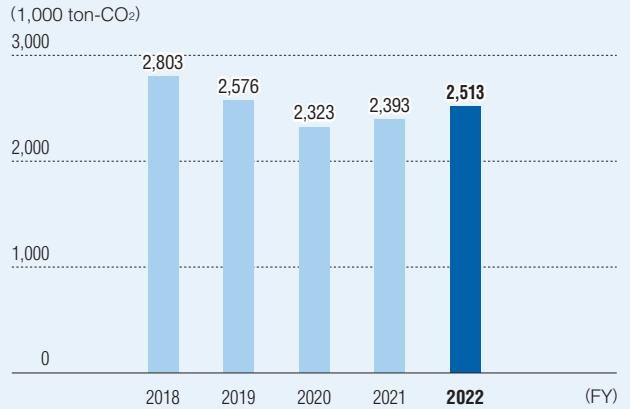
⟨Direct emissions (Scope 1) + Indirect emissions (Scope 2)⟩*2



*2 Scope of data collection: Sanyo Chemical Industries, Ltd., domestic subsidiaries and affiliates, and overseas subsidiaries and affiliates with a production site

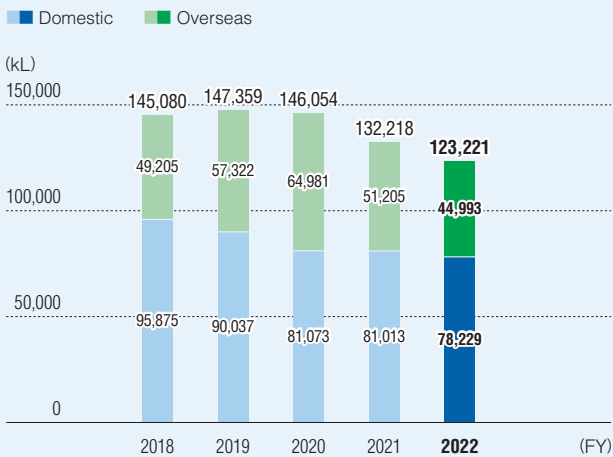
CO₂ emissions

⟨Scope 3⟩*3

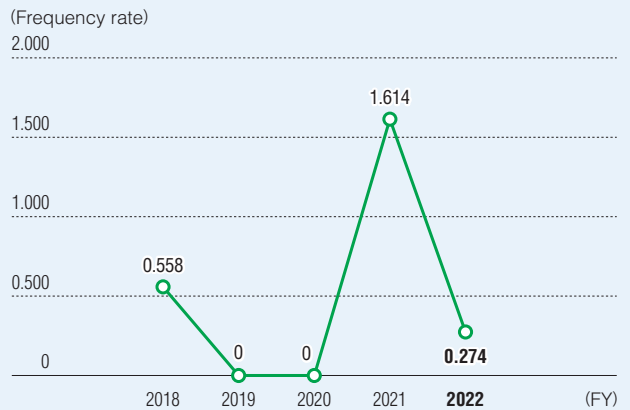


*3 Scope of data collection:
Cat. 1-7: Sanyo Chemical Industries, Ltd., SDP Global Co., Ltd., and San Chemical Co., Ltd.
Cat. 12: Sanyo Chemical Industries, Ltd., SDP Global Co., Ltd., San Chemical Co., Ltd., and some products sold by overseas subsidiaries and affiliates
Cat. 15: Sanyo Chemical Industries, Ltd.

Energy consumption

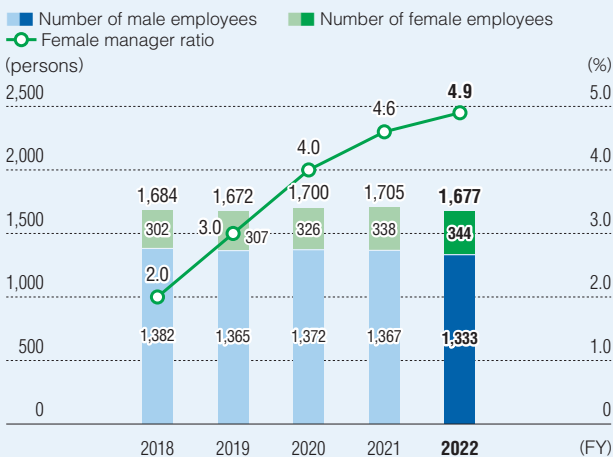


Occupational accident frequency rate*4



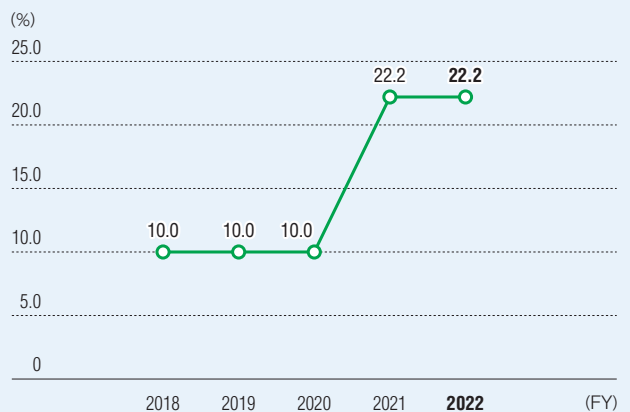
*4 Frequency rate = (Number of employees subject to accident with lost time) ÷ (total working hours) × 1,000,000
This value indicates the generation frequency of accident victims (Group company employees) per 1 million hours.

Number of employees / Female manager ratio*5

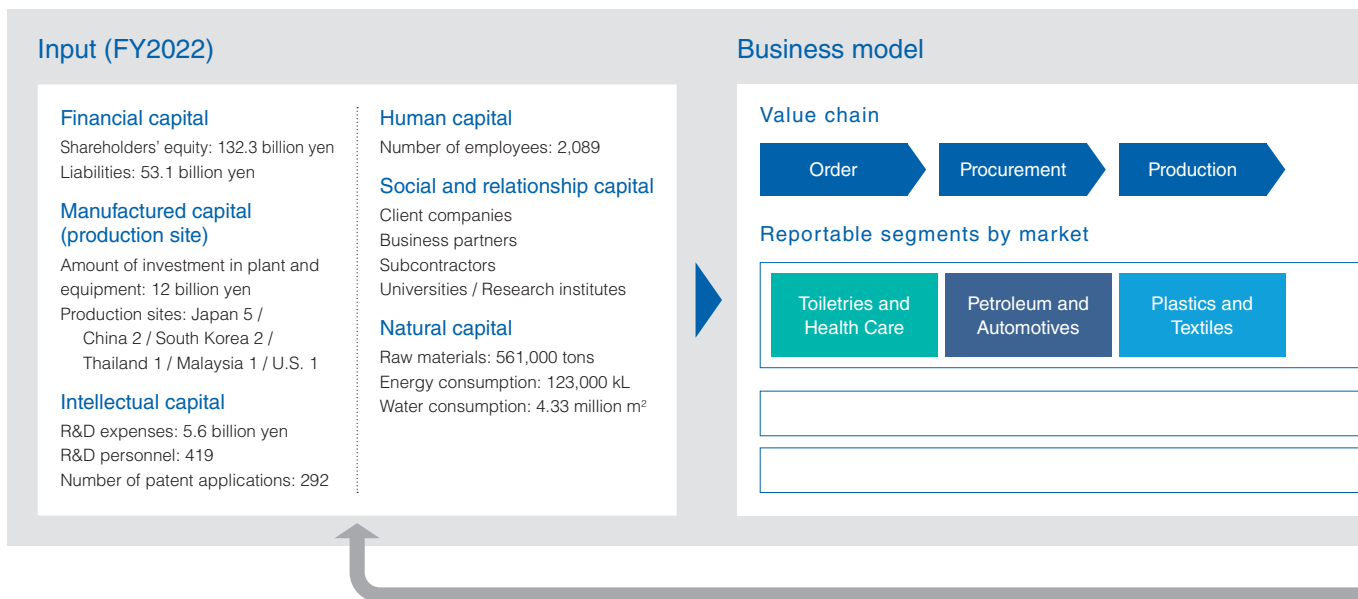
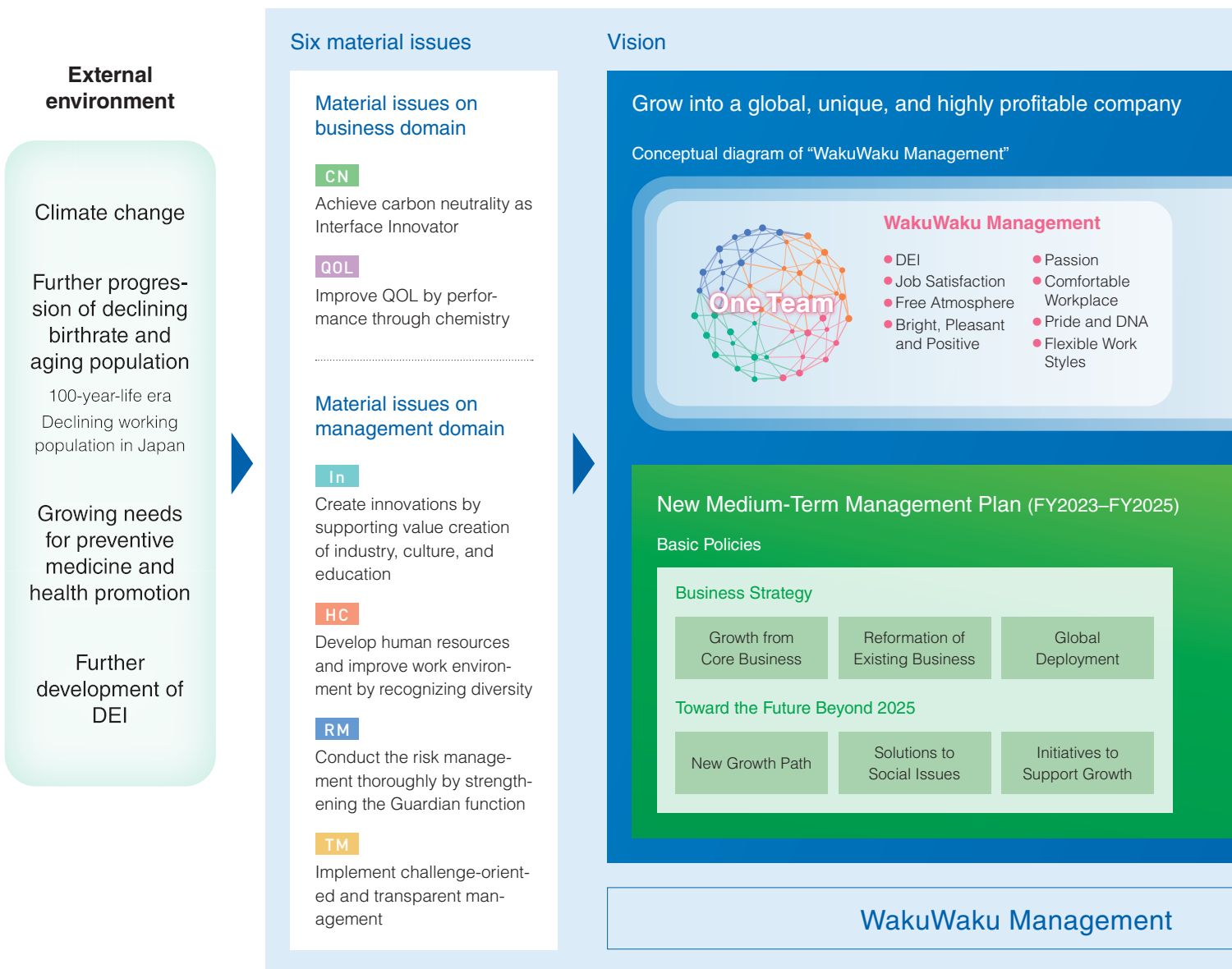


*5 Scope of data collection: Sanyo Chemical Industries, Ltd. (including loaned employees from Sanyo Chemical Industries, Ltd.)

Female director ratio



Sanyo Chemical Group Value Creation Process



where every employee feels pride and satisfaction from his/her work

Interface Innovator

- Interface Control Technology
- Creation of New Business Model
- Link People to People
- Creation of Innovation
- Providing Solutions
- Beyond the Boundaries of Chemistry

Outcome

- "WakuWaku" of Everyone
- "WakuWaku Company"
- "WakuWaku" Influence
- Support the Environment
- Support Diversity
- Support People and Their Lives

FY2030 Quantitative Targets

Operating profit:
50 billion yen

ROIC:
10.0%

Company mission

Society we want to achieve

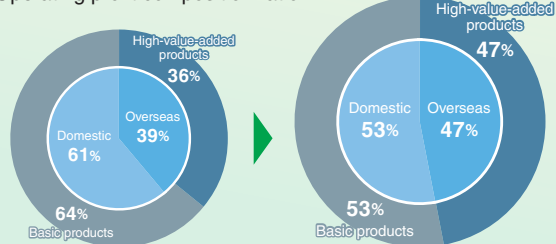
An environment-friendly circular-oriented society

A society where people can live healthily and safely

A society where everyone can shine with their personality

Transformation of Business Portfolio

Operating profit composition ratio



FY2021: **11.8 billion yen**

FY2025: **15.0 billion yen**

FY2025 Quantitative Targets

Operating profit:
15 billion yen

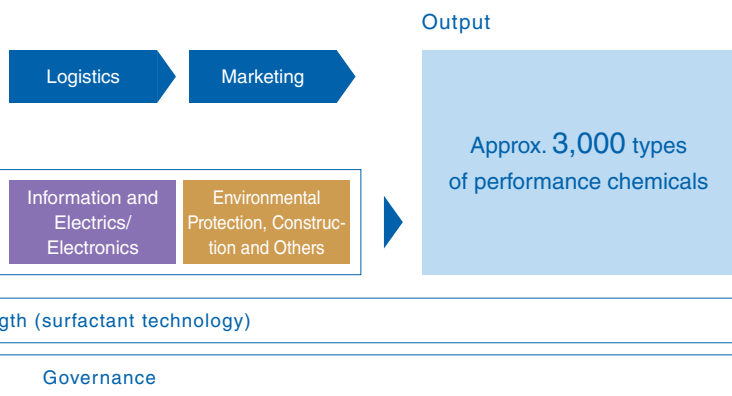
Operating profit ratio:
7.5%

ROIC:
7.0%

Establish a better society through our corporate activities

× Sustainable Management

Value creation (FY2022)



Value to shareholders

Payout ratio: 66%
ROE: 3.9%

Value to society

Contribution to carbon neutrality
Improvement of QOL
Creation of industrial, cultural, and educational innovation

Value to the company

Operating profit: 8.4 billion yen
Cash flows from operating activities: 10.8 billion yen
Improvement of employee job satisfaction and engagement

Sanyo Chemical Group Material Issues

We have identified six material issues based on our company mission “Establish a better society through our corporate activities.” We address these issues while realizing “Inspire WakuWaku feeling from all the stakeholders,” “Co-create environmental, social and economic value with the stakeholders,” and “Facilitate every employee’s value creation.”

Material issues on the business domain

Environment E | Support the environment by creating an environment-friendly circular-oriented society

CN Carbon Neutrality

Achieve carbon neutrality as Interface Innovator

Life L | Support people and their lives by creating a society where people can live healthily and safely

QOL Quality of Life

Improve QOL by performance through chemistry

Material issues on the management domain

Society S | Support diversity by creating a society where everyone can shine by their personality

In Innovation

Create innovations by supporting value creation of industry, culture and education

HC Human Capital

Develop human resources and improve work environment by recognizing diversity

Governance G | Retain social trust with transparent management

RM Risk Management

Conduct the risk management thoroughly by strengthening the Guardian function

TM Transparent Management

Implement challenge-oriented and transparent management

Approach to materiality identification

The Sanyo Chemical Group defines material issues as “important issues that have a significant impact on the medium- to long-term value creation of the Sanyo Chemical Group.” We believe that it is necessary to identify material issues in order to continue to create value with the intention of satisfying all stakeholders defined by the Group. To create value for all stakeholders, we have identified material issues by following the process 1 to 4 below, considering that identifying and prioritizing medium- to long-term themes is the shortest route to value creation.

Materiality identification steps

1 Identification of issues

Issues have been selected with reference to various guidelines, such as the SASB Standards for the chemical industry, the GRI Guidelines, the Sustainable Development Goals (SDGs), and the World Economic Forum (WEF) core metrics, as well as communication with stakeholders and a questionnaire on our company mission for all employees and officers.



2 Prioritization of the issues and creation of the materiality matrix

The identified issues have been prioritized through dialogue with major shareholders and employees about their impacts on our corporate identity and finance, opportunities to create innovation, and the Sanyo Chemical Group's uniqueness. The issues were then plotted on a matrix with management and business perspectives placed on the horizontal axis and expectations and contributions to resolving social and environmental issues placed on the vertical axis.



3 Identification of material issues

With a focus on the upper right area of the materiality matrix, six material issues have been identified, with issues related to the Environment field and the Life field as material issues on the business domain and issues related to the Society field and the Governance field as material issues on the management domain. (The Life field has been separated from the conventional ESG portfolio and categorized as a symbol of expectations and contributions to the improvement of QOL.)



4 Validation of the material issues and board approval

The material issues have been validated through deliberations at the Sustainable Management Committee, which is chaired by the President and CEO, and have been approved by the Board of Directors. The issues will be reviewed according to changes in the business environment that may occur in the future.

Message from the President

Akinori Higuchi

Representative Director,
President and CEO



Fiscal year 2022 (ended March 31, 2023) was my second year as president. While on the one hand I felt one year was very short, I think I could have done more. In May 2022, we formulated the management policy “WakuWaku Explosion 2030,” and as part of that, I interviewed many employees and other stakeholders. Toward the achievement of the New Medium-Term Management Plan 2025, I would like to continue to communicate with them this year as well while further deepening discussions throughout the company.

Fatal accident at the Nagoya Factory in January 2022

In January 2022, a fatal accident occurred on the premises of the Nagoya Factory. We sincerely pray for the repose of the employee’s soul and extend our heartfelt sympathy to the family of the deceased. We would also like to deeply apologize for the aggravation and distress we have caused to all those concerned. In response to reports from the Accident Response Committee,* which examined the accident, we have established the Safety Promotion Department. For details of our initiatives, please refer to the “Occupational Safety and Health/Accident Prevention” section on pages 39 and 40 of this report. We are currently taking a variety of short-term and long-term measures. Although I often visit factories without prior notice, I feel that the Sanyo Chemical Group is now more conscious of safety. To prevent such an accident from happening again in the future, the management team and all employees will work together to implement recurrence prevention measures and to foster a culture of safety.

* The Accident Response Committee consists of a total of 13 members, including factory managers and the executive chairperson of the labor union, with the Executive Officer in charge of production serving as the chairperson and the Responsible Care Division General Manager serving as the execution manager. As of August 2022, the cause of the accident had been analyzed 15 times, and recommendations for permanent measures had been presented.

FY2022 performance increased in sales but decreased in profit

As for performance for FY2022, we fell short of our initial plan with net sales of 174.9 billion yen, operating profit of 8.4 billion yen, and profit attributable to owners of parent of 5.6 billion yen. This is because we were greatly affected by various environmental changes, such as China’s lockdown due to COVID-19, soaring energy costs, automobile production cut-backs, and sharp yen depreciation. Consequently, we were unable to avoid delays in the progress of our business strategy based on the management policy “WakuWaku Explosion 2030,” and we revised our targets in the New Medium-Term Management Plan 2025.

New Medium-Term Management Plan 2025

At the core of the Group's strategy are sustainable management and material issues. We aim to achieve long-term growth by engaging in sustainable management, with businesses in the following two fields placed at the center of the strategy: the Environment field aimed at achieving carbon neutrality, and the Life field aimed at improving QOL. Our Vision 2030 also envisions a future image in line with sustainable management, and the recently announced New Medium-Term Management Plan 2025 is positioned as the first step toward achieving our vision.

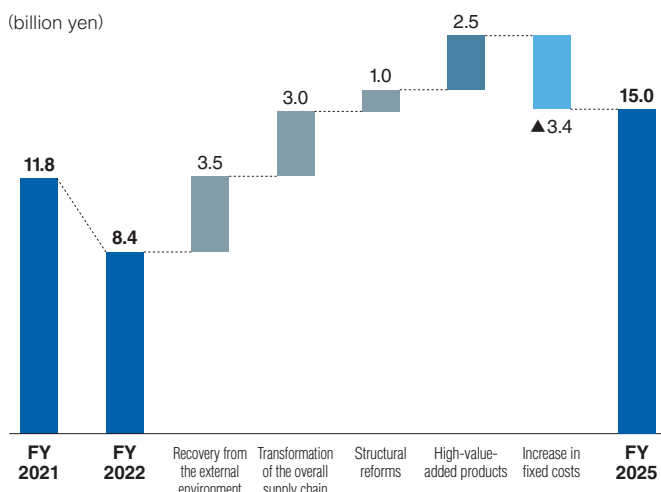
Although we have so far been able to gradually align the vectors of the entire company, we need to speed up further to move ourselves forward.

Overview of the New Medium-Term Management Plan 2025

The New Medium-Term Management Plan 2025 consists of two pillars: "Business Strategy" to be implemented now, and "Toward the Future Beyond 2025." Moreover, "Business Strategy" consists of three components: "Growth from Core Business," "Reformation of Existing Business," and "Global Deployment." As one of the initiatives for the "Reformation of Existing Business," we aim to increase efficiency throughout the supply chain to improve profitability through Monozukuri Transformation (Manufacturing Innovation). We believe this is the activity that will contribute to the highest profit increase over the next three years (see the figures below).

▶ Operating profit change chart

(billion yen)



| Reformation of Existing Business | |
|---|---|
| Recovery from the external environment | Recovery of domestic automobile production / Demand growth from China's post-COVID-19 situation |
| Transformation of the overall supply chain | Price optimization linked to naphtha prices / Improvement of efficiency and profitability through Monozukuri Transformation |
| Structural reforms | Polyurethane (PPG) and superabsorbent polymer (SAP) businesses undertake drastic reforms |
| Growth from Core Business | |
| High-value-added products | Accelerate investment in five focus product groups and expand overseas sales |
| Increase in fixed costs | |
| ERP system update / Increase in depreciation and repair costs associated with renovation investments / Rising labor costs | |

Monozukuri Transformation (Manufacturing Innovation)

Until now, the company has sometimes been unable to do what it should do as a manufacturer as a result of being caught up in old customs. Accordingly, in the New Medium-Term Management Plan, we will work to increase efficiency throughout the supply chain to improve profitability. Regarding factories, we will improve the work environment by reviewing and automating the manufacturing process to improve the non-defective product rate, thereby reducing the manufacturing lead time and trimming the inventory, which are directly linked to cash generation.

Currently, Japan is facing a declining working population, and it is expected that the number of female and foreign employees will increase in the future, in addition to the aging of the workforce. Making our factories safe workplaces where anyone can work with ease will not only enable us to hire such people without difficulty, but will also have a positive impact on the retention rate of new employees.

We also plan to thoroughly overhaul old practices, from procurement to R&D, logistics, and marketing. We are confident that this initiative will form the foundation for our highly profitable structure in the future.

Structural reforms

As another initiative for "Reformation of Existing Business," we have included structural reforms to boldly carry out reforms in the polyurethane (PPG) and superabsorbent polymers (SAP) businesses. Through these efforts, we will improve the profitability of basic products and realize a highly profitable structure.

Prioritization of investment in five high-value-added products categories

In terms of growth investment, we will prioritize capital investment in five product groups with high profitability, and then invest in the globalization of these five high-value-added product categories and new businesses through M&A. We will also actively invest in factory safety and automation.

The amount of strategic investment over three years will be five billion yen for the five high-value-added products categories, 35 billion yen for investment in facility renewal, incorporated with process optimization and automation, and 10 billion yen for M&A, totaling approximately 50 billion yen.

Funds are primarily raised through cash generation initiatives incorporated into the strategy. If we need a large amount of funds temporarily, such as for M&A, we may consider borrowing. However, we currently believe that cash generated and internal reserves will be the main sources of funding.

Capital policy

In the New Medium-Term Management Plan 2025, we have set targets with the cost of capital in mind. In the long term, we aim to achieve an ROE of 8% or higher and an ROIC of 10% or higher, and we believe that PBR will also approach 1.0 due to our awareness of the spread between ROE/ROIC and the cost of capital.

We are also proceeding with the sale of cross-shareholdings, and in FY2022 we sold a substantial amount of shareholdings. We will not rule out share buybacks, considering them as an option, and will consider flexibly implementing share buybacks within the scope of the cash generated.

Dividend policy

We consider returning profits to shareholders to be one of the important management issues. We aim to improve our dividend payout in the medium to long term, targeting a consolidated payout ratio of 30% or higher, while comprehensively considering the allocation of resources necessary for sustainable growth, including investing in employees and safe facilities and reinforcing the corporate base for the future. The dividend payout ratio for FY2022 was 66%, and the annual dividend per share was 170 yen.

We publish the Integrated Report 2023 to allow our stakeholders to understand the medium- to long-term strategies that the Group is aiming for, in particular, the New Medium-Term Management Plan 2025. We would appreciate it if you could read it and provide feedback.

September 2023

Representative Director, President and CEO

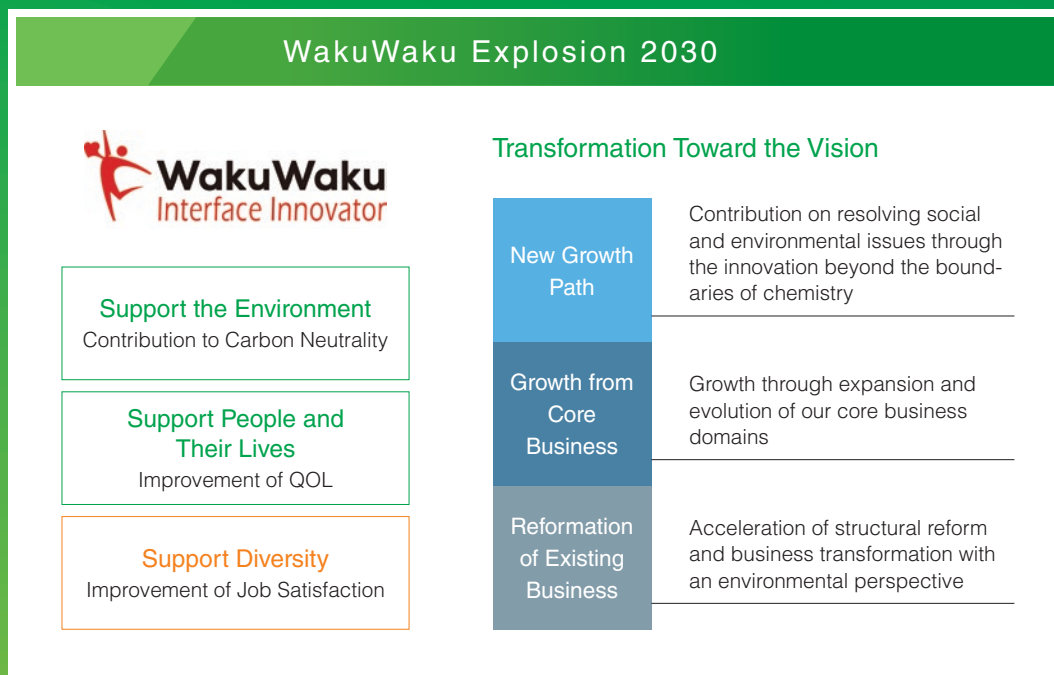


New Medium-Term Management Plan 2025

Accelerate Transformation to Realize Our Vision

In March 2022, the Sanyo Chemical Group announced “WakuWaku Explosion 2030,” which envisions our vision for 2030 based on our company mission, “Establish a better society through our corporate activities.”

One year later, in May 2023, we launched the three-year New Medium-Term Management Plan 2025 as the first phase toward achieving our Vision 2030. The Group is now united in its efforts to “Accelerate Transformation to Realize Our Vision.”



Accelerate Transformation to Realize Our Vision

Basic Policies

Business Strategy

1. Growth from Core Business

We will position five focus product groups that contribute to carbon neutrality (CN) and improvement of QOL (quality of life) as “high-value-added products categories,” and accelerate research and development as well as capital investment in these product categories in order to generate earnings.

2. Reformation of Existing Business

We will improve profitability by transforming the business process throughout the supply chain and implementing structural reforms in the polyurethane and superabsorbent polymer (SAP) businesses.

3. Global Deployment

We will expand facilities in overseas plants and strengthen the functions of overseas sales offices.

Toward the Future Beyond 2025

1. New Growth Path

We will focus our resources on growing areas where we can contribute to carbon neutrality and improvement of QOL. We will reinforce innovative actions including opportunities for strategic alliances and M&A.

2. Solutions to Social Issues

We aim to pursue significant reduction of CO₂ emissions through Carbon dioxide Capture and Utilization (CCU). We will proactively address human rights issues in the supply chain.

3. Initiatives to Support Growth

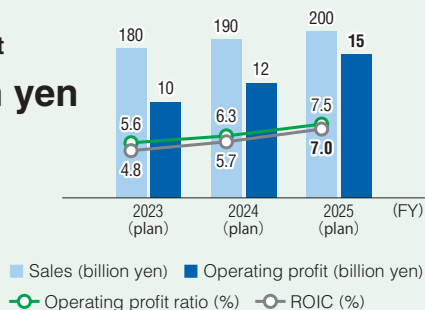
We will promote human resources development and improvement of the work environment. We will manage with safety and quality as our top priority and promote transparent management.

FY2025 Quantitative Targets

Reflecting the external environment and the progress of internal transformation, we have revised the target of “20 billion yen in operating profit in FY2024” set forth in the management policy.

Operating profit
15 billion yen

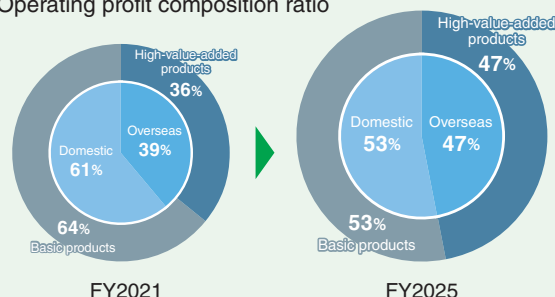
ROIC
7.0%



Target Business Portfolio

In order to transform our business portfolio, we will increase the proportion of high-value-added products that contribute to CN and the improvement of QOL, as well as the overseas net sales ratio.

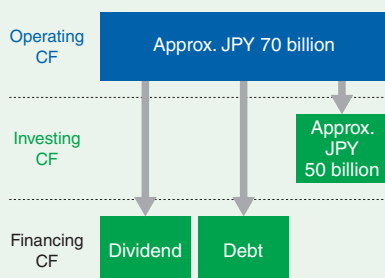
▶ Operating profit composition ratio



Cash Flow and Investment Policy

We will improve our ability to generate cash based on our business strategy, and generate approximately 70 billion yen in operating cash flow over the next three years. Of this amount, we plan to allocate approximately 50 billion yen to growth investment and approximately 20 billion yen to shareholder returns and the repayment of interest-bearing debts.

▶ Targets for 2023–2025



Operating CF

EBT: 37 billion

Profit increase from high-value-added products and basic products (Continuing intensive expenditures in R&D: 17 billion)

Depreciation: 34 billion

ERP system renewal and CAPEX

Working capital reduction: 5 billion

Cash generation by Monozukuri Transformation (Manufacturing Innovation)

Miscellaneous including taxes: -6 billion

Investing CF: Investment Plan of 50 Billion Yen over Three Years

Growth from Core Business (high-value-added products): 5 billion

Production capacity increase in response to strong demand and emerging markets

Reformation of Existing Business: 35 billion

Process optimization through Monozukuri Transformation and facility renovation/automation

New Growth Path (growing businesses): 10 billion

Strategic investment in M&A and commercialization of new businesses focusing on CN and improvement of QOL

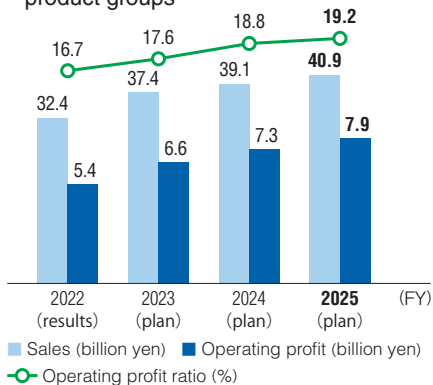
Reduction of cross-holding: -Several billion

Business Strategy

1. Growth from Core Business

Positioning chemicals for special fibers, chemicals for special electronic parts, lubricant additives, permanent antistatic agents, and medical and pharmaceutical products, which contribute to carbon neutrality and the improvement of QOL, as five focus product groups, we plan to make capital investment of nine billion yen from FY2021 to FY2025, which includes the period of the Medium-Term Management Plan. We expect an incremental operating profit of 2.5 billion yen from this capital investment, and aim to achieve an operating profit of 7.9 billion yen by FY2025 from the five focus product groups. We will also consider additional investments in order to further expand our business.

▶ Results and targets of sales / operating profit / operating profit ratio for five focus product groups



(Note) Research and development expenses (approx. two billion yen per year) related to new businesses are recorded as company-wide expenses and are not included in the above operating profit.

▶ Accelerate capital investment in high-value-added products

- Secure profits by accelerating capital investment in the five focus product groups that can contribute to CN and QOL improvement.
- Consider additional investments aiming for further growth acceleration.

| Classification | Product groups | 2021 | 2022 | 2023 | 2024 | 2025 (FY) |
|----------------|--|------|---|------|---|---|
| CN | Chemicals for special fibers | | | | | Installation in Kashima (2024/0.7) |
| CN | Chemicals for special electronic parts | | | | | Expansion in Nagoya (2023/0.4, 2025/0.5) |
| CN | Lubricant additives | | Expansion in China (2021/0.3), Installation in Korea (2021/2.4) | | | Planned expansion in Kashima and Kyoto (2025/0.8) |
| QOL | Permanent antistatic agents | | Installation in Thailand (2022/3.4) | | | |
| QOL | Medical and pharmaceutical products | | | | Expansion in Nagoya (2024/0.1), Expansion in Kyoto (2024/0.3) | |

(Note) (Start year / Investment amount [billion yen])

FY2021 to 2025 Amount of total investment **9.0 billion yen**

↓

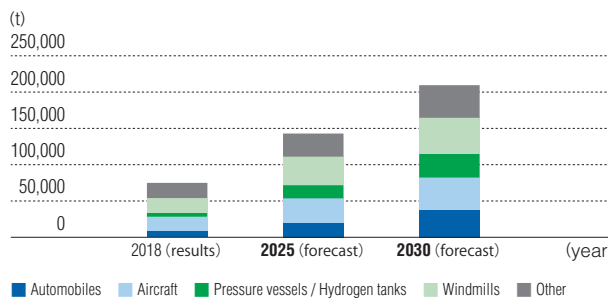
Incremental operating profit during the period of the New Medium-Term Management Plan **2.5 billion yen**

Chemicals for special fibers CN

These products contribute to carbon neutrality. Our chemicals for special fibers are mainly used for carbon fibers. Blades of windmills, which are one of the main uses of carbon fibers (windmills, automobiles, aircraft, and pressure vessels), are seeing a rapid increase in demand due to the spread of renewable energy. Demand for carbon fibers is expected to expand as wind power generation increases, and blades become larger. In addition, the development of applications in new fields is progressing. In order to respond to growing demand for carbon fibers, we have decided to increase the production capacity for sizing agents for carbon fibers. In addition to the existing facilities at the Nagoya and Kyoto Factories, we plan to establish a new production facility at the Kashima Factory. The facility is scheduled to start operation in May 2024, increasing production capacity by approximately 50%. We will seek to secure a stable supply of sizing agents for carbon fibers in order to respond to the growing global demand. We would also like to play a major role not only in the utilization of renewable energy and the development of its industry, but also in addressing climate change. We will continue to consider



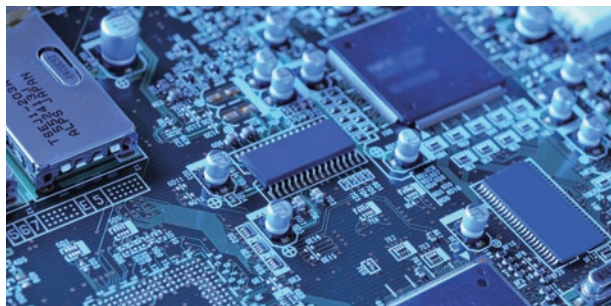
▶ Global market forecast for carbon fiber reinforced plastics by application



(Source) Created based on "Global carbon fiber reinforced plastics (CFRP/CFRTP) materials and technology report: Market size, applications, share, trends 2020" by FUJII KEIZAI CO., LTD.

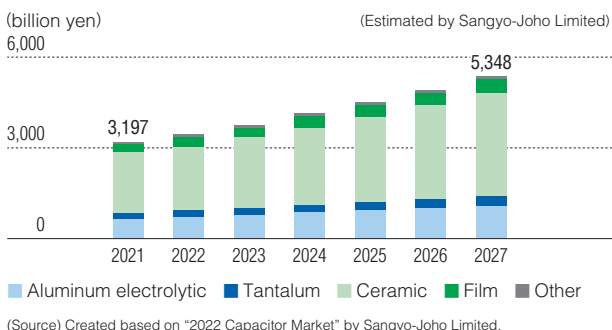
further capacity expansion in order to meet the growing demand for carbon fibers.

Chemicals for special electronic parts CN



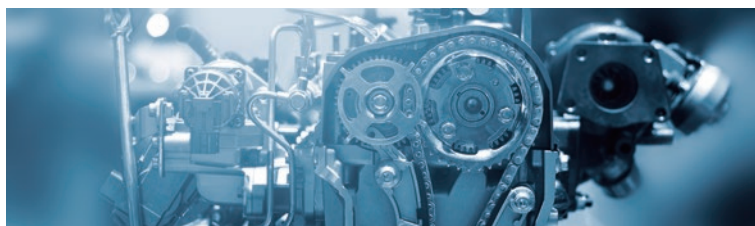
These products contribute to carbon neutrality. Our chemicals for special electronic parts include electrolytes for aluminum electrolytic capacitors, which are mainly used in electronic circuits. Electrolytes for aluminum electrolytic capacitors are used in a wide range of applications, from general electronic devices to important electronic parts that support social infrastructure. Our electrolytes for aluminum electrolytic capacitors exhibit high electrical conductivity over a wide temperature range and are excellent in long-term stability at high temperatures. As industry-standard long-run products, they are used in capacitors that require higher reliability, such as automobile control units. Currently in the automobile industry, an increasing number of automobile electrical parts, such as driving support system circuits, are used due to the electrification of vehicles such as electric vehicles (EVs). In order to ensure a stable supply that meets this growing demand, we have decided to increase our production capacity. The current production capacity will be increased by 60% by March 2025.

► Forecast for global production of capacitors

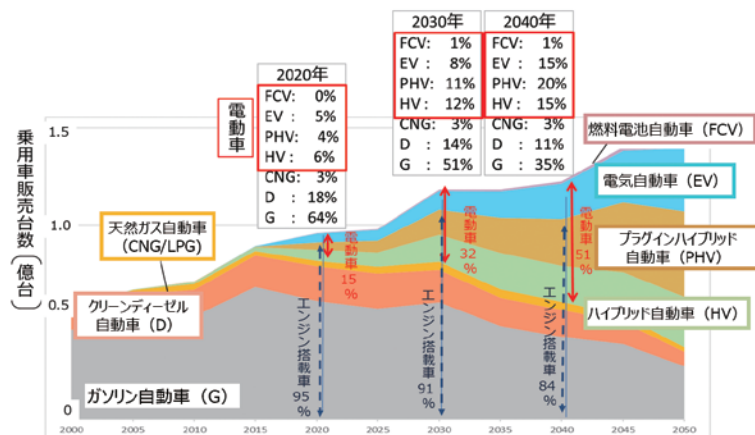


Lubricant additives CN

These products contribute to carbon neutrality. In the automobile industry, in order to reduce CO₂ emissions, there is a growing need for fuel-efficient gasoline vehicles, along with the trend toward electrification. Since our lubricant additives are highly effective in improving fuel efficiency, they are used in the engine oils of gasoline vehicles, hybrid vehicles (HVs), and plug-in hybrid vehicles (PHVs). It is assumed that their replacement demand at the time of after-sales maintenance will increase. To meet the growing global demand for these products, we have established a production site in South Korea, following those in Japan and China, which has already started operation. We are also working on the development of lubricant additives optimized for EVs in order to contribute to improving the fuel efficiency of all vehicles.



► Forecast for sales of gasoline vehicles, hybrid vehicles, and plug-in hybrid vehicles

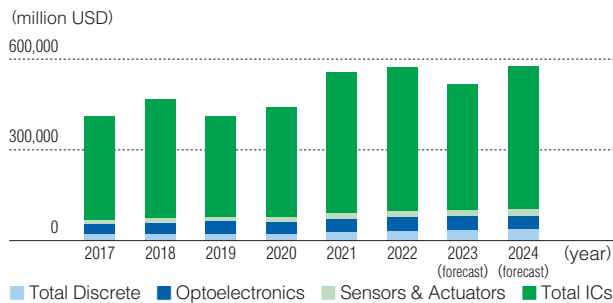


(Source) Ministry of Economy, Trade and Industry, "Technology Diffusion Scenario Presented by IEA (a case where an average temperature rise of 2°C is achieved)" (2021) (in Japanese) https://www.enecho.meti.go.jp/about/special/johoteikyogosei_nenryo.html

Permanent antistatic agents QOL



► Semiconductor market forecast by product



(Source) Created based on "WSTS Semiconductor Market Forecast Spring 2023" by WSTS (World Semiconductor Trade Statistics) Japan Council

These products contribute to the improvement of QOL. Permanent antistatic agents are used in a wide range of applications to prevent various problems caused by static electricity (destruction of electronic circuits, malfunction of electrical appliances, adhesion of dust) and accidents (fires, explosions). In recent years, in addition to an increase in demand centered on semiconductor carrier trays and the packaging of electronic devices and precision parts, explosion-proof and other applications are expanding. In order to meet future demand expansion, we have launched a new production site at the Rayong factory of Sanyo Kasei (Thailand) Ltd., which has been in operation since July 2022. Since permanent antistatic agents are our unique, high-functionality products, we will strive to open up new markets while taking into account the possibility of further expanding the production facility depending on our future demand. We will also promote the development of new materials.

Medical and pharmaceutical products QOL

These products contribute to the improvement of QOL and mainly include polyethylene glycol for pharmaceuticals and non-absorbable topical hemostatic materials for the central circulatory system.

Polyethylene glycol for pharmaceuticals is used as a pharmaceutical additive in a base material for ointment and tablet coating agents, and is used as an active pharmaceutical ingredient for colon cleaning agent. It is also used in various applications such as tissue regeneration and cell culture. To meet demand expansion due to increased sales, which is caused by the development of generic drugs, we plan to expand the facilities at the Nagoya Factory. These facilities are scheduled to start operation in May 2024, with the production capacity expected to increase by approximately 20%.

Non-absorbable topical hemostatic materials for the central circulatory system are surgical hemostatic agents made of polyurethane materials that react with water to form a flexible film. Since their launch in 2014, they have been used in many cardiovascular surgeries in Japan as hemostatic materials used in the anastomosis of the thoracic aorta and the branch of the aortic arch for artificial



blood vessel replacement. In March 2020, the scope of their application was expanded to include the anastomosis of whole blood vessels except cerebral vessels. In July 2019, we obtained the CE marking for products for overseas shipping, and started their sales in the European market. Using this as a foothold, we are accelerating our overseas expansion, including entering the Hong Kong market in July 2021 and the Taiwanese market in December 2021. We will ensure its stable supply to satisfy growing demand by increasing our production capacity to approximately five times (scheduled to start operation in February 2024).

Business Strategy

2. Reformation of Existing Business

■ Profit improvement

Approximately 40% of the products sold by the Sanyo Chemical Group are related to the automobile industry. By country, we have a profit structure with a high percentage of sales to China. In FY2022, production adjustments by automobile manufacturers continued due to the shortage of semiconductors and difficulty in parts procurement, leading to a prolonged slump in our sales to the automobile industry. In addition, amid various changes in the global environment, such as China's lockdown due to COVID-19, rising prices due to the situation in Ukraine, and sharp yen depreciation, our sales of products related to the automobile industry as well as of paper diapers and construction paints in China fell. Thus, we were greatly affected by this situation. Demand for these products is expected to recover from FY2023 onward due to the recovery of the automobile industry and the re-opening of the Chinese market. We believe that improving our production and sales systems will greatly contribute to improving profitability.

As a reform of the overall supply chain, we will promote the optimization of product prices in response to the market conditions of raw materials such as naphtha and various cost increases, and will start the company-wide project "Monozukuri Transformation (Manufacturing Innovation)" aimed at increasing efficiency throughout the supply chain to improve profitability. Through these initiatives, we anticipate an incremental operating profit of three billion yen over the next three years.

■ Monozukuri Transformation (Manufacturing Innovation)

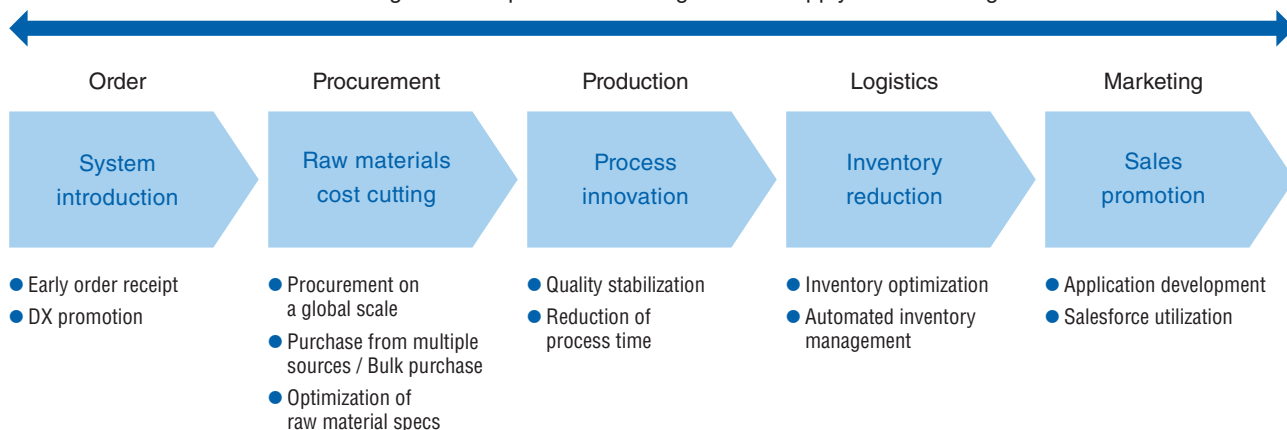
We will work on the following measures to reduce working capital. We aim to improve our operating cash flow by five billion yen by increasing our ability to generate cash.

- ① Visualize and improve data throughout the supply chain by the ERP renewal and promotion of DX
- ② Establish new processes that enable smooth connection from order receipt to production planning
- ③ Establish a new organization to conduct fundamental process reform by dispatching dozens of R&D staff to production sites
- ④ Promote active investment in facility renewal, incorporating process optimization and automation
- ⑤ Implement total cost analysis and overhaul of operations

▶ Overall picture of Monozukuri Transformation (Manufacturing Innovation)

Realize a cash flow improvement of five billion yen through reduction of working capital.

Transforming business processes throughout the supply chain utilizing DX



■ Structural reforms

We will promote reforms centered on the polyurethane and superabsorbent polymer (SAP) businesses.

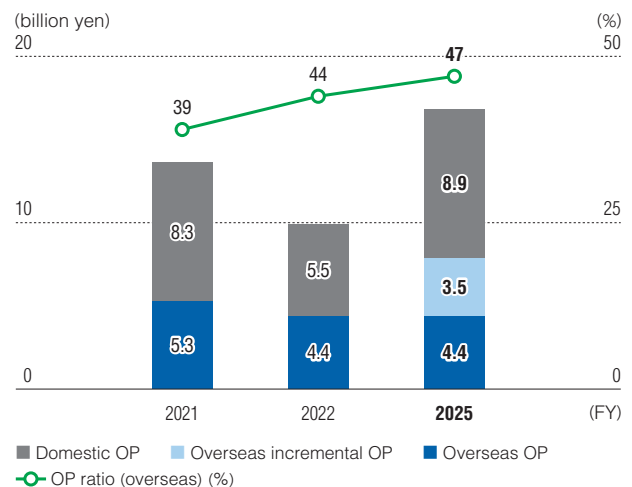
In the polyurethane business, we will streamline production capacity through strategic alliances with other partners, increase production efficiency through process improvement and grade integration based on Monozukuri Transformation, optimize production locations through collaboration with GC Polyols Company Limited, and shift to high-value-added products. In May 2023, we established Japan Polyol Limited Liability Partnership (LLP) as a 50-50 joint venture with Mitsui Chemicals, Inc. with the aim of resolving common issues such as improving the profitability of polypropylene glycol (PPG) in Japan and ensuring supply stability in the future. Through the establishment of the LLP, both companies will work to ensure both continuous stable supply and profit in the PPG business.

In the SAP business, we will work on the following initiatives:

- making drastic cost improvements, including the consolidation and/or elimination of surplus facilities,
- increasing production efficiency through process improvement and grade integration based on Monozukuri Transformation,
- implementing a sales strategy focused on China and South Asia with high market growth potential, where we can leverage the strengths of our production sites,
- exploring high-value-added products for applications other than hygienic applications such as disposable diapers and sanitary napkins, and
- forming strategic alliances with other partners.

We aim to expand our business in overseas markets to earn 47% of our total operating profit in overseas markets by FY2025. To prepare a production system that meets demand, we invested in production facilities for lubricant additives (13,000 tons) in South Korea and China in 2021, and invested in production facilities for permanent antistatic agents (1,500 tons) in Thailand in 2022. We plan to invest in production facilities for high-performance surfactants (1,800 tons) in Thailand in FY2024. We will also boost sales to non-Japanese companies by promoting local staff to senior management positions, and strengthen local technical service functions through R&D staff involvement. Moreover, we will expand our sales channels by launching product websites, actively participating in overseas exhibitions, and using a pull marketing strategy in order to promote sales expansion overseas.

▶ Promote overseas sales



(Note) Research and development expenses (approx. two billion yen per year) related to new businesses are recorded as company-wide expenses, and are not included in the above operating profit (OP).

Toward the Future
Beyond 2025

New Growth Path

The Sanyo Chemical Group has set “Achieve carbon neutrality as Interface Innovator” and “Improve QOL by performance through chemistry” as material issues on business domain. During the period of the New Medium-Term Management Plan 2025, we will focus on developing new businesses and products that contribute to carbon neutrality and improvement of QOL, with the aim of creating next-generation businesses that will open up a new growth path toward 2030. We will aim for the commercialization of new businesses and products at an early stage by continuing to inject resources and reinforcing innovative actions, including opportunities for strategic alliances and M&A.

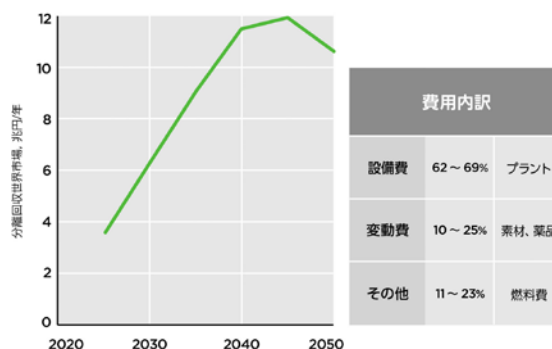
Carbon recycling (CCU*) CN

We have accumulated know-how in the design and manufacture of ionic liquids over many years through our main business of electrolytes for aluminum electrolytic capacitors. Currently, we are considering how to apply our ionic liquid technology to the systems that can efficiently capture and utilize CO₂ (CCU). CCU is expected to play a key role in sustaining the use of fossil fuels and the current industrial processes while controlling greenhouse gas emissions, which contribute to climate change. It is also expected to achieve negative emissions of CO₂ when combined with renewable energy.

We aim to apply our ionic liquid technology to the separation of CO₂ from the air, which is attracting attention as a negative emission technology, as well as from flue gas through consortium activities involving engineering partners, municipalities, and other chemical manufacturers, without being bound by the existing business framework.

* Carbon dioxide Capture and Utilization

▶ Market potential for CO₂ separation and capture



(Source) Ministry of Economy, Trade and Industry “What is CCUS Technology?” (in Japanese) https://www.meti.go.jp/policy/energy_environment/global_warming/roadmap/innovation/ccus.html

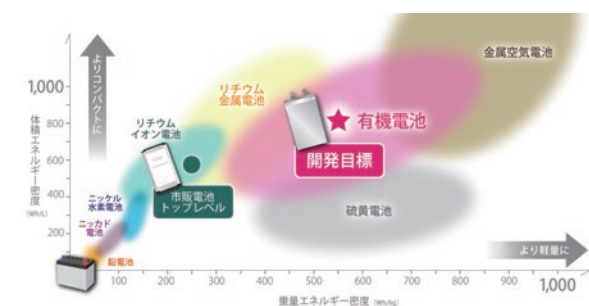
▶ CCU process



Energy (Organic cathode active materials) CN



▶ Image of an organic cathode secondary battery



(Source) SoftBank Corp. (in Japanese)

As expectations for next-generation devices, such as drones and HAPS (High Altitude Platform Station), a stratospheric communication platform, are increasing, it has become necessary to develop light, safe next-generation batteries with high weight energy density in order to dramatically improve the performance of these devices. Also, from the perspective of sustainability, high-performance batteries are indispensable for promoting electrification and storing renewable energy, which are measures to achieve carbon neutrality. Current lithium-ion batteries are said to be close to the upper limit of their performance, and we are promoting material development with a focus on organic cathode secondary batteries as a type of next-generation battery.

Organic cathode secondary batteries are characterized by the replacement of current inorganic materials containing rare metals, used as cathode active materials, with organic materials, and are expected to significantly improve weight energy density. They also help avoid the shortages and soaring prices of rare metal resources and risks to their stable supply.

We will develop and manufacture the key organic materials, aiming to achieve early results in cooperation with partner companies.

Agriculture (Peptide materials) CN

In modern agriculture, food crises due to labor shortages and abnormal weather, as well as the environmental impact caused by pesticides and chemical fertilizers, have become major social issues. Peptide agriculture, which we aim to put into practical use in FY2023, is a technology that maximizes the innate functions of plants by giving peptides, which are biostimulants,* to vegetables and fruit trees. Peptides are expected to improve in quality and yield through the mitigation of their damage due to disease and climate change, and to help reduce the use of pesticides and chemical fertilizers.

By making full use of our fundamental technologies, such as interface control technology, we can produce peptides extracted from natural products, including unused resources, and fermentation-produced peptides derived from natural products. This will provide the world's first agricultural solution using multiple functional peptides. As a pioneering attempt, we plan to sell peptide fertilizers and then provide peptide spraying meth-



* This is a new technology that reduces plant damage caused by climate and soil conditions by controlling abiotic stresses (high and low temperatures, physical damage, etc.) to plants in order to provide healthy plants. Its global market size is expected to be three billion dollars, with an average annual growth rate of more than 12%.

ods suitable for each crop and techniques for preserving product freshness, with the aim of building a business model that contributes to the production of high-value-added vegetables and fruits.

Diagnostic and regenerative medical care (Extracellular vesicles: EVs) QOL



In recent years, body fluid components, called “exo-some-containing extracellular vesicles,” have been attracting considerable attention in medical fields that are directly linked to improving QOL, such as disease discovery and regenerative medicine. It is expected that the research market alone will grow to over 100 billion yen by 2030. Jointly with Tokushima University, we have developed EXORPTION®, a method for collecting extracellular vesicles from various body fluids with high efficiency, high yield, and a high degree of purification, by applying the body fluid component collection technology and know-how that we have cultivated in the in vitro diagnostic reagent business.

By disseminating this technology, we aim to support new diagnostic and therapeutic research using extracellular vesicles, and to implement diagnostic agents to which this technology is applied in clinical settings.

In vitro diagnostic medical products (Accuraseed) QOL

Immunoassay-based in vitro diagnostic reagents are used for the purpose of diagnosing diseases, and their domestic market size reached approximately 250 billion yen in 2021. We have developed reagents dedicated to Accuraseed®* that use our unique magnetic particles, Magrapid. These are in vitro diagnostic reagents that enable rapid immunoassay in just 10 minutes. Since these agents dedicated to Accuraseed® were launched jointly with FUJIFILM Wako Pure Chemical Corporation in November 2015, their lineup has expanded to include 30 inspection items, including thyroid diseases and infectious diseases. This helps meet the need for rapid diagnosis in clinical settings. In June 2022, Sanyo Chemical Industries, Ltd. and FUJIFILM Corporation established FUJIFILM Sanyo Chemical Healthcare Corporation to consolidate the production systems for the reagents dedicated to Accuraseed® of both companies. We will strengthen our production base to achieve high productivity and respond to the growing demand for in vitro diagnostic reagents.



* Accuraseed®: Fully automated chemiluminescent enzyme immunoassay system manufactured by FUJIFILM Wako Pure Chemical Corporation

Wound healing material and meniscus repair (Silk-elastin) QOL



As Japan's aging society progresses, an increasing number of people are suffering from diabetic skin ulcers, pressure ulcers, knee osteoarthritis, and other diseases. In particular, many patients whose natural healing powers have declined due to aging are finding it increasingly difficult to recover with conventional treatments. It is said that there are 150,000 patients with refractory skin ulcers and eight million patients with knee osteoarthritis in Japan.

We use the functional protein "silk-elastin," which is under development at the company, for such patients to enhance their natural healing powers, thereby trying to heal their wounds (tissue regeneration) that could not be healed by conventional treatments. Since 2016, we have conducted clinical trials on skin defect regeneration and meniscus repair to confirm the efficacy and safety of silk-elastin. We plan to implement it in society by 2024 as a regenerative medical device "wound healing material" intended to regenerate refractory skin defects. We also plan to implement it in society by 2026 as a meniscus repair for patients with knee osteoarthritis. We aim to extend healthy life expectancy through silk-elastin to contribute to improving the QOL of the elderly.

Digital olfaction (Electric nose) QOL

Reproduction of the five human senses is being actively studied in order to cope with the recent IoT trends and realize next-generation communication using the five senses. In particular, it is difficult to reproduce the olfactory sense, and products and services that visualize odors and aromas have yet to be fully and practically implemented in society. Digital olfactory technology, which digitally identifies and quantifies specific odors, is expected to be applied in the medical field and the life-related fields including food and beverages, and its market size is expected to reach \$3.12 trillion by 2026.

The Group provides 3,000 types of functional chemicals. By using the technology and knowledge that we have acquired in this field, we have developed a highly practical electric nose that can be easily customized for various odors.

In addition to this feature, our electric nose is characterized by the ability to quickly and continuously identify complex mixed odors, which is difficult for commercially available gas sensors.



Toward the commercialization of electric noses, we are working on initiatives that use electric noses to contribute to the improvement of QOL. For instance, we consider the visualization of sanitary environment conditions to improve the environmental and enhance work efficiency as well as the visualization of the aroma of foods and luxury items. We aim for the early commercialization of electric noses to create new value through the visualization of odors.

Message from the General Manager of the Personnel Division

HR (Human Resources) Philosophy to Achieve WakuWaku Management

Yoshiyuki Oku

Managing Executive Officer,
General Manager of Personnel Division



The Sanyo Chemical Group has created a number of systems to enable everyone to take on challenges on their own initiative as part of its “people-oriented management.” In order to respond to changes in the times and to create an environment in which employees can work with job satisfaction and pride, we have deepened this “people-oriented management” and restructured our HR System for the first time in about 20 years, with “respect diversity and collaboration” as our HR Philosophy. Our goal is to build a better society by creating new values through the synergistic effects of individual connections based on mutual recognition of each other’s individuality.

HR System that promotes individual growth and enhances organizational strength

In the new HR System, we focused particularly on building an evaluation system, which is crucial to our efforts to develop human resources. In addition to reforming the evaluation system to make it more fair, transparent, and balanced, we have conducted evaluator training for all managers to ensure that it does not become “pie in the sky.” Under the new evaluation system, managers will not stop with day-to-day management and its evaluation, but will work to align the direction of employee and organizational growth through in-depth one-on-one discussions with each of their subordinates, so that they can practice support-ive management.

In terms of growth initiatives, we have launched a new leadership development training program for selected personnel in addition to the existing hands-on rotational training. Both practical work and training will contribute to the career development of our employees. We are also considering the introduction of an organizational evaluation system with the aim of maximizing organizational performance and linking it to the job satisfac-

tion and pride of each and every employee. The system will measure how One Team actions contribute to the company with respect to each organization’s medium- and long-term goals.

Expectations and aspirations for employees

What I expect from my employees going forward is for them to develop their career plans independently. I hope that each of you will be able to think about what kind of work you really want to do and what kind of experience you want to have and be active in. And in these times of turmoil, I hope you will grow to be able to tackle challenges for which there are no right answers. I believe the role of the Personnel Division is to provide support for that. We will respect the desires of our employees and promote the development of an in-house environment in which diverse human resources can play an active role. We will also focus on increasing engagement by eliminating the distance between management and employees. Furthermore, the Personnel Division will continue to change so that the company and its employees can build a relationship of mutual trust.

Toward the Future
Beyond 2025

HR Development and Work Environment Improvement

HC

In order to realize the vision of the Group set forth in the New Medium-term Management Plan 2025 and to promote changes toward the Vision, we believe it is important to create a company in which each and every employee can be excited (“WakuWaku”) based on the idea that “Every department is a profit center” (each and every diverse employee from all walks of life plays a leading role).

HR Philosophy

Our philosophy is to “respect diversity and collaboration,” aimed at creating new values through the synergistic effects of individual connections based on mutual recognition of each other’s individuality.

HR Policy

Based on the HR Philosophy, we have established our HR Policy “create an environment in which individual abilities can be maximized,” with the aim of becoming a company in which all employees can work in good health and with peace of mind, while valuing their individuality.

HR Development Policy

The Group positions human resources as the driving force that creates innovation toward the realization of our Vision. Aiming to spotlight everyone and to promote changes in an exciting way (“WakuWaku”), we set our HR Development Policy to “have everyone play an active role” and “develop an environment in which leaders (successors) grow naturally.” At the same time, we will promote efforts to reform work styles, diversify human resources, and create a work environment in which all human rights and diverse values are respected and accepted and in which all employees are encouraged to perform active roles, thereby leading to the sustainable growth of the Group.

Two pillars of the HR strategy: HR Development, Work Environment Improvement

We believe that HR Development and Work Environment Improvement are the two key elements for “One Team to create new ideas and continue to take on challenges.” Thus, we have included “develop human resources and improve work environment by recognizing diversity” in the material issues. The introduction of a fair, transparent, and balanced evaluation system is also required. In addition to existing initiatives, we will implement systems and measures that take into account the diversification of values and human resources and changes in the environment.

HR Development

- Creating a system in which everyone can play an active role
- Creating an environment in which leaders (successors) grow naturally
- Establishing a fair, transparent, and well-balanced evaluation system under which employees can work together to achieve organizational goals with One Team

Work Environment Improvement

- Health management
- DEI (Diversity, Equity & Inclusion)
- Open work environment



Respect for Human Rights RM

The Sanyo Chemical Group has set its Vision 2030: “Grow into a global, unique, and highly profitable company where every employee feels pride and satisfaction from his/her work.” We believe that the success of diverse human resources is possible only when there is a foundation for understanding the human rights of each individual and recognizing their individuality and values. In addition, in order to advance our business activities in various regions of the world, we are required to address human rights issues, including labor-related rights for stakeholders involved in our business activities and throughout our supply chain. To address human rights issues, we formulated the Sanyo Chemical Group Human Rights Policy in March 2023.

Basic attitude of the Human Rights Policy

As corporate activities become increasingly globalized, companies are expected to take the initiative in eliminating human rights violations from the perspective of creating an inclusive society. The Group will conduct management that respects the human rights of all people and recognizes that its business activities may have a negative impact on human rights. At the same time, we will work with our customers, business partners, suppliers, and government agencies to avoid such negative impacts, thereby gaining recognition from investors, customers, and society at large. We will also cooperate with diverse stakeholders to support the socially vulnerable.

Basic Policy
We proactively address human rights issues in the supply chain in accordance with the newly formulated human rights policy.

Priority measures

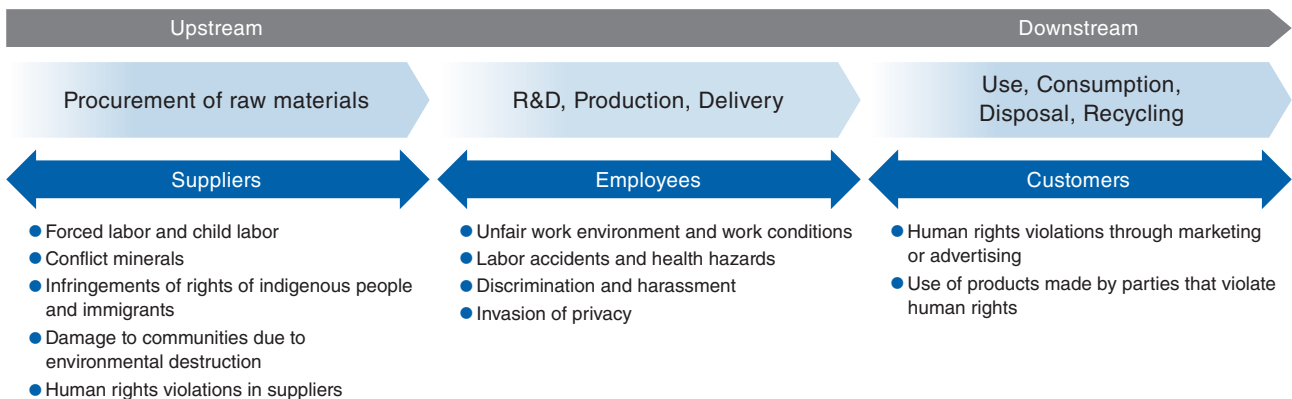
- Implement human rights due diligence in procurement activities
- Eliminate harassment thoroughly
- Promote DEI, raise LGBTQ awareness, and create a workplace where human rights are addressed
- Accept Ukrainian students

Initiatives to address human rights issues in the supply chain

Based on the Sanyo Chemical Group Human Rights Policy, the Group identified three prominent issues: ① labor in the supply chain, ② employee safety and health, and ③ human rights risks due to geopolitical situations and conflict impacts. We will continue to work on these human rights issues.

Going forward, we will continue to fulfill our responsibility to respect human rights by implementing human rights due diligence in procurement activities, working to eliminate and prevent harassment, and accepting Ukrainian students, based on the Guiding Principles on Business and Human Rights.

Human rights issues in the supply chain



HR Development HC

The Group has long been committed to “people-oriented management,” and has established systems that allow everyone to take on challenges on their own initiative, aiming to be a company in which each and every employee can grow together with the company and feel job satisfaction and happiness. We position human resources as the driving force that creates innovation toward the realization of our Vision. Aiming to spotlight everyone and to promote changes in an exciting way (“WakuWaku”), we set our HR Development Policy to “have everyone play an active role” and “develop an environment in which leaders (successors) grow naturally.” Under this policy, we will strengthen our human resources base to support our sustainable growth.

■ Everyone can play an active role

In order for everyone to play an active role, it is important for each individual to demonstrate his or her “strong individuality” (each playing a leading role) and to continue to take on challenges without being bound by conventional ways of doing things. An organization composed of “strong individuality” can become a “strong organization (One Team)” where everyone is taking action toward the goal by drawing up a vision for their own organization and incorporating it into their goals.

An environment in which all employees can play an active role regardless of course (job group)

- Unification of generalist and specialist positions into an associate position

Support for proactive challenge taking and independent learning

- Improvement of existing systems to encourage taking on challenges, such as the “Internal multiple work system,” “Awards from General Managers to encourage challenges,” the “Challenge system,” “Commendations from the president,” “JET,” and “Training retreats” to make them more user-friendly for active utilization
- Training programs to support career autonomy
- Rotation based on the characteristics of each employee based on aptitude tests for all employees (the right person for the right job)
- Training programs such as the “Study abroad system,” “Overseas training,” and “Language training” to develop human resources who can play an active role on the global stage

System for organizational evaluation

- Introduction of an organizational evaluation system with the aim of maximizing organizational performance (aiming for an achievement rate of 80% or more of organizational goals by FY2025)

■ Development of an environment in which leaders (successors) grow naturally

We believe that the ideal environment is one in which candidates for future management or key positions in major businesses and functions are growing naturally. To achieve such an environment, we will first work on measures to develop leaders systematically. Then, we will develop an environment in which more and more employees will see the careers of those who grow into leaders and want to become leaders themselves, and realize their goal.

Systematic leader development

- Selection of candidates for next leaders and identification of missing human resources requirements
- Implementation of training for selected leadership candidates, enabling them to see the company from a manager’s perspective and acquire the skills to formulate strategies
- Implementation of rotations to fill missing human resources requirements
- Implementation of career training to encourage young employees to envision their career paths

Diversity, Equity & Inclusion (DEI) HC

Aiming to be a company in which all employees can work comfortably with peace of mind while valuing their individuality, the Sanyo Chemical Group promotes “DEI (Diversity, equity & inclusion)” to create a work environment in which all human rights and diverse values are respected and accepted, and in which all employees are encouraged to perform proactive roles. In the promotion of DEI, the perspective of equity is particularly important, as it leads to the valuing of individuality. We will contribute to the creation of a sustainable society by generating added value through a combination of diverse needs and the ideas and technologies of each of our employees.

■ Women’s participation and advancement

We have formulated a voluntary action plan based on the Act on the Promotion of Women’s Active Engagement in Professional Life, with the goal of increasing the female leader ratio to 15% or more and the female manager ratio to 6% or more by FY2030, leading to a steady increase in the number of women in management positions. In order for more women to play leading roles in various organizations in the future, we need to further accelerate our efforts. As such, we have set a new target of a female manager ratio of 15% or more by FY2030. In addition, since January 2022, the company has been a member of the “IkuBoss Corporate Alliance” to change the mindset of both men and women by dispelling the stereotypical role-based division of labor, and to encourage male employees to take childcare leave. We will encourage women to work longer and continue to grow by reforming the corporate culture and promoting their participation in internal and external training programs, thereby supporting their success.

▶ Percentage of male employees taking childcare leave (%)

| 2018 | 2019 | 2020 | 2021 | 2022 |
|------|------|------|------|------|
| 48.2 | 77.1 | 66.7 | 79.7 | 98.2 |

■ Promotion of LGBTQ understanding

Since 2018, we have been working on initiatives related to LGBTQ sexual minorities.

We are encouraging understanding and inner promotion of LGBTQ issues by establishing internal and external consultation services, revising internal rules and systems, conducting training and study sessions for executives and employees, providing timely information via the intranet, etc., and participating in Rainbow Pride. We are also communicating to society in an effort to create an environment that respects diverse values. Led by You-Tuber Kazue-chan, an LGBTQ person who has been a member of the Group since August 2020 and is engaged in raising awareness about LGBTQ issues, we cooperate

and participate in activities of external organizations as well as within the company.

■ Promotion of employment and activities of persons with disabilities

As part of our corporate social responsibility and beyond, we strive to create a workplace where all employees can work together with their colleagues regardless of their disabilities. In order to achieve this goal, we will promote various initiatives and focus on building a support system for continued employment.

■ Promotion of employment of global talent

Diverse human resources from various cultures are essential for global business development. We are working to create an environment in which employees whose first language is not Japanese can play an active role (explanation of internal systems, policies, and personnel systems, translation of internal documents into English, support for visa procedures, etc.), and will actively promote the employment of global talent in the future.

▶ KPIs for DEI

| | |
|---|-----------------------------------|
| Female manager ratio | 15% or more by FY2030 |
| Percentage of male employees taking childcare leave | 100% by FY2025 |
| Platinum Kurumin | Certification continued to FY2025 |
| “L-boshi (3 stars)” | Certification continued to FY2023 |
| PRIDE Index Gold | Certification in FY2023 |
| Percentage of employees with disabilities | 2.7% or more by FY2026 |
| Number of foreign employees hired | 2 or more hired each year |



Platinum Kurumin



“L-boshi (3 stars)”



PRIDE Index Gold

Work Style Reform HC

In order to become “a company in which every employee feels pride and satisfaction in his/her work” and to further advance reforms, the Group is promoting work style reforms from the three perspectives: flexible work styles, business reforms, and the use of IT/AI. By offering a variety of work styles, we intend to create a work environment in which each employee can achieve results while feeling pride and job satisfaction.

Flexible work styles

Based on the concept of “work hard, rest well,” we will promote a true work-life balance through flexible work styles. In addition to weekly no overtime days, we have systems such as refreshment leave, memorial leave, hourly paid leave, and super flextime without core time. We are supporting more flexible work styles by easing restrictions on the reasons for using super flextime and by revising the system so that it can be used by employees who work shorter hours. In addition, although the reasons for taking paid leave under the unused paid leave reserve system had been limited to childcare and nursing care, the system has been made usable regardless of the reason. We also have a telecommuting system for all employees and a flexible leave system that allows employees to take personal leave once during their employment for a maximum of two years, at their own discretion. In FY2022, four employees used the flexible leave system for the purpose of obtaining qualifications, etc.

We strive to create an environment in which our employees can continue to be active while maintaining job satisfaction through flexible work styles that allow them to achieve a work-life balance.

Business reforms and the use of IT/AI

In addition to promoting flexible work styles that are not restricted by time or location, we are promoting the use of digital technologies such as Robotic Process Automation (RPA) and Business Intelligence (BI) systems to improve productivity. We create an environment that improves the quality of work and allows each individual to be creative in their work.

Work Style Reform Action Plan

In Phase I (FY2018 to FY2020), we worked to reduce long working hours, promote the use of paid leave, and encourage flexible work styles. Based on the results of Phase I, the Work Style Reform Action Plan Phase II, which covers the period from FY2021 to FY2023, has the following goals.

- ① Average total actual hours worked per year (day shift workers) of 1,800 hours or less
- ② Increasing the number of days of paid leave taken by

three days compared to FY2020

- ③ Increasing the utilization rate of the super flextime, telecommuting, and flexible leave systems

Open work environment

In order to create a state in which employees feel satisfaction and pride in doing their jobs safely and securely, and are willing to make a high level of contribution to the company while voluntarily demonstrating their abilities, it is important to have a thorough dialogue with executives, the organization, and people in various capacities. We actively provide opportunities for communication to enhance engagement, such as “Dojo,” a place for dialogue between executives and employees, and “Salon,” a place for managers and higher ranking executives to hold dialogue beyond the boundaries of their departments.

► Main measures

Dialogue with executives

The “Dojo” is a system that allows executives and employees to have thorough dialogues. The executives act as dojo owners and invite students (employees) to join a dialogue once a month for a period of six months to one year. The theme (message to be conveyed to the employees) is left entirely up to the dojo owner. Twelve dojos were open in FY2022, with six to eight participants (students) in each dojo. This system will continue in the future. In addition, the “morning meeting for all employees,” in which executives give a lecture to all employees once a month, will continue to be held.

Training retreats

This is a system in which each division or department spend one or two days discussing organizational dreams and issues, and the company subsidizes the costs of the reception and lodging.

Salon

Managers and higher ranking executives lead the salon and talk with several employees.

Coffee meeting

This is a system to deepen mutual understanding through dialogue with the head of the organization.

► KPI for Work Style Reform

| | |
|-------------------|----------------------|
| Engagement score* | 51 or more by FY2025 |
|-------------------|----------------------|

* Measured by a proprietary survey instrument using eight items that correlate well with the Utrecht Work Engagement Scale

Health and Productivity Management HC

The Sanyo Chemical Group aims to further enhance its corporate value by creating an exciting (“WakuWaku”) company in which each and every employee is highly motivated to take on new challenges. To achieve this, it is essential for each and every employee to be healthy. We believe that working in good mental and physical health creates happiness for employees and their families and leads to the development of the company.

Health Management Declaration

The physical and mental health of its employees is the company's greatest asset. The Sanyo Chemical Group will actively support health promotion initiatives to realize a mindful and fulfilling corporate life, respect the diversity of its employees, and enable each individual to achieve self-fulfillment by exercising their independence and creativity, thereby contributing to society through the development of the company.

Akinori Higuchi
Representative Director, President and CEO

■ Promotion system

Since FY2020, the “Health Promotion Council,” which includes senior management, deliberates and decides on policies and initiatives, while the “Health Promotion Teams,” which include employees from each region, have been promoting awareness and penetration of health management among employees and implementing specific measures in their respective regions. The company, the labor union, and the health insurance union work in unison to promote company-wide health initiatives.

Evaluation indicators

We are actively promoting health management, believing that it is an important management issue for the company to be actively involved in the maintenance and promotion of employees' health, rather than simply leaving it to the individual management of each employee. The Health Management Strategy Map was created to quantitatively demonstrate health management initiatives and results, and to implement the PDCA cycle of activities. Health investment measures for the five health promotion initiatives and evaluation indicators for verifying their effectiveness were defined, and targets for FY2025 were set.

We are actively developing health investment measures that will lead to improved productivity and job satisfaction, and ultimately resolve management issues.



▶ Action goals for the five initiatives

| | | (FY) | | | | |
|------------|--|------|------|------|------|---------------------|
| Initiative | Item | 2019 | 2020 | 2021 | 2022 | 2025 (Target value) |
| Exercise | To have an exercise routine at least once a week | 29% | 31% | 50% | 50% | 70% or more |
| | | | | | | |
| Sleep | To be well rested with sleep | 54% | 57% | 66% | 63% | 80% or more |
| | | | | | | |
| Diet | To have a balanced diet*1 | — | — | 76% | 75% | 90% or more |
| | | | | | | |
| Drinking | To have two or more alcohol-free days per week | 74% | 75% | 75% | 76% | 90% or more |
| | | | | | | |
| Smoking | Not to smoke (Smoking rate reduction) | 77% | 77% | 82% | 83% | 90% or more |
| | | | | | | |

*1 Item added in 2021.

▶ Absenteeism*2

| | | (FY) | | | | |
|---------------------------------------|--|------|------|------|------|---------------------|
| Initiative | | 2019 | 2020 | 2021 | 2022 | 2025 (Target value) |
| Personal injury/sickness absence rate | | 1.5% | 1.5% | 1.8% | 1.9% | 1.0% or less |
| | | | | | | |

*2 A condition in which the employee cannot perform duties due to absence from work, leave of absence, or other reasons. Measured by the number of employees on sick leave who are absent for more than one month.

▶ Presenteeism*3

| | | (FY) | | |
|------------------------------|--|-------|-------|---------------------|
| Initiative | | 2021 | 2022 | 2025 (Target value) |
| Labor productivity loss rate | | 37.5% | 36.6% | 30% or less |
| | | | | |

*3 A condition in which the employee is present at work but is not able to work sufficiently due to mental or physical health problems. Measured by the WHO Health and Labor Performance Questionnaire.

▶ Work engagement*4

| | | (FY) | | |
|---|--|------|------|---------------------|
| Initiative | | 2021 | 2022 | 2025 (Target value) |
| Self-motivated behavior and positive feelings toward work (deviation value) | | 49.7 | 50.1 | 51 or more |
| | | | | |

*4 A state of mind that is positive and full of accomplishment, vitality, enthusiasm, and immersion in one's work. Measured by a proprietary survey instrument using eight items that correlate well with the Utrecht Work Engagement Scale.

New HR System HC

Based on the Sanyo Chemical Group’s HR Philosophy to “respect diversity and collaboration,” the new HR System features a HR Policy to “create an environment in which individual abilities can be maximized.” Creating an environment in which individual abilities can be maximized and function effectively will cause employees to feel motivated and proud of their work.

Reform of the three core systems in HR management (grading, compensation, and evaluation)

Based on the idea that people and organizations that achieve results should be recognized and rewarded, we have reformed our systems and launched the new HR System in April 2023.

Major changes

Grade system that makes better use of capabilities

- To eliminate disparities in course (job group) attributes and to enable all employees to play an active role in a wide range of fields, generalist and specialist positions were unified into an associate position.
- An expert position was newly established as a course for those in management positions to pursue expertise, with the aim of rewarding those who contribute to further business development by utilizing their expertise in a specific area as a specialist.

Compensation system based on competence and role

- As individual lifestyles and values diversify, customary and non-standardized treatment that is not related to the quantity or quality of work has been reviewed.
- By increasing the percentage of salary that varies depending on the role and ability of the employee, and by clearly establishing a gap in salary based on job qualifications, the salary system has been changed to one that allows employees to devote themselves to their work with a medium-term growth perspective.

Fair, transparent, and balanced evaluation system

- Simple criteria for salary increase and promotion were established, which would lead to the growth and motivation improvement of employees and be easy to understand for both the evaluators and the evaluated.

Introduction of an organizational evaluation system

By evaluating how the organization is changing its action as One Team and how much it contributes to the company, we will maximize our organizational performance and foster pride and job satisfaction in each employee.

In fiscal 2022, trials were conducted in multiple departments. After organizing the issues and problems identified from the trial results, we will roll out the trial company-wide in the second half of FY2023. In addition to familiarizing employees with the organizational evaluation process, we will conduct a verification prior to full implementation, with the goal of introducing the organizational evaluation in FY2024. Each organization will set organizational goals toward its vision and strive to achieve them by creating a situation in which all members of the organization are involved in the organizational goals. For FY2025, we are targeting an 80% achievement rate for organizational goals.

▶ Introduction schedule



Feature: Dialogue | Safety Improvement and Safety Culture at Production Sites



Representative Director,
Executive Vice President,
in charge of Safety and Production,
and General Manager of Production
Division

Kohei Maeda



Associate Professor,
Faculty of Engineering, Niigata University
Ph.D. (System Design and Management)

Akira Tose

Assumed his current position in 2019 after working as a specially appointed assistant professor at Keio University Graduate School and as a specially appointed associate professor at Niigata University Graduate School. He has conducted numerous joint and contract research projects mainly with major chemical and materials manufacturers, working to improve safety management and foster a safety culture at business sites in Japan and overseas.

In the wake of a fatal accident that occurred at the Nagoya Factory in January 2022, the Company has continued to conduct thorough investigations into the cause and discuss countermeasures. Efforts are being undertaken under the new structure with the aim of achieving fundamental and permanent reform.

As part of such efforts, the Integrated Report 2023 invited Dr. Akira Tose, Associate Professor of the Faculty of Engineering at Niigata University specializing in corporate safety culture, to the Nagoya Factory, where Kohei Maeda, General Manager of the Production Division, had an interview with him. (Titles omitted)

The first step toward a safety culture is to “raise the standard of the norm”

Maeda: As a prerequisite for business operations, we believe that fatal accidents should never occur. We are strongly committed to addressing this as an issue prior to productivity and cost, and we have continued to discuss permanent measures.

Tose: The first thing to do when discussing safety culture is to “raise the standard of the norm.” We live in a world where any loss of life in the course of business is unacceptable.

It is not about avoiding fatal accidents as much as possible, but about never allowing them to occur. What do we need to achieve this? What should we change? These questions are the first steps toward a safety culture.

We now know how to prevent most accidents to some extent. However, since it is quite difficult to predict in advance, we work backward from the types of situations in which accidents at the factory may occur, and consider what needs to be done. The first point is to think that it “could happen in our company.”

The next factor is the system. It is impossible to achieve the goal by asking on-site workers about dangerous areas and making changes in those locations. People with expertise in safety, equipment, physical phenomena, chemical phenomena, and other fields need to work together with on-site workers to get things done. It would be nice to have such functions in-house, but I think it is difficult in some respects. Therefore, it is the job of the management to decide what to do internally and what to outsource.

Maeda: Going forward, the Safety Promotion Department will focus on the two pillars of emergency response and long-term response. We can start immediately with seminars and courses for managers, but in the long term, we also need to work on training younger employees to become experts. Since we have just started, I expect it will take several years for the younger employees to develop.

Tose: It will take at least 10 years. What is important during this period is whether or not you can ensure that the safety culture takes root and grows in the same direction, no matter how many different safety leaders you may have in place.

Maeda: How to instill a safety culture in each and every employee is not really an issue on-site, but rather depends on how seriously management is willing to show its commitment.

Sanyo Chemical has its own safety

Tose: In the case of Sanyo Chemical, it is necessary to create a system suited to the production of its small-quantity, high-mix, high-performance products. In order to maintain the customer value and continue to generate profits, the sales section also needs to know what part of their demands on the factory are a burden and what kind of consideration is needed.

Maeda: Employees in sales, production administration, and other sections close to customers must also understand how our products are made.

Tose: Exactly. If the factory can respond flexibly to changes in the grades of products or the manufacturing order made at the request of customers, Sanyo Chemical’s competitiveness will be enhanced. To this end, the sales and production sections should understand each other, and the sales section should make requests to ensure that the production process is not overstrained. Whether or not this collaboration can take place is the key point.

Maeda: At the Nagoya Factory, many divisions use the same production equipment, which complicates production plans. Therefore, most general managers did not know how their products were planned and manufactured. Last year, however, President Higuchi sent a strong message to the sales section to see how much of a burden they were placing on the factory. As a result, our mutual understanding has gradually deepened.

Tose: When it comes to safety, moral hazards are likely to occur. If an accident occurs immediately when the factory is put under too much stress, it is usually clear who should bear responsibility. In reality, however, the accumulation of stress creates distortion that will only manifest years later as an accident. As a result, the person who gave the excessive order is often evaluated as having achieved results, while the exhausted on-site workers are left to clean up the mess. How to avoid this is the key to governance. For example, to ensure that safety investment will not be changed according to changes in the division’s policy, the factory manager can be given greater authority to allow a certain amount of safety investment from the beginning.

Is it an investment in safety or a repayment of debt?

Tose: We need to determine whether the money spent on safety is just paying off past debts or is an actual invest-



ment in the future. Failure to address the deterioration may force you to spend more money years down the line. Since this is just paying off a debt that should have been paid in the past, it does not improve safety. Upgrades are required to meet safety standards whose levels rise with the times.

Maeda: If we had spent the money in the past, the total cost would be lower and also safer. It is difficult to verify, though.

Tose: Yes, it is difficult. Even if we compare one billion yen that can be saved now with three billion yen that will be saved in the future, we cannot be sure that we can actually save three billion yen in the future.

A user-friendly factory is a safe and profitable factory

Tose: That is why factory design standards are so important, so as not to allow excessive corner-cutting in safety measures. Before regretting later that we should have done this or that, the necessary money should be incorporated into the factory design standards and utilized in the construction of new factories. The know-how should be accumulated and used again the next time. The difference between a company that has been running this process and a company that has been building factories haphazardly will gradually widen. You have accumulated the know-how to maintain the functionality and quality of your products. At the same time, if you accumulate know-how and expertise in factory design, you will be able to efficiently carry out small-quantity, high-mix production. This will be a unique strength of Sanyo Chemical that no other company can imitate.

Maeda: A factory that makes it easy to manufacture products is a profitable factory, and at the same time a

safe factory. Although we have been building various factories for the past 60 years, our philosophy regarding factory safety may not have been very clear.

If a factory is no good, it cannot make products properly, and the quality will vary. So the burden on the workers is very high, and such a factory is unsafe.

Tose: That's the essence of it. If equipment or production frequently shuts down or if there are many quality issues, more people will enter the factory on a non-routine basis. That's the most dangerous time.

Maeda: Yes. Moreover, as a result, we spend a lot of money on it.

Tose: The key is whether or not a company's system incorporates efforts to improve the ease of making products. Various factors can cause delays, and I believe that gathering and analyzing the causes to make improvements is the basis of production technology and the job of the production technology section. This can't be done in a manufacturing section that is busy handling orders that come in one after another. It's best to create an environment for the production sites where the workers can concentrate on doing what they're supposed to do.

Maeda: In July 2023, we established the Manufacturing Innovation Center at the Nagoya Factory in order to fundamentally improve the production sites. With a dozen employees from the R&D section having been allocated, I believe we can improve safety.

The days when on-site workers have to pay attention are over

Tose: I think the days of having on-site workers pay attention to safety are over. Having to pay attention is stressful enough as it is. Sanyo Chemical's safety policy includes observance of basic rules. In order for the rules to be followed, the people who set the rules must guarantee that the work be completed properly if it is done according to the rules. Rules are broken because the work cannot be completed unless the rules are broken. In this sense, staffing and budgets reveal the true intentions of the company. On-site workers check who is assigned where, and what the budget is. A safety policy is only an outward appeal and has no reality unless proper staffing and budgeting are in place. I think an important role of executives, especially the president and the vice president, is to show that the company is serious by providing adequate staffing and budget.

Maeda: Yes. The protective equipment we must wear becomes heavier the more hazardous the chemicals we work with. This is tough during the rainy season and

mid-summer. We would like to automate factories that make such chemical products.

Tose: In the process of maintaining and upgrading factories, it is important to make specific improvements and standardizations, such as modifying sampling ports to make sampling safer and easier, and to accumulate these improvements. Regarding safety technology, I think it will be easier to proceed if the Manufacturing Innovation Center and manufacturing sites work together to build a set of “safety, stability, and quality.”

Maeda: Since the R&D department is under the Business Division, various improvement activities up to now have been conducted from the perspective of the Business Division. But the newly established Manufacturing Innovation Center belongs to the factory. Their mission is to eliminate defective products, stabilize process time, and reduce the number of mid-process analyses, which should lead to both overall profits and safety.

Tose: Sanyo Chemical may not have had such a function in the past, but if you don't do it now, you may end up with even more debt.

Also, rules should be as simple as possible, since people cannot pay attention to more than one thing at a time. Countermeasures that require on-site workers to monitor them tend to increase since they are less costly, but management must look at realistic workloads and burdens at the site.

Maeda: In the factory I showed you today, one person is responsible for several pieces of equipment. The worker inevitably gets flustered, wondering whether to prioritize this reactor or that reactor, or thinking that if this work is not finished today, it will cause trouble for the next shift worker. That is when accidents are more likely to occur.

Last year, when I assumed the position of General Manager of the Production Division, I set a policy of putting safety first. I told the employees to keep telling me what they noticed regarding safety, and that I would definitely take care of it even if it costs a little more money. However, few opinions were given. So I am very interested in what you mentioned earlier about giving the factory manager a safety budget.

Becoming a safety expert is the gateway to becoming the next leader

Maeda: Last year, we started visiting factories of other companies. They also seem to wonder if their safety measures are really sufficient, and when we approach them, they say, “Let's exchange ideas.”

Tose: Since the knowledge involved in safety covers

an extremely broad range of fields, including machine design, chemicals, human behavior, and ergonomics, young people must be trained as safety managers. I believe that better countermeasures can be created by having a team of people who have accumulated a wide range of safety knowledge through their experience at various factories, and people who know what is being done on site.

Maeda: We are thinking about how we can eventually make sure that employees who have belonged to or served as Manager of the Safety Promotion Department will become company executives, and that in a visible way.

Tose: I have seen reforms in various companies, and the first stage is usually to assign a great person whom everyone recognizes as the leader of safety. Once the importance of safety is understood to some extent, the second step is to have the position of safety representative serve as a gateway to success in the career ladder. It is the position for candidates toward becoming the next leader of the company. The idea is to have them prepare now so that they will not be in trouble when they are in a position where they have to take responsibility as a factory manager or General Manager of the Production Division in five or 10 years.

Maeda: That's the way it should be. This is also a business of management.

Tose: When I first started creating safety culture diagnostics,* many people said they were useless. But today, no one says safety culture is useless. If you leave your factory unsafe, it will slow down the growth of Sanyo Chemical and your business.

Maeda: I agree. Thank you for your time today.

* A diagnosis tool with which factors common to organizational accidents are sorted in eight groups and approximately 80 questions are presented to be answered by respondents so as to visualize the situation of the safety culture rooted in an organization on the eight axes.



The Sanyo Chemical Group, which runs chemical businesses, is well aware that safety is the foundation of its business activities, and has been striving to achieve accident-free/injury-free operation. We sincerely regret the occurrence of a fatal accident in January 2022. The Group will redouble its efforts to ensure that all its managers and employees go back to the basics and remain committed to occupational safety and health and accident prevention in cooperation with its subcontractors.

Details of a fatal occupational accident on January 15, 2022

A fatal occupational accident occurred on the premises of the Nagoya Factory (Tokai City, Aichi Prefecture) of Sanyo Chemical Industries, Ltd. Specifically, an employee of a subcontractor died during preparation for the resumption of production after periodic equipment repairs. We sincerely pray for the peaceful repose of the employee's soul, and extend our heartfelt sympathy to the family of the deceased. We also extend our deepest apologies for the aggravation and distress we have caused to all those concerned.

Outline of the accident

| | |
|--------------------|---|
| Discovery date | Around 12:00, January 15 (Sat.), 2022 |
| Discovery location | Production Dept., Nagoya Factory of SDP Global Co., Ltd., 31-1 Shinpomachi, Tokai-shi, Aichi |
| Deceased person | One employee of a subcontractor |

Background of the accident

During the periodic repairs conducted from December 2021 to January 2022, a manhole* cover of the equipment installed in the building was removed and reinstalled. The cover was not sufficiently tightened when it was reinstalled. In this state, nitrogen was fed in from the day before the accident to prepare for the resumption of production. This caused nitrogen to leak through the gap in the cover, filling the building with nitrogen. The victim passed through the area during this state, and thus the accident occurred.

Since the accident, the Group has been providing full cooperation in the investigation by the relevant authorities.

* An inspection opening for equipment maintenance, etc., allowing a person to enter and exit.

To improve essential safety

In response to this fatal accident, the Company established an accident response committee to investigate the cause, among other factors. At the same time, we conducted a comprehensive review of the risk of similar accidents occurring at other factories and research laboratories,

and took countermeasures. We will continue to invest in safety measures at the factories by carrying out ongoing countermeasure works, such as enhanced ventilation and safety confirmation systems. In addition, after investigating the cause of the accident, we established a new permanent countermeasures committee, and have been studying ways to improve essential safety, including changing safety awareness. In December 2022, we established a safety philosophy and a safety policy to ensure the Group's concerted efforts. We have also developed priority measures in the New Medium-term Management Plan 2025. We will certainly work on these.

The safety philosophy and the safety policy

〈Safety philosophy〉

We place the highest priority on Safety and Compliance in all our business activities.

〈Safety policy〉

Safety comes first.

- Recognizing that safety is the foundation of our business activities, and with a strong determination to ensure that no one will be injured or will injure others, we will work on the following as our basic policy.
1. Observance of basic safety rules
 2. Execution of health and safety activities
 3. Improvement of crisis management capabilities

Fostering a safety-first mind led by the Safety Promotion Department

In order to ensure the implementation of the above initiatives, the Safety Promotion Department was newly established as an organization under the direct control of the President, incorporating the operations of the Environmental and Safety Administration Department of the Responsible Care Division and the Safety and Technology Education Center. We will foster a safety-first mind by changing safety awareness and deepening and expanding various measures.

Strengthening risk assessment and developing human resources

We will strengthen risk assessment to mitigate risks. We will make long-term efforts to develop human resources capable of identifying risks and formulating mitigation

measures appropriately, thereby improving the capabilities of each workplace.

Expanding safety education to employees including subcontractors

In recent years, increased sensitivity to danger and education on safety behavior have become even more important. The Safety and Technology Education Center at the Nagoya Factory has already provided hazard simulation programs and rank-based training, but we will further enhance safety education. A curriculum suitable for subcontractors, who work alongside us at our business sites, will be introduced.

Assessment of factory safety by an outside audit

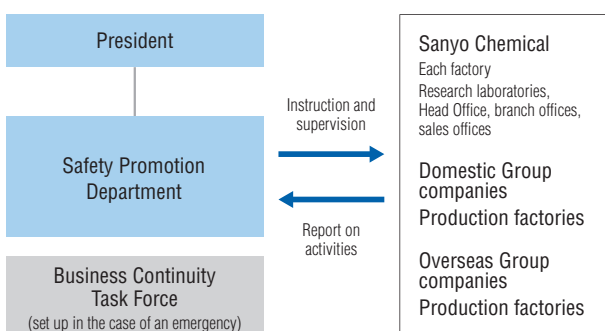
In order to comprehensively assess our safety challenges and continuously improve our safety, we introduced a safety assessment by the Japan Industrial Safety Competency Center, a non-profit organization, and began the assessment of our Nagoya Factory in May 2023. We will operate it for other factories as well to address our safety challenges.

Safety/accident prevention system

The Safety Promotion Department, which is under the direct control of the President, instructs and supervises the occupational health and safety and accident prevention in each base.

In case of an emergency, a local emergency task force is established in the region where the emergency has occurred. Should a large-scale earthquake or other wide-area disaster occur, the Business Continuity Task Force will be set up at the Head Office to implement support and reconstruction activities on a company-wide level under the control of the General Manager of the Environment and Safety Headquarters designated by the President.

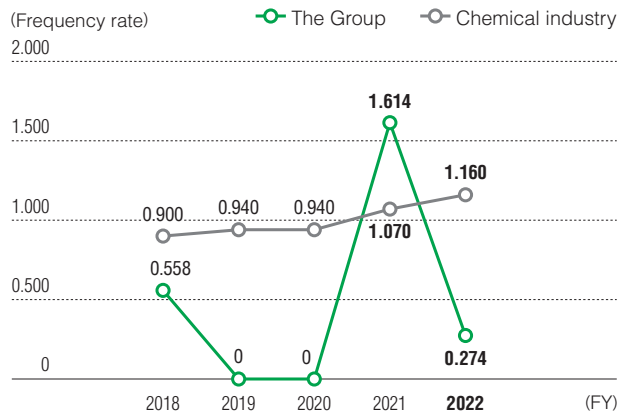
System



Status of labor accidents

To achieve zero labor accidents, we are conducting activities under the main themes of risk assessment, creation of a workplace culture in which workers warn each other, thorough implementation of recurrence prevention measures, and achievement of a safer work environment. Regrettably, in FY2022, in addition to one occupational accident involving our employees with lost time and seven without lost time, there were three occupational accidents involving dispatched workers/subcontractors with lost time and five without lost time. We have investigated the actual causes of each accident by using the five whys method,*1 implemented recurrence prevention measures, and rolled out important countermeasures to all Group factories in Japan and abroad.

Occupational accident frequency rate*2



Severity rate of occupational accidents*3



*1 An analytical method to extract not only the direct cause but also the root cause behind a certain problem by repeating the process of identifying the cause why it occurred and asking the question "Why?" regarding that cause

*2 Frequency rate = (number of employees suffering accident with lost time) ÷ (total working hours) × 1,000,000
This value indicates the generation frequency of accident victims (Group company employees) per 1 million hours.

*3 Severity rate = (labor lost days) ÷ (total working hours) × 1,000
This value indicates the severity of accidents per 1,000 working hours.

Considering that response to climate change is an important management issue, we showed support for the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD) in December 2021. As a chemical manufacturer, the Sanyo Chemical Group uses fossil fuels in its manufacturing processes for various products and emits CO₂. For this reason, it focuses on reducing CO₂ emissions from business sites, and aims to achieve carbon neutrality by developing and spreading the use of products that contribute to energy conservation and CO₂ emissions reduction.

Governance

Since FY2021, the Sustainable Management Committee (chairperson: President and CEO) has been in place to study appropriate response to issues that may pose management risks, including climate change, and to make decisions under the supervisory system of the Board of Directors. The committee discusses the response to TCFD recommendations and reports important matters to the Board of Directors.

The CSR Promotion Management Committee formulates and implements specific measures to reduce CO₂ emissions. The committee builds systems and mechanisms and reports the status of CSR activities, which are conducted under the initiative of the committee, to the Sustainable Management Committee.

Strategy

The Group conducts scenario analysis as the first step toward formulating the strategy, risk management, metrics, and targets for climate change. We selected business risks and opportunities in the 1.5°C scenario, which aims to achieve a shift toward a decarbonized society, assessed their importance, and compiled their impact on the Group. The scope of analysis was the business of the Company and SDP Global Co., Ltd. The assessment results were discussed by the Sustainable Management Committee and reported to the Board of Directors. The

scope of analysis will be expanded to the Group companies, and the 4°C scenario will be assessed to formulate measures.

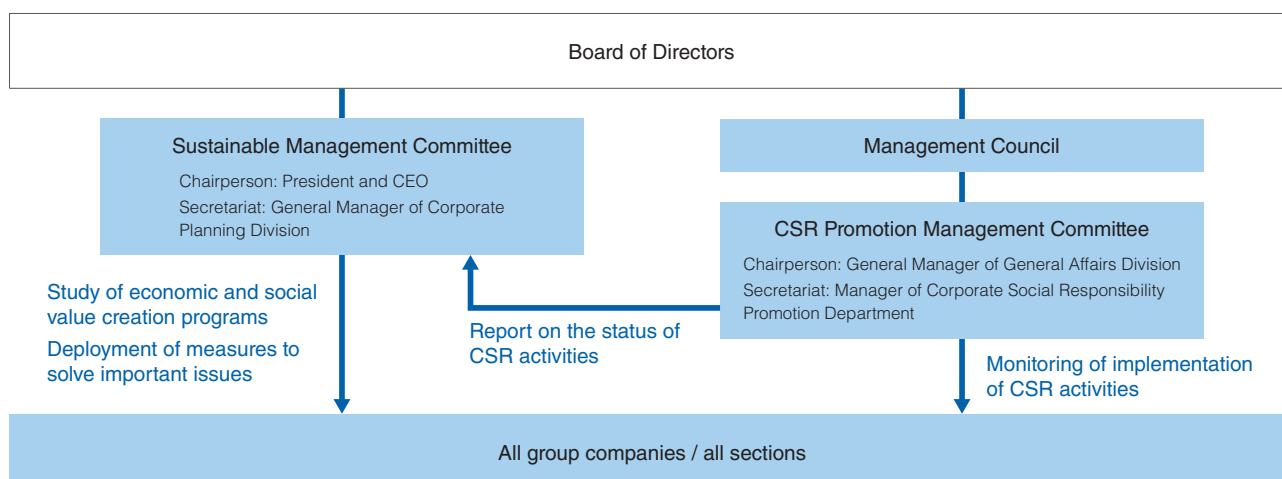
World anticipated in the 1.5°C scenario

- Top priority placed on the realization of a decarbonized society, and implementation of an ambitious climate change policy
- Significant increase in the carbon tax rate
- Prohibition of internal combustion engine (ICE) sales, shift to electric vehicles (EVs), and decarbonization of energy and raw materials
- Mainstreaming of renewable energy
- Reduction in consumption of chemicals through recycling
- Manufacture of chemicals from biomass and CO₂-derived raw materials
- Exacerbation of natural disasters
- Realization of carbon neutrality (2050)

Risk management

We anticipate tighter regulations due to policies, including carbon pricing toward decarbonization, and a shift in demand for materials suitable for decarbonization as the main climate change risks of the Group. We also study the risks of the accelerated shift toward a circular economy, and the emergence of innovative technologies toward a decarbonized society. As countermeasures, we will study the possibility of carbon dioxide capture and utilization (CCU) and energy shift to hydrogen, etc.,

► System and roles to promote response to TCFD recommendations



► Climate change risk assessment

| Climate change risk item | Impact of climate change risks ● Risk ○ Opportunity | Impact assessment | Countermeasure |
|--|--|-------------------|---|
| Introduction / raising of carbon tax | <ul style="list-style-type: none"> ● Increase in energy procurement costs ○ Spread of CCUS | High | <ul style="list-style-type: none"> ● Reduction of GHG emissions by introducing cogeneration and solar power generation ○ Establishment of a CCU system using our ionic liquids |
| Reduction of CO ₂ emissions | <ul style="list-style-type: none"> ● Tightening of GHG emission regulations ○ Expansion of the market for products that contribute to reducing GHG emissions | High | <ul style="list-style-type: none"> ● Reduction of GHG emissions during the manufacture of SAP through energy management ○ Expansion of sales of carbon fiber convergents for blades for wind power generation |
| Replacement with low-carbon products | <ul style="list-style-type: none"> ● Restrictions on CO₂ emissions during use ○ Market expansion of products made from bio-based raw materials | Intermediate | <ul style="list-style-type: none"> ○ Expansion of sales of surfactants made from bio-based raw materials |
| Recycling regulations | <ul style="list-style-type: none"> ● Increased costs due to the increased use of recycled raw materials ○ Increase in demand for recyclable products | Intermediate | <ul style="list-style-type: none"> ○ Development of imaging materials using recycled PET ○ Development of chemical recycling technology for urethane ○ Deployment of resin dispersants for recycled materials / organic filler dispersion |
| Changes in consumer behavior | <ul style="list-style-type: none"> ● Decrease in sales of gasoline-fueled and hybrid vehicles ○ Increase in sales of electric vehicles ○ Reduction in weight of batteries in line with the higher mileage of vehicles | High | <ul style="list-style-type: none"> ● Increase in sales of lubricant additives that contribute to higher fuel efficiency of gasoline-fueled and hybrid vehicles ○ Increase in sales of electrolytes in line with the electrification of vehicles ○ Increase in demand for permanent antistatic agents for IC trays in line with increasing demand for semiconductors ○ Development of organic cathodes for organic cathode secondary batteries that contribute to weight reduction |

at the Nagoya Factory and the Kashima Factory, and in the SDP Group, which account for a large proportion of the CO₂ emissions of the Group. We will also improve the processes and reduce CO₂ emissions from our business sites.

Regarding opportunities, we contribute to reducing CO₂ emissions by actively promoting sustainable management, including the review of our business portfolio.

The Group's countermeasures to the main risks and opportunities of climate change

The Group's countermeasures to the main risks and opportunities and the results of impact assessment were compiled. Regarding the impact assessment, the impact in terms of the amount of money was estimated and classified into three categories (high, intermediate, and low), depending on the magnitude.

Metrics and targets

The Group set long-term targets to achieve net zero CO₂ emissions by 2050 in Scopes 1 and 2, and created a roadmap to reduce CO₂ emissions by 50% by 2030 (compared to the FY2013 level). We aim to reduce CO₂ emissions significantly by introducing CCU in addition to increasing energy use efficiency through the use of renewable energy and the introduction of an energy

management system, reviewing the manufacturing processes, and changing the product portfolio.

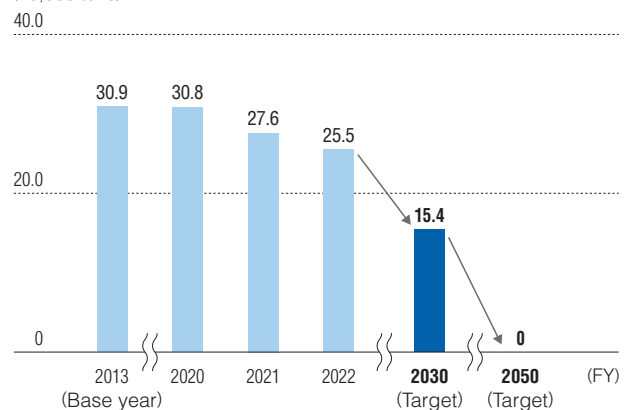
We will also set indices to promote sales expansion and development of products that contribute to the reduction of CO₂ emissions, and work on the reduction of CO₂ emissions through the supply chain.

► Target of CO₂ emissions reduction

■ Emissions (Scopes 1+2)

Scope 1: direct emissions from factories, such as fuel use in the manufacturing process
Scope 2: indirect emissions from the purchase of electricity and heat

(10,000 tons)

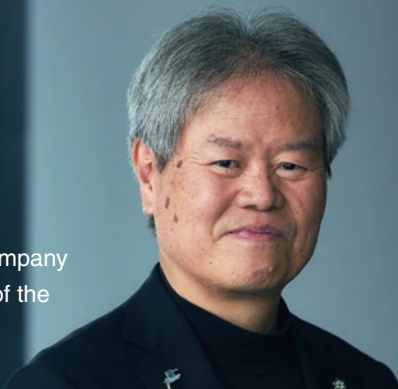


► Roadmap toward carbon neutrality

<https://www.sanyo-chemical.co.jp/eng/sustainability/environment/tcfd/>

Message from the Chairman of the Board of Directors

Two years have passed since Takao Ando became concurrently Chairman of the Company and Chairman of the Board of Directors. Ando will talk about his policy of operation of the Board of Directors and his future vision as Chairman of the Board of Directors.



Corporate governance reform

As Chairman of the Board of Directors, I have promoted governance reforms for the past two years. I have come to think that keeping in mind the important of governance is the key to promoting reforms. Previously, the Board of Directors meetings were held to make resolutions and reports. I have increased the number of items on the agenda and matters to be discussed, turning these meetings into opportunities for discussions for the Board of Directors members. Sanyo Chemical is a company with an Audit & Supervisory Board, so Audit & Supervisory Board Members are expected to play important roles.

Enhancement of corporate value

The most important role that the Board of Directors must fulfill is to maximize the profit of stakeholders. Thus, the Board of Directors is also expected to check how much profit is generated from relevant businesses in return for investments in terms of human resources, goods, and money. While we attach importance to dividends for shareholders, it is also our priority to improve the treatment of employees and invest in R&D and growth. I believe that we can further reward shareholders by contributing to customers and society through high-value-added businesses, focusing on the operation of the Board of Directors to hold discussions and make judgments that contribute to the enhancement of corporate value, and thereby improving long-term performance.

However, long-term R&D and attempts to start new businesses are inevitably accompanied by failure. As Chairman of the Board of Directors, I encourage management to be unafraid of taking on challenges while maintaining management transparency for stakeholders toward the future.

Diversity

With the business environment drastically changing, including the shrinking domestic market due to a declining birthrate and an aging population, we focus on ensuring diversity. This is because we believe that diversity is important to change conventional internal rules and workstyles and create a strong, and resilient business organization. To this end, a fair organization must be created. Treatment should not differ depending on race, nationality, or gender. In April 2023, we introduced a new

HR system. We have started to operate a mechanism that enables employees to demonstrate their capabilities in an impartial manner and fully unleash their potential. For details, please refer to the article on the “New HR System” on p.34 of this report.

In the New Medium-Term Management Plan 2025, we set a female manager ratio of 15% or more and a female director ratio of 30% as targets for 2030 in “Toward the Future Beyond 2025: Initiatives to Support Growth.” Diversity entails various aspects, including gender, age, nationality, and employment of persons with disabilities. Monitoring and evaluation regarding attainment of these targets and the implementation of measures are also an integral part of the Board of Directors’ responsibilities.

Reform of the corporate culture

We live in an era in which we cannot survive without making changes. The question is what and how to change. It is essential to create an employee-friendly mechanism that increases efficiency. As part of such efforts, we introduced the flextime system without the core time and the telecommuting system. Recently, the Group has also focused on health management. These matters are also discussed by the Board of Directors.

Promotion of diversity also aims to ensure open communication so that everyone can express candid opinions and facilitate discussions regardless of their position. A few years ago, we started to address colleagues with “-san” (honorific suffix) rather than their position, and eliminated the dress code.

Aspirations for the future

I hope to help our stakeholders understand the Sanyo Chemical Group. Before that, we must have a clear vision of our operations. The first thing to do is to further promote information disclosure to all the stakeholders, including shareholders, investors, and employees.

As Chairman of the Board of Directors, I will focus on promoting fairness and transparency to make the organization resilient and ensure quick response to any irregularities to a certain extent.

A handwritten signature in black ink that reads "Takao Ando". The signature is fluid and cursive.

Chairman of the Company
Chairman of the Board of Directors

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.

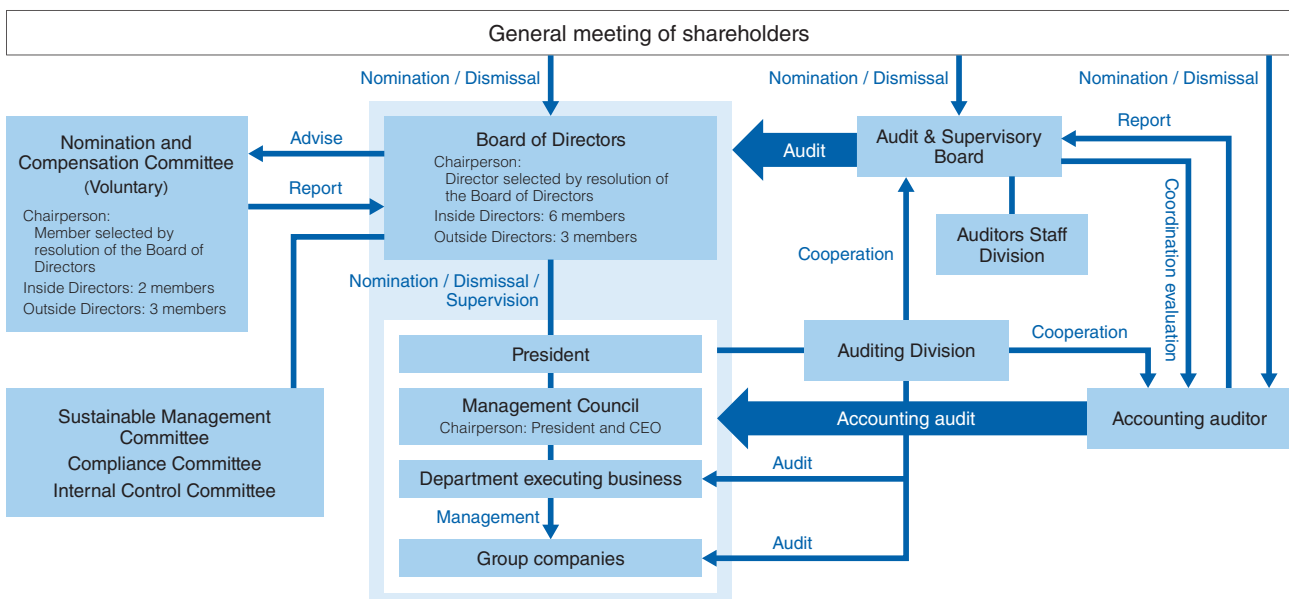
Audit & Supervisory Board Members and the Audit & Supervisory Board

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"> ● Direct communication through sales activities ● Inquiries by phone or via the website ● Social media |
| 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"> ● Direct communication through procurement activities ● CSR questionnaires ● Meetings to exchange opinions with suppliers |
| 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"> ● General meetings of shareholders ● Seminars for institutional investors and analysts and response to interviews ● Seminars for individual investors ● Research laboratory tours ● Business reports ● Website ● Shareholder questionnaires |
| 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"> ● Social contribution activities, such as sponsoring events and supporting schools ● Cooperation for disaster prevention and traffic safety |
| Employees | We aim to create a workplace where every employee feels pride and satisfaction in his/her work. | <ul style="list-style-type: none"> ● Various education and training programs ● Talks with the management ● Personnel systems, such as workstyles and health management ● In-house newsletters and Intranet ● Whistleblowing contact point (hotline) |

Risk Management RM

To avert business continuity crises and prepare for unforeseen circumstances, the Sanyo Chemical Group has established internal regulations to cope with each possible risk. We conduct risk management by raising the risk awareness of employees by providing training and holding drills.

Risk management system

In order to address risks surrounding the Group, internal regulations such as the Operational Responsibilities Regulations, the Basic Regulations for Product Liability (PL), and the Information System Security Regulations have been formulated, and the departments in charge shall manage the risks. The Auditing Division (Business Auditing Department or Technical Auditing Department) under the direct control of the President monitors the status of risk management with the Group. If a risk is identified, the Auditing Division gives instructions to formulate correction and recurrence prevention measures, checks the details, and follows up on the status of implementation by the relevant departments. Regarding important compliance risks, the Compliance Committee discusses and determines the basic policies and measures.

Business continuity plan (BCP)

The Group draws up and operates BCPs that prepare for response in the event of a massive earthquake or a pandemic. The Internal Control Department of the BCP Secretariat takes the initiative in conducting a review every year to make the BCP further effective. We also continuously hold practical drills in each region.

Information management

Information assets are crucially important for companies. Leakage of information assets is likely to pose the risk of damaging corporate value. Recognizing the importance of confidential information, we have the Security Management Regulations in place to prevent information leakage, ensure proper use, and prevent unauthorized acquisition, use, and disclosure of confidential information of third parties. We ensure security by establishing the Information System Security Regulations and the Personal Computer and Network Management Regulations, introducing a firewall and other network security systems, managing licenses for the use of information systems, and limiting access to the Internet. To raise the security awareness of employees and prevent information security accidents, we offer information security education every year.

As for the protection of personal information, we have laid down the Personal Information Protection Policy,

which stipulates the purpose and methods of use of personal information and its management, as well as consultation procedures regarding such information. The policy was revised in line with the amended Act on the Protection of Personal Information, which came into effect in April 2022. We have the Personal Information Protection Management Regulations in place to realize appropriate protection under this policy. Regarding the Individual Number (My Number) system, rules are established in the Specific Personal Information Handling Regulations. An IT system capable of ensuring security is used for operation. We also comply with the Social Media Policy, which was formulated regarding the operation of official social media accounts and the use of social media by respective employees.

Overseas crisis management activities

The Sanyo Chemical Group has established and implemented the Basic Regulations for Overseas Crisis Management, which set forth basic points for reducing risks that may cause harm to the lives, bodies, and property of the Group employees outside Japan, and for responding to an overseas crisis if such an event should occur. The regulations specify the crisis management organizations and the chain of command that will function in the case of emergency and define the responsibilities and authority of the Overseas Crisis Management Secretariat and the response headquarters, so that appropriate responses can be made accordingly. The Overseas Crisis Management Secretariat is established within the Personnel Division to constantly gather and analyze information and issue overseas travel warnings as necessary. When a BCP is implemented, the overseas crisis management organizations will work in coordination with the Business Continuity Task Force.

We, the Sanyo Chemical Group, declared in our Code of Corporate Ethics that it is essential corporate behavior to ensure legal compliance and to fulfill corporate social responsibility, which has been implemented to take the lead in the realization of a sustainable society. With good sense and integrity, we are committed to improving our society and are following our company mission, “Establish a better society through our corporate activities.”

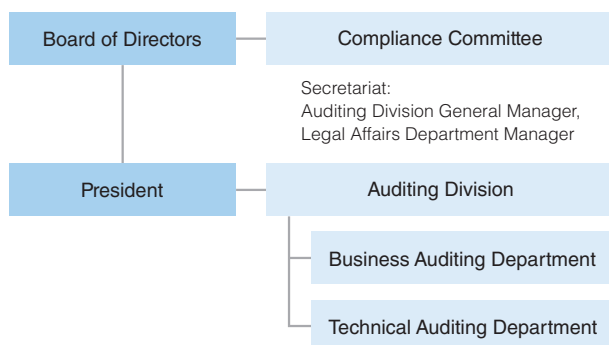
Compliance system

We have appointed a Director in charge of corporate ethics and established the Compliance Committee, which is under the direct control of the Board of Directors.

The Compliance Committee is a deliberative and decision-making body on the basic policy and measures regarding compliance. The committee holds regular meetings. In FY2022, the committee studied the content to be learned by employees at corporate ethics study meetings, which are held on a company-wide basis, identified important risks that can be reduced through compliance activities, and formulated countermeasures.

We have also set up the Auditing Division under the direct control of the President, so as to strengthen our internal auditing function.

► Structure



Internal auditing

The Auditing Division conducts internal auditing. It objectively inspects and evaluates the business management and operation systems and the status of business execution in terms of legitimacy, effectiveness, and efficiency. Based on the results, it makes proposals for improvement or corrective recommendations, in order to facilitate the Company's sound management and sustainable development.

Internal whistleblowing system

If an employee becomes aware of a compliance problem, the employee should basically discuss it with his/her supervisor and/or the personnel concerned. However, if the problem cannot be resolved through such discussions, the whistleblowing contact points (compliance hotline) that conform with the Whistleblower Protection Act are set up both inside the Company and outside in

accordance with the internal Whistleblowing Regulation. The General Manager of the Auditing Division, who is a member of the Compliance Committee Secretariat, serves as the internal contact point for whistleblowing. The corporate lawyer is available for the contact point outside the Company. We operate the regulation requiring that the whistleblowers' confidentiality be carefully protected to prevent the identification of whistleblowers.

In FY2022, four reports in total were submitted through the compliance hotline. All of these reports were related to harassment. The facts were investigated with utmost care so that whistleblowers would not be disadvantaged. For problems identified, guidance was offered and disciplinary action was taken for target individuals, and education was offered to correct the situation. Previously, the Sexual Harassment, Maternity Harassment, and LGBT Contact Points dedicated to harassment problems were in place separately from the whistleblowing contact points. In April 2023, a consultation desk for harassment problems was newly established outside the Company. A mechanism will be created so that the whistleblowing contact points and the consultation desk are readily accessible to whistleblowers (employees seeking consultation services). The status of operation of the whistleblowing contact points is reported to the Compliance Committee.

► Number of cases for which the hotline was used (FY)

| 2018 | 2019 | 2020 | 2021 | 2022 |
|------|------|------|------|------|
| 1 | 4 | 1 | 2 | 4 |

Education and awareness-raising activities

Every year, the Sanyo Chemical Group holds sessions to study corporate ethics across all departments with the objective of preventing the occurrence of corporate misconduct. In recent years, these sessions have placed particular focus on the kind of corporate culture that may form the background to corporate misconduct. Participants learn that corporate culture reform leads to improved compliance by watching videos (short dramas). In FY2022, participants watched a video on the theme of “a workplace where negative information is reported” and held group discussions. In total, 1,885 participants joined the sessions. After the sessions, a questionnaire survey was conducted to evaluate the overall compliance activities of the Group and reflect the results on the education activities in the following fiscal years.

Directors, Audit & Supervisory Board Members, and Executive Officers

As of July 6, 2023

Directors



Takao Ando

Chairman of the Company
Chairman of the Board of Directors

Date of birth: March 7, 1953
Apr. 1977 Joined the Company
Jun. 1998 Director, Deputy General Manager of Research & Development Division
Apr. 2001 Director, General Manager of Research & Development Division
Jun. 2003 Executive Officer, General Manager of Research & Development Division
Jun. 2004 Executive Officer, General Manager of International Project Promotion Division
Jun. 2008 Managing Executive Officer
Jun. 2010 Director, Senior Managing Executive Officer
Jun. 2011 Representative Director, President and CEO
Jun. 2021 Chairman of the Company, Chairman of the Board of Directors (to present)



Akinori Higuchi

Representative Director,
President and CEO

Date of Birth: November 7, 1959
Apr. 1984 Joined the Company
Jun. 2012 President, Representative Director of SAN NOPCO LIMITED
Jun. 2014 Executive Officer of the Company, President, Representative Director of SAN NOPCO LIMITED
Jun. 2015 Managing Executive Officer
Jun. 2016 Director, Managing Executive Officer
Jun. 2018 Director, Senior Managing Executive Officer
Jun. 2020 Representative Director, Executive Vice President
Jun. 2021 Representative Director, President and CEO (to present)



Kohei Maeda

Representative Director,
Executive Vice President
In charge of Safety, in charge
of Production, and General
Manager of Production
Division

Date of birth: November 3, 1960
Apr. 1985 Joined the Company
Oct. 2012 Executive Officer, General Manager of Research & Application Division, and Head of Head Office Research Laboratory
Jun. 2014 Director, Executive Officer, General Manager of Research & Application Division, and Head of Head Office Research Laboratory
Jun. 2015 Director, Managing Executive Officer, in charge of Research & Development
Jun. 2019 Director, Senior Managing Executive Officer
Jun. 2021 Representative Director, Executive Vice President, supervising R&D
Jun. 2022 Representative Director, Executive Vice President
In charge of Production, and General Manager of Production Division
Jul. 2023 Representative Director, Executive Vice President
In charge of Safety, in charge of Production,
and General Manager of Production Division (to present)



Masahiro Harada

Director, Managing Executive
Officer
supervising Business
Planning, General Manager
of Energy Business Division,
and in charge of Beauty &
Personal Care Supervisory
Department

Date of birth: February 8, 1964
Apr. 1989 Joined the Company
Jul. 2010 General Manager of Automotives II & Foam Industry Department
Apr. 2017 General Manager of Electronic Materials, Resins & Coloring Materials Division
Jun. 2018 Executive Officer, General Manager of Electronic Materials, Resins & Coloring Materials Division
Jun. 2021 Managing Executive Officer, General Manager of Business Planning Division and General Manager of Energy Business Promotion Division
Apr. 2022 Managing Executive Officer, General Manager of Business Planning Division and General Manager of Energy Business Division
Jun. 2022 Director, Managing Executive Officer, supervising Business Planning, General Manager of Energy Business Division, and General Manager of Biotechnology & Medical Division
Jun. 2023 Director, Managing Executive Officer, supervising Business Planning, General Manager of Energy Business Division, and in charge of Beauty & Personal Care Supervisory Department (to present)



Hiroyuki Susaki

Director, Managing Executive
Officer
In charge of Sustainability,
General Manager of Corpo-
rate Planning Division

Date of birth: August 28, 1965
Apr. 1988 Joined Tomen Corporation
Apr. 2012 General Manager of Industrial Chemicals Department, Toyota Tsusho Corporation
Apr. 2015 Deputy General Manager of International Project Promotion Division of the Company
Apr. 2016 Executive Officer, General Manager of International Project Promotion Division
Jun. 2022 Managing Executive Officer, General Manager of Corporate Planning Division
Jun. 2023 Director, Managing Executive Officer, and General Manager of Corporate Planning Division
Jul. 2023 Director, Managing Executive Officer
In charge of Sustainability, General Manager of Corporate Planning Division (to present)

Directors, Audit & Supervisory Board Members, and Executive Officers



Kenichi Nishimura

Director, Executive Officer, in charge of Corporate Ethics and General Affairs, and General Manager of Administrative Affairs Division

Date of birth: January 3, 1965
 Apr. 1988 Joined Sumitomo Bank, Limited
 Mar. 1990 Joined Toray Industries, Inc.
 Sep. 2011 Manager of Finance & Accounting Department, Member of the Board of Toray Industries (Malaysia) Sdn. Bhd.
 Sep. 2017 General Manager of Finance Department of Toray Industries, Inc.
 Sep. 2021 Deputy General Manager of Administrative Affairs Division of the Company
 Jun. 2022 Director, Executive Officer, in charge of Corporate Ethics and General Affairs, and General Manager of Administrative Affairs Division (to present)



Aya Shirai

Outside Director

Date of birth: May 23, 1960
 Apr. 1979 Joined ALL NIPPON AIRWAYS CO., LTD.
 Jun. 1993 Member of Amagasaki City Council
 Dec. 2002 Mayor of Amagasaki City
 Jun. 2018 Outside Director of the Company (to present)
 Jun. 2019 Outside Director of BROTHER INDUSTRIES, LTD. (to present)
 Jun. 2022 Outside Director of Royal Hotels Co. Ltd. (to present)



Hideaki Obata

Outside Director

Date of birth: February 18, 1951
 Apr. 1973 Joined Sumitomo Electric Industries, Ltd.
 Jun. 2004 Executive Officer, General Manager of HR & Administration Division
 Jun. 2008 Managing Director, Vice General Manager of Manufacturing Management & Engineering Unit, and General Manager of HR & Administration Division
 Jun. 2009 Senior Managing Director of Nissin Electric Co., Ltd.
 Jun. 2010 Representative Director & Senior Managing Director
 Jun. 2011 Representative Director, President
 Jun. 2017 Representative Director, Chairman
 Jun. 2021 Outside Director of the Company (to present), Special Adviser of Nissin Electric Co., Ltd. Chairman of Kyoto Prefecture Council of Social Welfare (to present)
 Jun. 2023 Adviser of Nissin Electric Co., Ltd. (to present)



Yumi Sano

Outside Director

Date of birth: August 20, 1961
 Apr. 1984 Joined Shikishima Boseki Ltd.
 Apr. 1997 Joined Kansai Employers' Association
 Apr. 2004 General Manager, Membership Administration
 Apr. 2013 Joined Japan Institute for Women's Empowerment & Diversity Management
 Apr. 2014 General Manager, Kansai Office (to present)
 Jun. 2021 Outside Director of the Company (to present)

Audit & Supervisory Board Members



Hirokazu Kurome

Outside Audit & Supervisory Board Member (Full-time)

Date of birth: September 5, 1957
 Apr. 1982 Joined Toray Industries, Inc.
 Nov. 2009 General Manager of Tsuchiura Plant
 Jun. 2012 General Manager of Gifu Plant
 May. 2015 General Manager of Mishima Plant
 Jun. 2016 Member of the Board of Toray Industries (Malaysia) Sdn. Bhd. President of Penfibre Sdn. Bhd.
 Jun. 2018 Full-time Director, Deputy Representative for Malaysia of Toray Industries, Inc., Vice President of Toray Industries (Malaysia) Sdn. Bhd.
 May. 2021 Full-time Director in charge of Corporate Strategic Planning Division of Toray Industries, Inc.
 Jun. 2021 Outside Audit & Supervisory Board Member of the Company (to present)



Takafumi Horie

Audit & Supervisory Board Member (Full-time)

Date of birth: July 6, 1958
 Apr. 1983 Joined the Company
 Jul. 2003 Deputy General Manager of Research & Development Division, and General Manager of Environmental Chemicals Research Department
 Jun. 2005 General Manager of Research & Application Division
 Jun. 2010 Representative Director, President and General Manager of Research & Development Control Division of SAN NOPCO LIMITED
 Jun. 2012 General Manager of Purchasing Division of the Company
 Jun. 2014 General Manager of Research Administration Division
 Jan. 2016 General Manager of Auditing Division and General Manager of Internal Control Department
 Jun. 2019 Audit & Supervisory Board Member (to present)



Jun Karube

Outside Audit & Supervisory Board Member

Date of birth: July 1, 1953
 Apr. 1976 Joined Toyota Tsusho Corporation
 Jun. 1999 General Manager of Logistics Business Department
 Jun. 2004 Member of the Board
 Apr. 2006 Executive Officer
 Jun. 2008 Managing Executive Officer
 Jun. 2011 President & CEO, Representative Director
 Jun. 2018 Chairman of the Board, Representative Director
 Jun. 2019 Outside Audit & Supervisory Board Member of the Company (to present)
 Jun. 2020 Chairman of the Board of Toyota Tsusho Corporation, Outside Audit & Supervisory Board Member of KDDI Corporation (to present)
 Jun. 2022 Senior Executive Advisor of Toyota Tsusho Corporation (to present)



Yusuke Nakano

Outside Audit & Supervisory Board Member

Date of birth: May 15, 1969
 Apr. 2002 Registered as certified public accountant
 Jul. 2005 Executive Senior Partner of Seiyu Audit Corporation (to present)
 Sep. 2005 Registered as certified tax accountant
 Jan. 2010 Head of NAKANO C.P.A. OFFICE (to present)
 Dec. 2014 Outside Auditor of SK-Electronics CO., LTD.
 Jun. 2015 Independent Audit and Supervisory Board Member of Nissha Co., Ltd. (to present)
 Dec. 2018 Outside Director (Audit and Supervisory Committee Member) of SK-Electronics CO., LTD. (to present)
 Jun. 2021 Outside Audit & Supervisory Board Member of the Company (to present)

Executive Officers

Hiroyuki Tsuruta

Senior Managing Executive Officer, supervising Sales, and General Manager of Surfactants Division

Minoru Tsuchiya

Executive Officer, General Manager of Lubricant Additives Division

Yusuke Yamamoto

Executive Officer
 General Manager of Global Purchasing Division

Yuichi Fujii

Managing Executive Officer, supervising R&D, General Manager of Polyurethane Division, General Manager of Research Administration Division, Head of Head Office Research Laboratory, and Head of Katsura Research Laboratory

Motohisa Miyawaki

Executive Officer, General Manager of Engineering Division

Takashi Tsubouchi

Executive Officer
 Deputy General Manager of Production Division, General Manager of Nagoya Factory

Yoshiyuki Oku

Managing Executive Officer
 General Manager of Personnel Division

Tatsuya Nakano

Executive Officer, General Manager of Performance Materials Division

Yutaka Imaizumi

Executive Officer
 Deputy General Manager of Corporate Planning Division, Representative Director, President and CEO of SDP Global Co., Ltd.

Koji Nire

Managing Executive Officer
 Representative Director and President of SAN NOPCO LIMITED

Sho Takeuchi

Executive Officer
 General Manager of General Affairs Division

Eleven-year Financial Summary

| Annual | FY2012 | FY2013 | FY2014 | FY2015 |
|---|----------|---------|---------|----------|
| Net sales | 142,652 | 165,183 | 167,045 | 157,992 |
| Operating profit | 6,186 | 8,110 | 8,944 | 12,486 |
| Ordinary profit | 7,266 | 9,212 | 10,278 | 13,294 |
| Profit before income taxes | 6,773 | 8,179 | 9,554 | 11,640 |
| Profit attributable to owners of parent | 4,179 | 4,918 | 5,876 | 6,926 |
| Comprehensive income | 6,565 | 11,071 | 15,341 | 2,627 |
| Investment in plant and equipment | 9,899 | 7,497 | 10,520 | 14,333 |
| Depreciation | 9,182 | 9,642 | 9,604 | 9,256 |
| Research and development expenses | 4,511 | 4,659 | 5,515 | 5,622 |
| Cash flows from operating activities | 13,293 | 15,769 | 11,518 | 22,625 |
| Cash flows from investing activities | (13,413) | (8,659) | (8,656) | (13,510) |
| Free cash flow | (120) | 7,110 | 2,862 | 9,115 |
| Cash flows from financing activities | 406 | (2,567) | (2,922) | (5,493) |

Year-end

| | | | | |
|-------------------------------|---------|---------|---------|---------|
| Total assets | 155,438 | 166,529 | 181,029 | 175,321 |
| Property, plant and equipment | 56,208 | 56,076 | 58,766 | 60,870 |
| Interest-bearing debts | 18,648 | 18,756 | 18,492 | 14,862 |
| Net assets | 94,279 | 103,907 | 117,688 | 118,284 |

Amount per share

| | | | | |
|------------------------------------|--------|--------|----------|----------|
| Basic earnings per share | 37.89 | 44.60 | 53.29 | 62.83 |
| Net assets per share* ¹ | 827.72 | 899.24 | 1,014.19 | 1,016.06 |
| Dividends per share* ¹ | 15.00 | 15.00 | 15.50 | 17.00 |

Major indicator

| | | | | |
|---|------|------|------|------|
| ROA (Return on assets) | 4.8 | 5.7 | 5.9 | 7.5 |
| ROE (Return on equity) | 4.7 | 5.2 | 5.6 | 6.2 |
| Equity ratio | 58.7 | 59.5 | 61.8 | 63.9 |
| ROIC (Return on invested capital)* ² | 3.9 | 4.9 | 5.0 | 6.8 |

Other

| | | | | |
|---------------------|-------|-------|-------|-------|
| Number of employees | 1,865 | 1,917 | 1,979 | 1,992 |
|---------------------|-------|-------|-------|-------|

*1 Sanyo Chemical conducted a reverse stock split at a ratio of one share for every five shares on October 1, 2016. Net assets per share and basic earnings per share for FY2016 were calculated on the assumption that the said reverse stock split was performed at the beginning of FY2016.

*2 (Operating profit – Corporate tax, etc.) ÷ Average invested capital during the period × 100

| FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 (Millions of yen) |
|------------|----------|----------|----------|----------|----------|-----------------------------|
| 150,166 | 161,692 | 161,599 | 155,503 | 144,757 | 162,526 | 174,973 |
| 13,647 | 11,999 | 12,919 | 12,439 | 11,932 | 11,868 | 8,405 |
| 15,341 | 13,866 | 15,205 | 12,704 | 11,999 | 12,771 | 9,918 |
| 13,854 | 12,144 | 7,541 | 11,008 | 10,638 | 10,734 | 9,414 |
| 10,192 | 9,272 | 5,345 | 7,668 | 7,282 | 6,699 | 5,684 |
| 11,196 | 11,356 | (760) | 2,178 | 15,272 | 8,082 | 5,725 |
| 13,500 | 13,923 | 10,848 | 8,219 | 10,073 | 9,847 | 12,033 |
| 7,412 | 8,299 | 9,087 | 9,078 | 9,569 | 9,533 | 10,083 |
| 5,443 | 5,365 | 5,569 | 5,322 | 5,384 | 5,650 | 5,691 |
| 20,416 | 15,710 | 14,603 | 17,232 | 22,300 | 11,328 | 10,852 |
| (14,198) | (14,198) | (11,312) | (11,115) | (12,498) | (11,704) | (10,172) |
| 6,218 | 1,512 | 3,291 | 6,117 | 9,802 | (376) | 680 |
| (1,043) | (7,328) | (1,492) | (7,084) | (4,146) | (5,979) | (2,336) |
| | | | | | | (Millions of yen) |
| 186,863 | 199,179 | 193,630 | 178,873 | 195,723 | 200,194 | 202,182 |
| 63,530 | 69,883 | 62,324 | 60,716 | 61,255 | 61,389 | 59,791 |
| 15,204 | 10,599 | 11,985 | 9,667 | 9,274 | 7,888 | 10,232 |
| 127,651 | 136,270 | 132,623 | 130,097 | 142,951 | 147,032 | 148,994 |
| | | | | | | (Yen) |
| 462.28*1 | 420.57 | 242.50 | 347.87 | 330.34 | 303.76 | 257.57 |
| 5,515.51*1 | 5,901.23 | 5,868.58 | 5,789.88 | 6,371.77 | 6,549.60 | 6,617.11 |
| 100.00*1 | 110.00 | 125.00 | 140.00 | 150.00 | 170.00 | 170.00 |
| | | | | | | (%) |
| 8.5 | 7.2 | 7.7 | 6.8 | 6.4 | 6.5 | 4.9 |
| 8.7 | 7.4 | 4.1 | 6.0 | 5.4 | 4.7 | 3.9 |
| 65.1 | 65.3 | 66.8 | 71.4 | 71.8 | 72.2 | 72.2 |
| 8.1 | 6.6 | 5.8 | 6.6 | 6.3 | 5.5 | 3.4 |
| | | | | | | (Employees) |
| 1,996 | 2,053 | 2,078 | 2,060 | 2,096 | 2,106 | 2,089 |

Stock Information

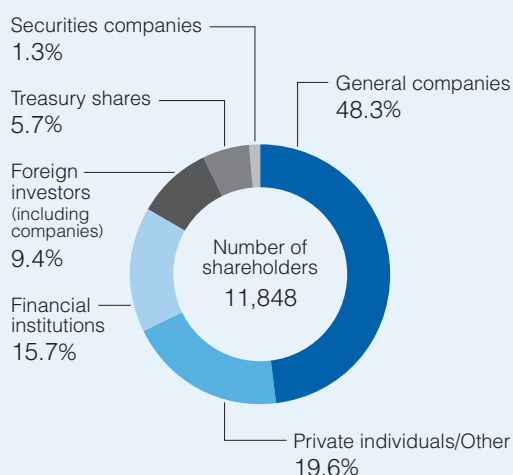
(As of March 31, 2023)

| | |
|---|--|
| Stock exchange listings | Prime Market of Tokyo Stock Exchange (Securities code: 4471) |
| Total number of stocks authorized | 51,591,200 |
| Total number of stocks issued | 23,534,752 |
| Total number of shareholders at end of period | 11,848 (Up 797 from end of previous period) |

Major shareholders (Top 10)

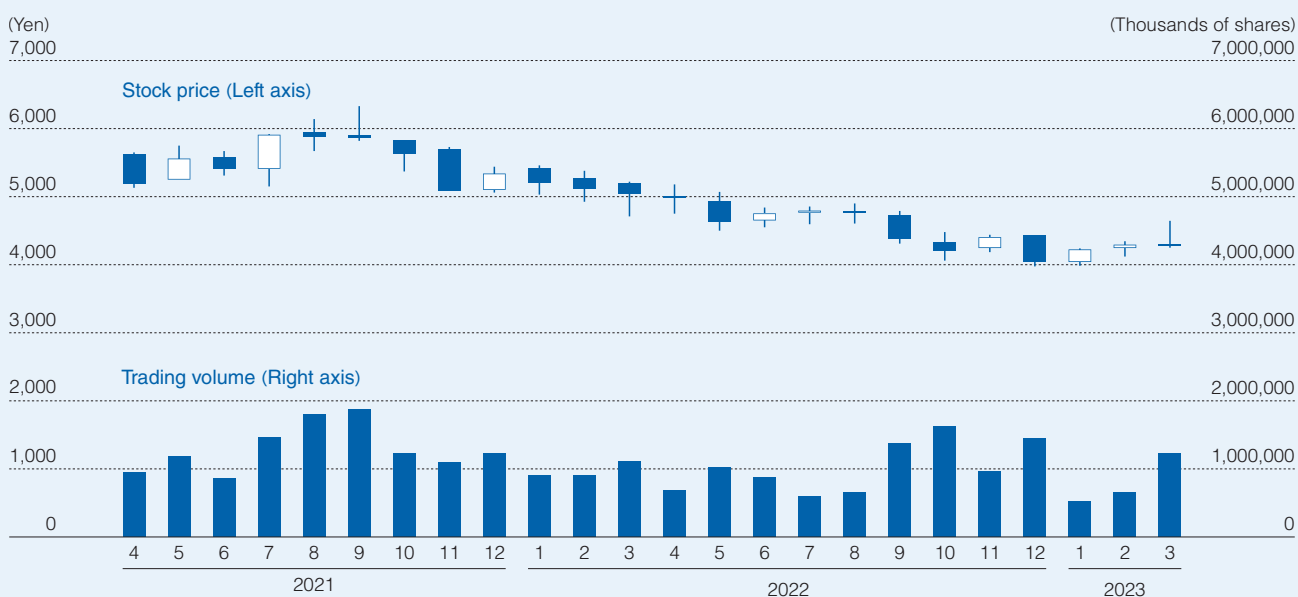
| Name | Number of shares held (Thousands of shares) | Percentage of shares held (%) |
|--|--|----------------------------------|
| Toyota Tsusho Corporation | 4,286 | 19.3 |
| Toray Industries, Inc. | 3,826 | 17.2 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,963 | 8.8 |
| Custody Bank of Japan, Ltd. (Trust Account) | 1,165 | 5.3 |
| Nippon Shokubai Co., Ltd. | 1,105 | 5.0 |
| ENEOS Holdings, Inc. | 1,061 | 4.8 |
| Sanyo Chemical Employees' Stock Ownership Association | 570 | 2.6 |
| DFA INTL SMALL CAP VALUE PORTFOLIO | 225 | 1.0 |
| Nippon Life Insurance Company | 154 | 0.7 |
| STATE STREET BANK AND TRUST COMPANY 505103 | 146 | 0.7 |

Breakdown of shareholders by type



(Notes) 1. Treasury shares are not included in the number of shares owned by the shareholders listed in the table above. Treasury shares (1,343,803 shares) are excluded in calculating the "Percentage of shares held."
 2. The Company's shares (116,700 shares) held by the trust whose beneficiaries are directors of the Company and that are established in line with the introduction of the stock-based compensation plan for Directors, etc., are included in the shares (1,165,400 shares) held by Custody Bank of Japan, Ltd. (Trust Account), and are not included in treasury shares (1,343,803 shares).

Trend of stock price and trading volume



Company Overview (As of March 31, 2023)

| | |
|----------------------------------|--|
| Company Name | Sanyo Chemical Industries, Ltd. |
| Date of Establishment | November 1, 1949 |
| Head Office | 11-1 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan |
| Consolidated number of employees | 2,089 |

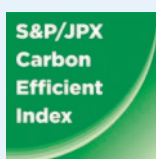
Domestic bases

| | |
|---------------------------|--|
| Head Office | Head Office (Kyoto) |
| Research Laboratories | Research Laboratory (Kyoto), Katsura Research Laboratory (Kyoto) |
| Branch Office | Tokyo Branch Office |
| Sales & Marketing Offices | Nagoya Area Sales & Marketing Office (Aichi), Chugoku Area Sales & Marketing Office (Hiroshima), and Nishi-Nihon Area Sales & Marketing Office (Fukuoka) |
| Factories | Nagoya (Aichi), Kinuura (Aichi), Kashima (Ibaraki), and Kyoto |

Major group companies

| | | |
|--|--|--------------------------------------|
| SDP Global Co., Ltd. | Sanyo Kasei (Nantong) Co., Ltd. | San Nopco (Korea) Limited |
| SAN NOPCO LIMITED | San-Dia Polymers (Nantong) Co., Ltd. | Sanyo Chemical America Incorporated |
| San Chemical Co., Ltd. | SANYO CHEMICAL (SHANGHAI) TRADING CO., LTD. | Sanyo Chemical Texas Industries, LLC |
| San-Apro Ltd. | San Nopco (Shanghai) Trading Co., Ltd. | Sunrise Chemical LLC |
| Sanyo Chemical Logistics Co., Ltd. | DaXiang International Trading (Shanghai) Co., Ltd. | Sanyo Kasei (Thailand) Ltd. |
| San-Petrochemicals Co., Ltd. | Sanyo Kasei Korea, Ltd. | SDP GLOBAL (MALAYSIA) SDN. BHD. |
| Shiohama Chemicals Warehouse Co., Ltd. | Sanyo Chemical Manufacturing Korea, Ltd. | SANYO KASEI (TAIWAN) LTD. |
| FUJIFILM Sanyo Chemical Healthcare Corporation | | |

Listed in ESG Investment Index
(as of July 2023)



S&P/JPX Carbon Efficient Index



FTSE Blossom
Japan Index

FTSE Blossom Japan Index

Editorial policy

Organizations covered

As a rule, this report covers the entire Sanyo Chemical Group, which comprises a total of 25 companies (as of March 31, 2023)—specifically, Sanyo Chemical Industries, Ltd., 19 subsidiaries, and five affiliates.

Period covered

FY2022 (from April 1, 2022 to March 31, 2023). However, some disclosures and business activities undertaken after April 2023 are included.

Reference materials

In editing this report, we have referred to the International Integrated Reporting Framework advocated by the International Integrated Reporting Council (IIRC) and the World Intellectual Capital/Assets Initiative (WICI), and the Guidance for Collaborative Value Creation published by the Ministry of Economy, Trade and Industry of Japan.

For more details of the financial report in the Sanyo Chemical Group Integrated Report 2023, please refer to the securities report.

Securities report URL: https://www.sanyo-chemical.co.jp/ir_info/annual_report (Japanese only)

For the sustainability report, please visit the following website.

Sustainability report URL: <https://www.sanyo-chemical.co.jp/eng/sustainability>

Sanyo Chemical Industries, Ltd.

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URL: <https://www.sanyo-chemical.co.jp/eng/>

