

Sanyo Chemical Group Integrated Report

2024

For the year ended March 31, 2024

Beyond the boundaries
of chemistry *by chemistry*



CONTENTS

2 On the Publication of Integrated Report 2024

Vision Story

- 3 The Future the Sanyo Chemical Group Aims For
- 5 Source of Our Competitive Advantage
- 7 Technological Capabilities and Product History
- 9 At a Glance
- 11 Value Creation Process

Business Strategy

- 13 Message from the President
- 21 Special Feature: New Growth Path
- 23 Message from the Director in Charge of Finance
- 27 Business Overview by Segment
- 29 Overview of High Value-added Products
- 31 Message from the Director in Charge of R&D
- 32 R&D/Intellectual Property

Reinforcement of the Corporate Base

- 33 Message from the Director in Charge of Sustainability
- 34 Respect for Human Rights
- 35 Climate Change (response to TCFD recommendations)
- 37 Digital Transformation (DX) Strategy
- 38 HR Development
- 39 Diversity, Equity & Inclusion (DEI)
- 40 Work Style Reform
- 41 Health and Productivity Management
- 42 Occupational Safety and Health/Accident Prevention
- 43 Roundtable Discussion between Outside Directors
- 47 Corporate Governance
- 52 Compliance
- 53 Risk Management
- 54 Directors, Auditors, and Executive Officers
- 57 Material Issues
- 59 Eleven-year Financial and Non-financial Summary
- 61 Stock Information
- 62 Company Overview

Editorial Policy

Organizations covered

As a rule, this report covers the entire Sanyo Chemical Group, which comprises a total of 27 companies (as of March 31, 2024)—specifically, Sanyo Chemical Industries, Ltd., 20 subsidiaries, and six affiliates.

Period covered

FY2023 (from April 1, 2023 to March 31, 2024). However, some disclosures and business activities undertaken after April 2024 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 2024, please refer to the securities report (in Japanese).

Overview of the Sanyo Chemical Group's Annual Reports



Integrated Report
Short-, medium-, and long-term strategies



Securities report (in Japanese)
Financial information (details)



Sustainability report
Comprehensive disclosure of ESG information

WEB [Securities report \(in Japanese\)](#) >

WEB [Sustainability report](#) >

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 6, 2024. 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.

On the Publication of Integrated Report 2024

The Sanyo Chemical Group Integrated Report 2024 is issued with the aim of informing stakeholders of our future direction and approach as well as our strategies based thereon.

This report consists of three sections: "Vision Story," "Business Strategy," and "Reinforcement of the Corporate Base."

The Vision Story outlines what kind of corporate group the Sanyo Chemical Group is. It explains our vision, values, history, and spiritual pillars as well as the source of our competitive advantage supporting our growth and current position.

In the Business Strategy section, the progress of the New Medium-Term Management Plan 2025 ("MTP 2025"), which started in FY2023 and is in its second year, is reported. The main content is a detailed report of progress and outlook of the MTP 2025 through messages from the President and the Director in charge of finance. The status of each business is also described here.

The Reinforcement of the Corporate Base section provides ESG information on strengthening the corporate base to support the Group's future growth. It also presents the voices of employees who promote ESG activities on-site and a roundtable discussion between outside directors, as well as my message as the Director in charge of sustainability and corporate strategy. The Sanyo Chemical Group material issues are listed at the end of this section.

We hope that this report will help our investors, employees, and other stakeholders gain a deeper understanding of our company.

September 2024

Hiroyuki Susaki

Director, Managing Executive Officer
in charge of Sustainability and Corporate Strategy



The Future the Sanyo Chemical Group Aims for

Mission Sanyo Chemical Group company mission

Establish a better society through our corporate activities

The Sanyo Chemical Group company mission is to “Establish a better society through our corporate activities,” and for 75 years since our founding, we have progressed as a manufacturer of functional chemicals.

In line with our management policy “WakuWaku Explosion 2030,” which we formulated in 2022 as a compass for creating value in the medium to long term, the entire Group is working on the MTP 2025 toward realizing its Vision 2030.



Vision Vision 2030

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

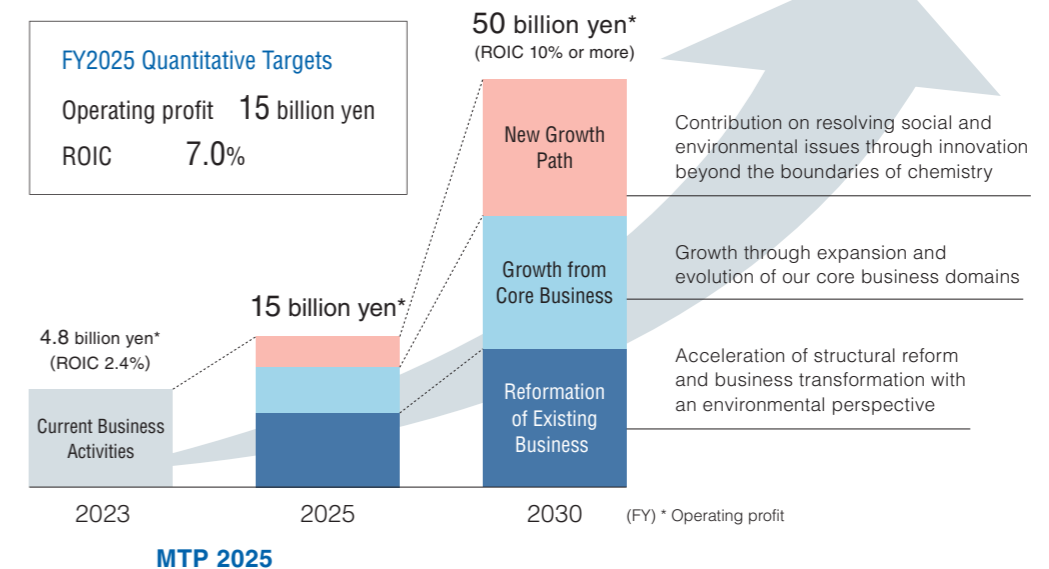
* The Japanese word which expresses positive, bright, uplifting feeling inspired by inner motivations and/or own wills.

Co-create environmental, social and economic values with the stakeholders

Facilitate every employee’s value creation

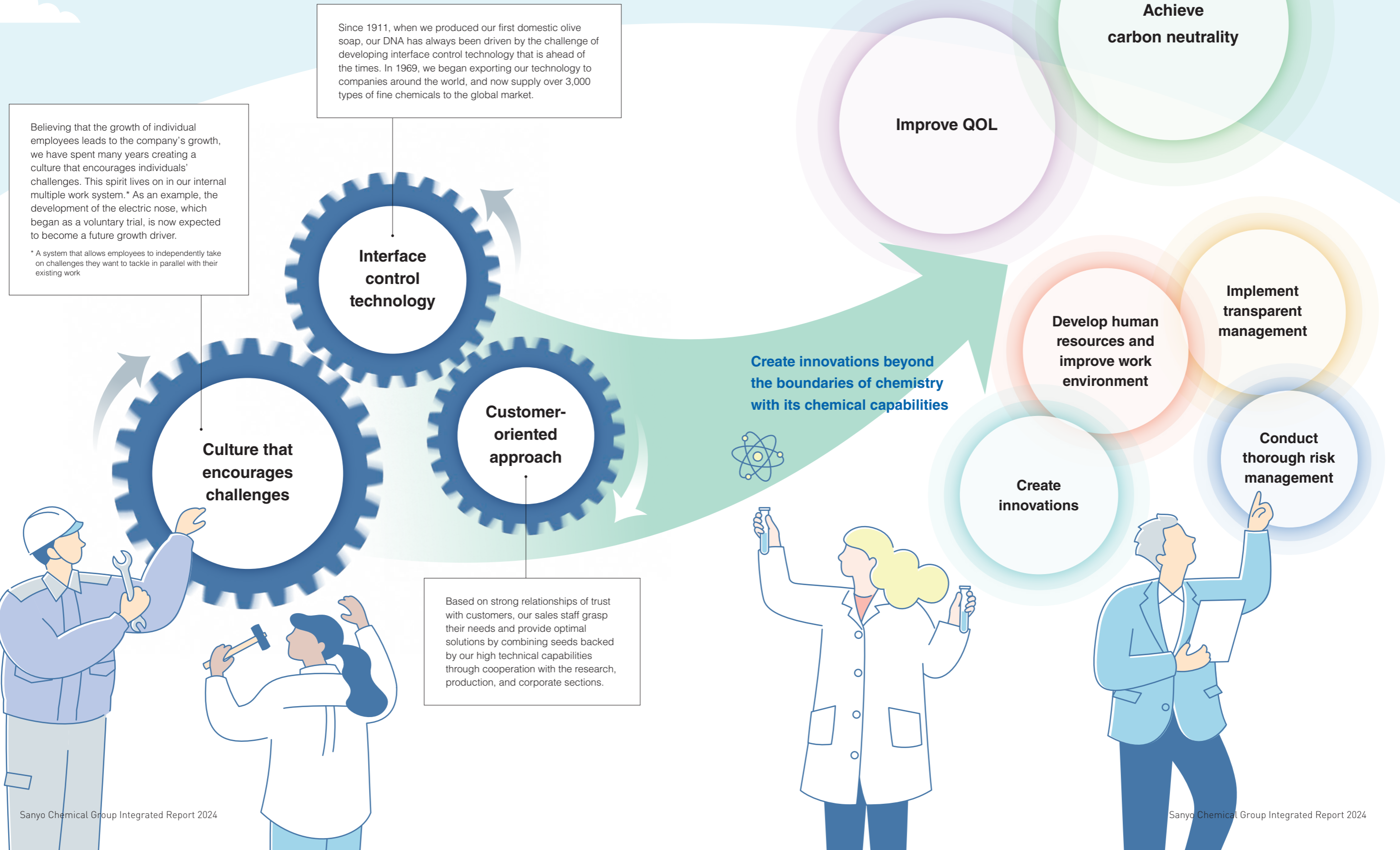


Positioning of the management policy “WakuWaku Explosion 2030” and the New Medium-Term Management Plan 2025



Source of Our Competitive Advantage

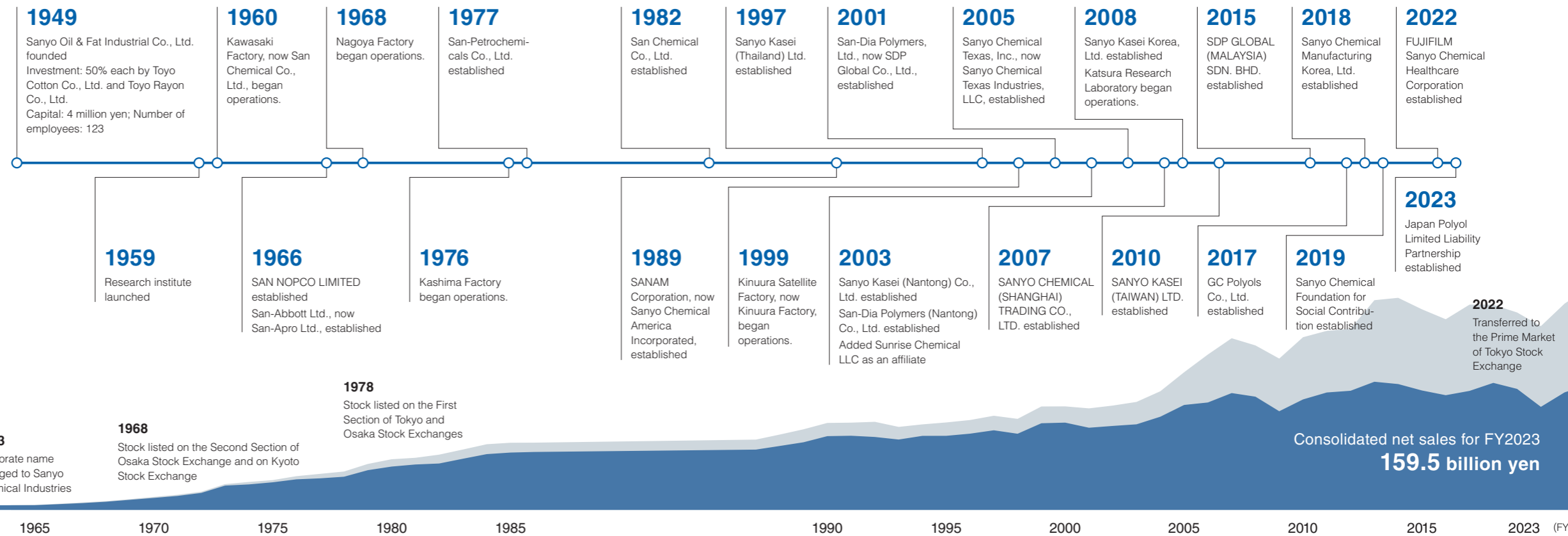
The Sanyo Chemical Group has three strengths: “interface control technology,” a “culture that encourages challenges,” and a “customer-oriented approach.” We intend to use these strengths to resolve material issues (materiality) that will affect the Group’s medium- to long-term value creation, thereby accelerating our transformation into a business model adapted to a sustainable society and realizing our Vision 2030.



Technological Capabilities and Product History

In 1907, Tada Soap-Oleo Works, our predecessor, was founded in Kyoto. Despite limited resources, we have focused on strengthening our technological capabilities, such as producing Japan's first olive soap, and laid the foundations for interface control technology.

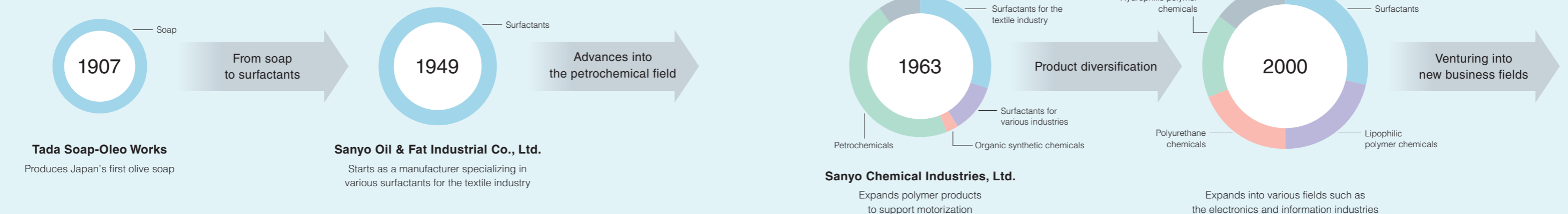
In 1949, Sanyo Oil & Fat Industrial Co., Ltd. (now Sanyo Chemical Industries, Ltd.) was founded, inheriting the spirit of Tada Soap-Oleo Works. Through our interface control technology and customer-oriented product development, we now offer over 3,000 types of functional chemicals.



Technology and Product Evolution

- 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 SAN-MODUR chemical board (tooling material) developed
- 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 PRIME-POL 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
- 2023** Electric nose "FlavoTone" launched

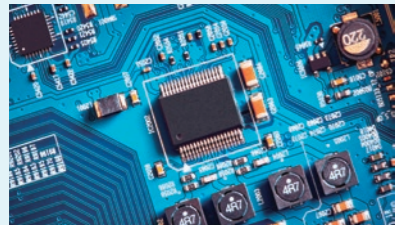
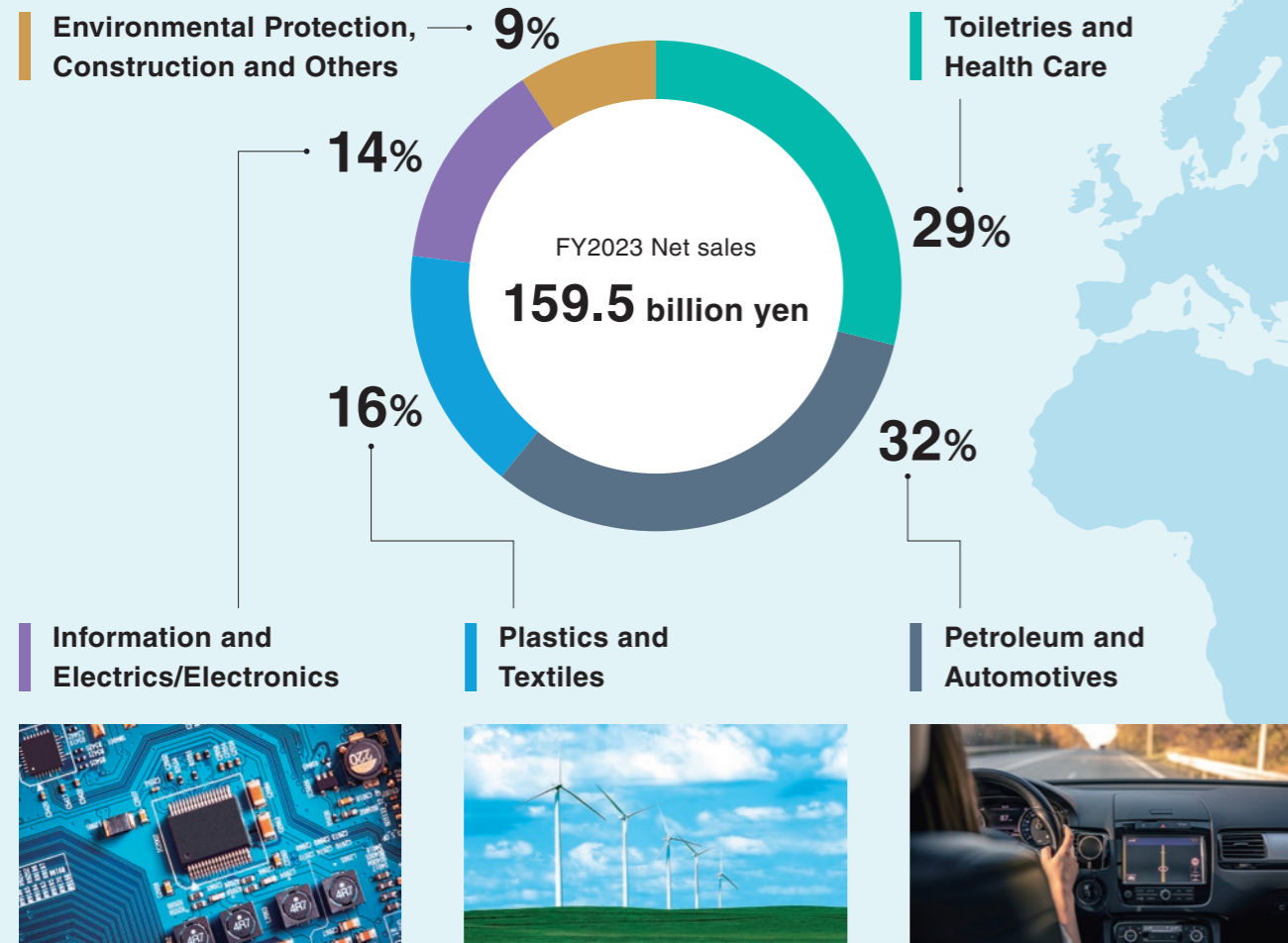
Business Portfolio and Sales Trends



At a Glance



Sales composition ratio by segment

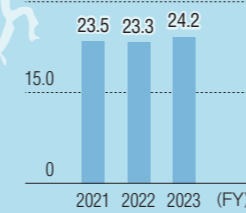


Global network

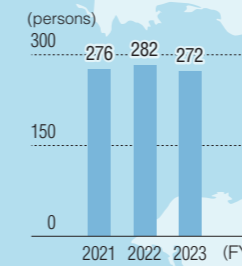
● Manufacturing base ● Sales base

China

Net sales (billion yen)

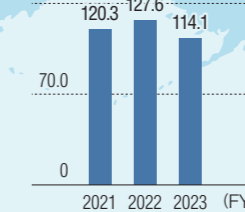


Number of employees (persons)

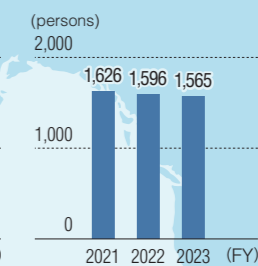


Japan

Net sales (billion yen)

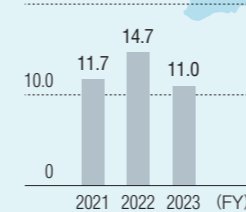


Number of employees (persons)

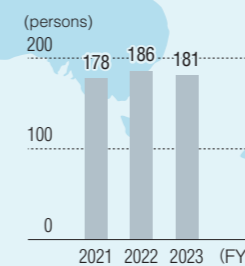


Other (Thailand, Malaysia, South Korea, Taiwan)

Net sales (billion yen)

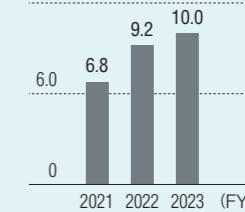


Number of employees (persons)

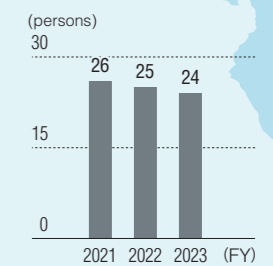


U.S.

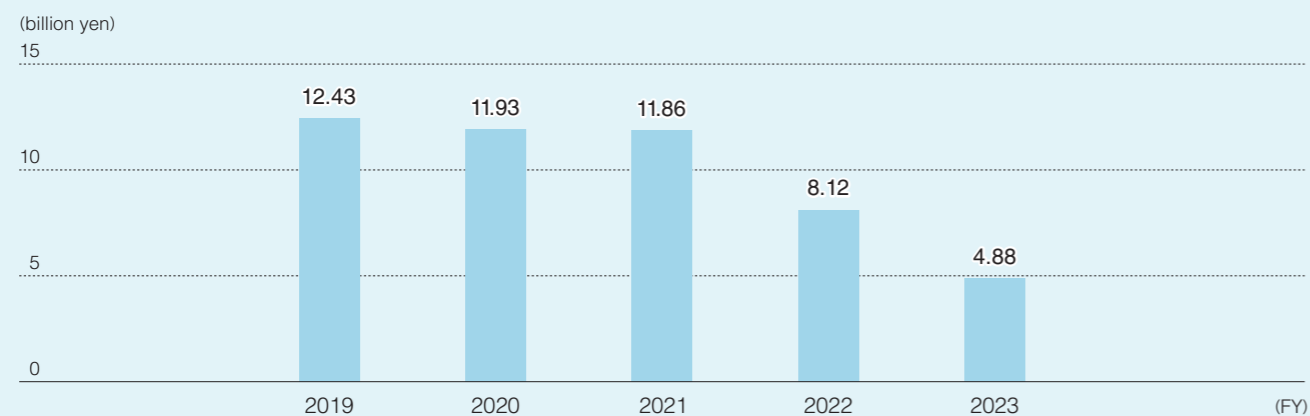
Net sales (billion yen)



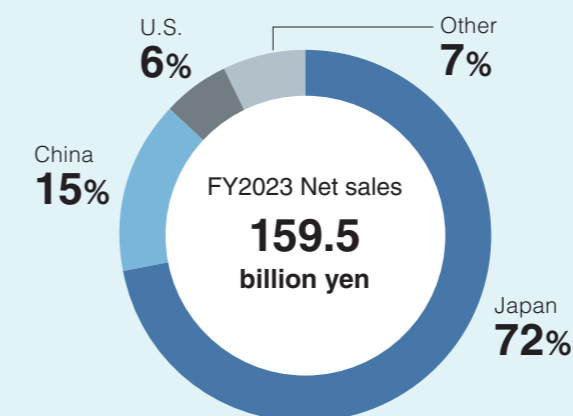
Number of employees (persons)



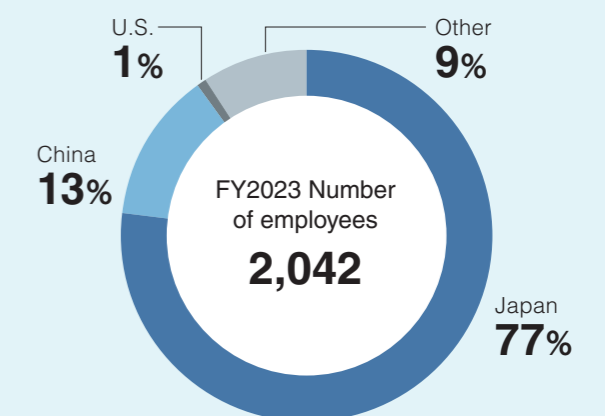
Operating profit



Sales composition ratio by location

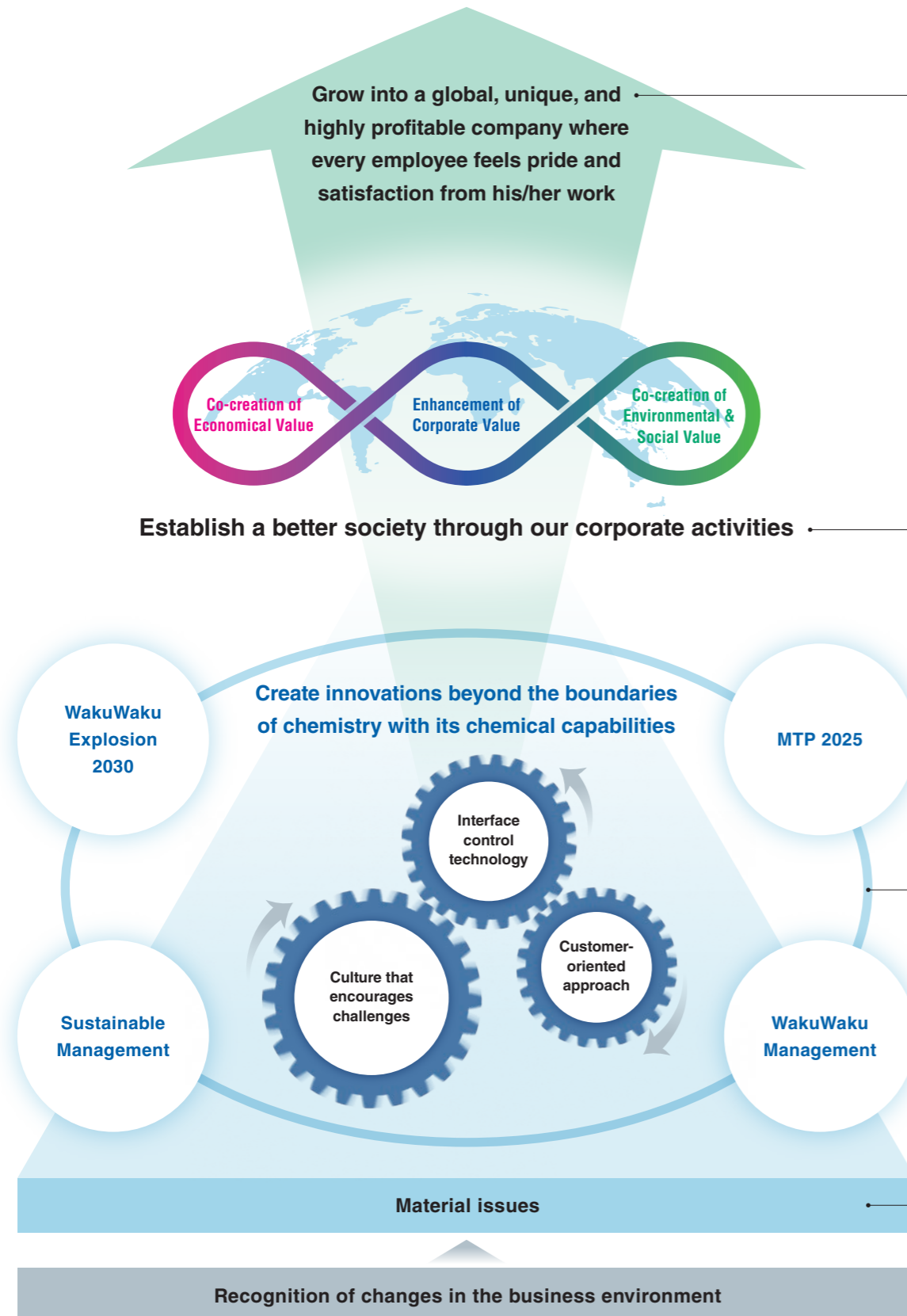


Number of employees by region



Value Creation Process

Sanyo Chemical Group Sustainable Growth —WakuWaku Future



Vision 2030

In 2022, the Sanyo Chemical Group formulated the long-term management policy “WakuWaku Explosion 2030.” We aim to achieve our Vision 2030 “Grow into a global, unique, and highly profitable company where every employee feels pride and satisfaction from his/her work,” while pursuing the three values of “Co-creation of economical value,” “Enhancement of corporate value,” and “Co-creation of environmental & social value.”

WEB Management policy “WakuWaku Explosion 2030” toward our Vision 2030 >

Company mission: Establish a better society through our corporate activities

We believe that our Vision is the very essence of our company mission. Since our foundation, with the company mission as our guidepost, we have explored and considered the environment surrounding us in this era and the direction we should take.

Management policy and strategy

To realize our Vision, we practice Sustainable Management and WakuWaku Management on a daily basis and implement the MTP 2025 as our first stage, leveraging the source of our competitive advantage.

→ P5 Source of Our Competitive Advantage

WEB Sustainability Management >

WEB WakuWaku Management >

WEB MTP 2025 >

Material issues

We have identified material issues, realizing that the damage to natural and social capital is reaching its limits. We believe that circulating value for stakeholders and resolving social issues are crucial for protecting our business environment.

Our sustainability activities are formulated and implemented based on these material issues.

→P57 Material Issues

Message from the President



Akinori Higuchi
Representative Director,
President and CEO

Aiming to achieve the sustainable growth of the Sanyo Chemical Group by promoting businesses that contribute to a sustainable society

FY2023, the first year of the MTP 2025, was a turbulent year for the Sanyo Chemical Group. Facing the unexpected situation of a large influx of Chinese chemical products into the Japanese market despite the sharp depreciation of the yen, we have been subject to drastic changes in the business environment over the past year.

Business environment for FY2023

Japanese chemical companies, which import raw materials, faced fierce price competition from Chinese companies with access to their own oil resources. Japanese companies' production and sales in 2023 fell about 12 to 13% year on year. Since May 2022, Japan's ethylene production rate, which is an indicator of the economic status of the chemical industry, has remained below 90% and temporarily dropped below 80%, reflecting the ongoing challenges faced by the entire chemical industry. The impact is reaching not only fields in which products have been commoditized and are less competitive but also the surfactant field, which is our specialty. In the face of China's improved technological capabilities and price competitiveness, Japan's chemical industry has no choice but to accelerate the transformation of its industrial structure and business model.

Although I do not know whether this major change in the chemical industry just happened to coincide with the timing of our decision to withdraw from the superabsorbent polymer business ("SAP business"), which accounted for about 25% of our total net sales, this supports the validity of our decision to implement painful structural reforms.

Direction in which the Sanyo Chemical Group is heading

Our business environment will remain the same in some areas while changing in others. With a focus on fields based on values that will remain unchanged in the future, the Group plans to develop new businesses that contribute to carbon neutrality and improved quality of life (QOL) into pillars of its business beyond 2030 as the Group's growth driver.

As an approach to commercialization, in order to quickly respond to changes in the business environment, we are considering ways to keep our assets as light as possible, such as licensing agreements, outsourcing manufacturing and sales, and collaborating with other companies. As for new businesses, three products that are already being commercialized - Silk-Elastin, peptide agriculture, and the electric nose - are introduced on the special feature pages (P21-22), from which I hope you will gain a sense of our direction and future potential.

Carbon neutrality

I believe that companies will increasingly need to adapt to climate change in the future. As a promising business, we work on commercializing a chemical that absorbs carbon dioxide (CCU).* Moreover, naturally derived peptides for agriculture, as alternatives to chemical fertilizers and pesticides, are an agricultural solution effective in improving the quality of agricultural products and increasing yields. We are considering establishing a new production site for them.

* Carbon dioxide Capture and Utilization

Improvement of QOL

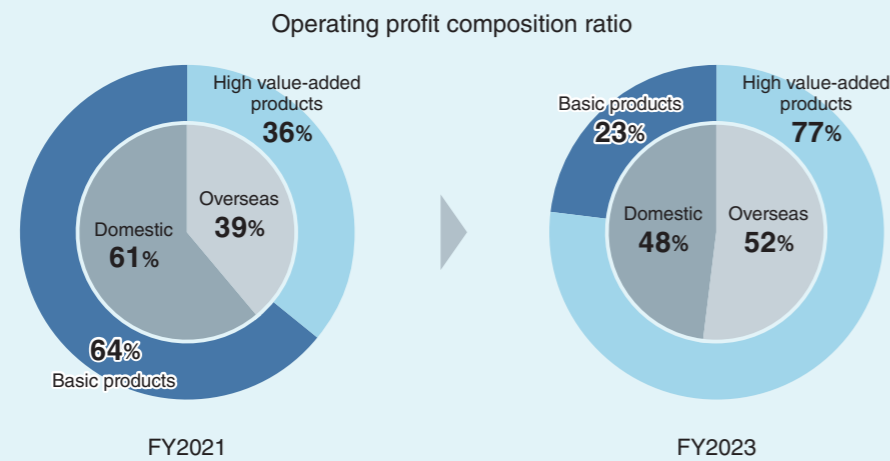
The other business is one that contributes to improving QOL. While average life expectancy continues to increase, healthy life expectancy is more than 10 years shorter than average life expectancy, hence we are focusing on product development that will close this gap. With promising new products at the starting line, the business is just about to get under way.

Progress of the New Medium-Term Management Plan 2025

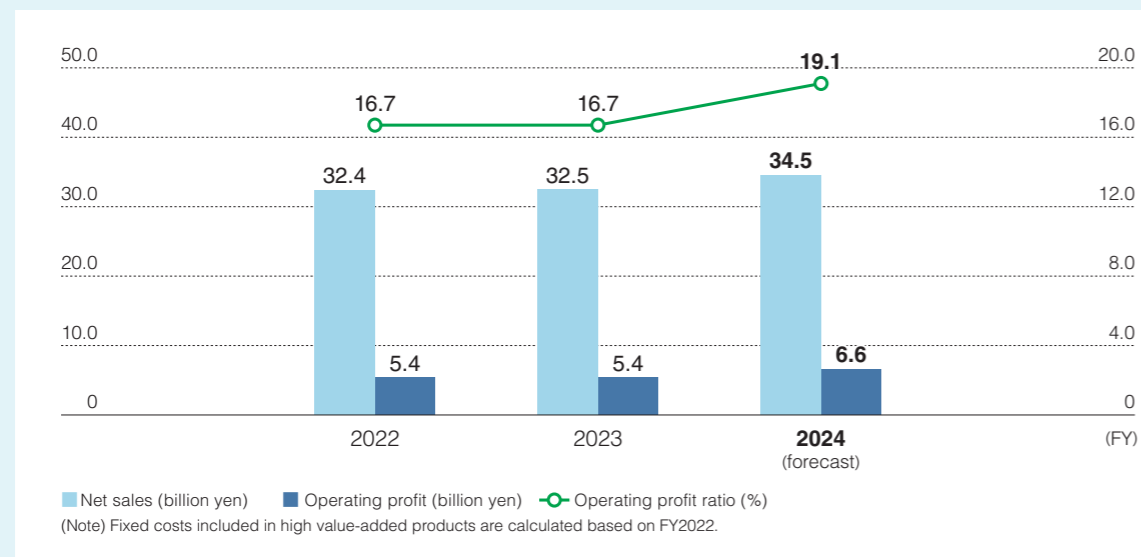
Quantitative targets of the MTP 2025

	(FY)			
	2022 (results)	2023 (results)	2024 (plan)	2025 (targets)
Net sales (billion yen)	174.9	159.5	145.0	200.0
Operating profit (billion yen)	8.1	4.8	8.0	15.0
Operating profit ratio (%)	4.6	3.1	5.5	7.5
ROIC (%)	3.2	2.4	3.9	7.0

Business portfolio



Net sales/operating profit/operating profit ratio of high value-added products



Overview of the first year of the MTP 2025

FY2023, the first year of the MTP 2025, turned out to be a very tough year, contrary to expectations, due to sluggish domestic demand in China and intensifying price competition in the Japanese and Asian markets caused by an oversupply of Chinese products. In response to these changes in the business environment, we implemented structural reforms, including withdrawal from the SAP business, and promoted the transformation of our business portfolio. Consequently, we recorded an extraordinary loss of over 12 billion yen as business structural reform costs, resulting in a net loss of 8.5 billion yen in FY2023. Having secured funds for structural reforms and growth investment for FY2024, we intend to steadily implement the MTP 2025 toward its final year, FY2025.

Transformation of business portfolio

Our withdrawal from the SAP business will significantly change our business portfolio. In FY2023, due to a significant loss in the SAP business and poor performance of automobile-related materials, high value-added products that contribute to carbon neutrality and improved QOL accounted for the majority of our operating profit. However, the proportion of these products will be around 50% in FY2025 due to the recovery of core business other than high value-added products. Although the business portfolio will differ from the one announced in the MTP 2025 due to withdrawal from the SAP business, we would like to maintain our quantitative target of 15 billion yen in operating income.

Global deployment

In contrast to high value-added products, whose proportion has relatively increased due to our withdrawal from the SAP business and the reorganization of our overseas bases, our overseas net sales will decrease significantly. Since the Sanyo Chemical Group has set global growth as its Vision in the MTP 2025, I will explain our future global deployment.

Growth from core business

First, we will increase overseas sales of high value-added products. Although their overseas sales in FY2023 were stagnant due to rapid changes in market conditions, we believe that there will be no change in the medium- to long-term direction.

Since demand for chemicals for special fibers is expected to increase for wind power generation, we will establish new production facilities at the Kashima Factory to increase production capacity by about 50%. Among the chemicals for special electronic parts, electrolytes for aluminum electrolytic capacitors are industry-standard, long-running products. To respond to the shift to electric vehicles and accelerated vehicle electrification, we plan to increase our production capacity by about 60%. Our lubricant additives are effective in improving vehicle fuel efficiency, with global demand expected to grow worldwide, and we have already established of a production site in South Korea. We will also expand into the marine market. Permanent antistatic agents are high-performance products mainly for the semiconductor industry. We established new production facilities in Thailand in 2022 with further expansion in sight. Since the global deployment of major medical and pharmaceutical products is accelerating, we are working to increase our production capacity to meet growing global demand.

New growth path

Next, we will develop new markets with innovative new products and technologies. As mentioned earlier, we have already identified several promising products in our product group positioned as a new growth path, such as Silk-Elastin, peptide agriculture, and the electric nose. There are also some products for which we expect to see a certain amount of domestic sales during the MTP 2025 period. This achievement will provide momentum for global deployment.

Redevelopment of overseas base network

Finally, for our overseas base network, I view the streamlining of our overseas bases as a good opportunity to start from scratch and redevelop our global base network. Returning to our basic ideas, we are considering how to advance our global strategy, including how to manufacture and sell products and how to divide the roles of factories around the world.

Reformation of Existing Business

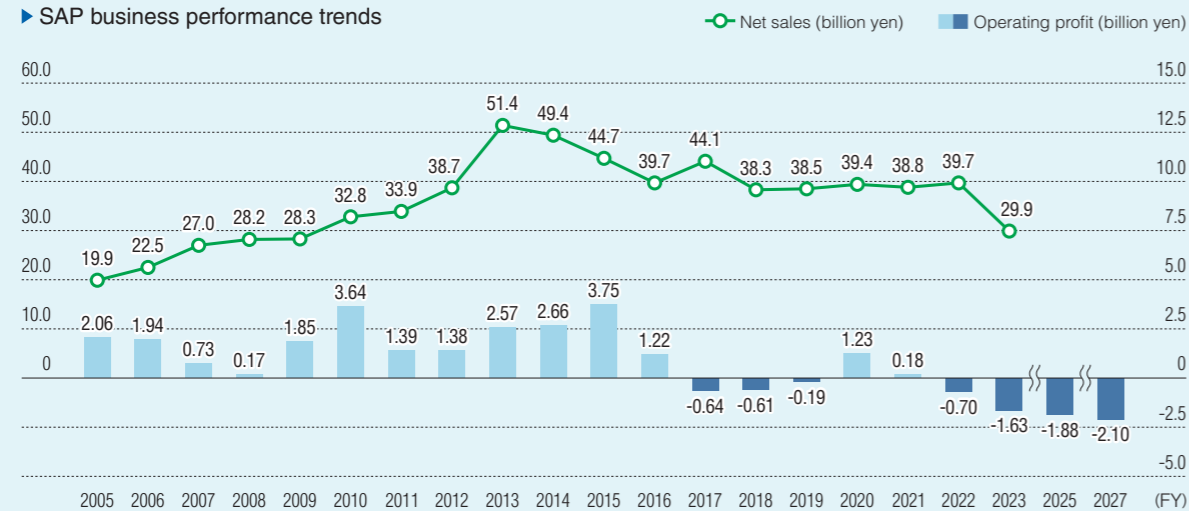
Structural reforms

Withdrawal from the SAP business

SDP Global Co., Ltd.	Production planned to be suspended during FY2024
SDP GLOBAL (MALAYSIA) SDN. BHD.	Production suspended
San-Dia Polymers (Nantong) Co., Ltd.	Under consideration for sale

Establishment of LLP for the PPG business

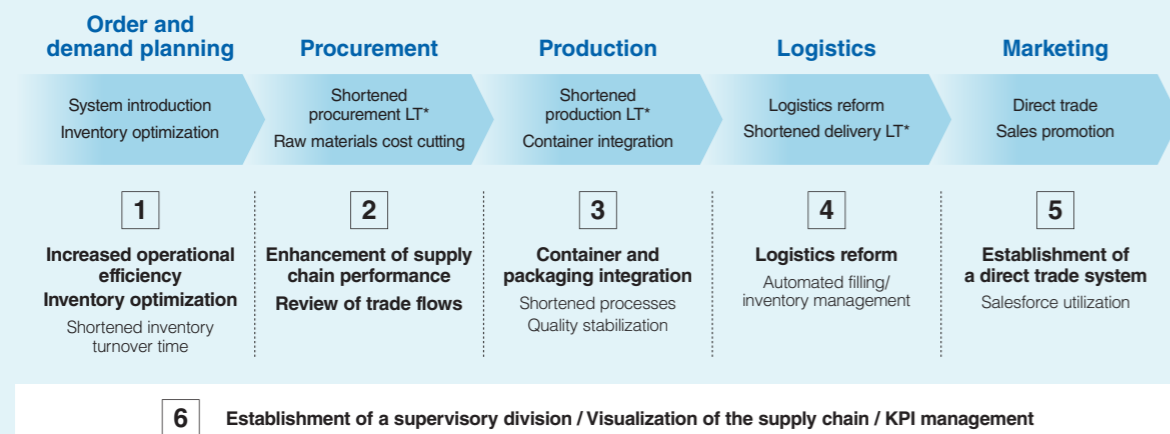
SAP business performance trends



(Note) Forecasts from FY2025 onward are based on the assumption that the business will continue.

Monozukuri Transformation

Transforming business processes throughout the supply chain



* Lead time

Withdrawal from the SAP business

In March 2024, we decided to withdraw from the SAP business, which had once earned the biggest profits since commercial production began in 1978. At the same time, we ceased production at SDP GLOBAL (MALAYSIA) SDN. BHD. in March 2024 and plan to stop production at SDP Global Co., Ltd. during FY2024. We also announced that we had begun to consider transferring all of our equity interests in San-Dia Polymers (Nantong) Co., Ltd. to a Chinese company during FY2024. These are part of our structural reforms under the MTP 2025, which are among the most important measures in this three-year plan.

The management team is currently reorganizing their local operations and negotiating with relevant parties to withdraw from the business as quickly as possible and complete the withdrawal during FY2024. By the time we announce our next medium-term management plan, we will report the details of our business portfolio and investment plans that will give you hope for our future.

Background to withdrawal from the SAP business

Although the SAP business initially continued to expand due to our high-quality products, we soon faced technological catch-up from overseas competitors and price competition. Since we had to purchase main raw materials from outside, the SAP business gradually became a general-purpose product business with lower profit, resulting in an operating loss of about 1.6 billion yen in FY2023.

When I was appointed to the business division in head office 10 years ago after serving as the president of a subsidiary, the SAP business was still generating profit. However, I felt a sense of crisis regarding its future from an outside perspective. However, it was difficult to decide to withdraw from the business due to the sales volume, asset size, relationships with customers, and other factors. Moreover, since the company of those days had a conservative culture that was hesitant to change, it was urgent to first revamp that culture in order to withdraw from the business.

Structural improvement of the polyurethane business

The MTP 2025 also calls for structural reforms of the polyurethane business. Rather than withdrawing from this business, we plan to increase the profit ratio through Monozukuri Transformation to make it a business that contributes to our performance.

Last year, we established Japan Polyol Limited Liability Partnership (LLP) jointly with Mitsui Chemicals, Inc. to streamline production facilities, logistics, and raw materials procurement. By reducing manufacturing costs to expand the spread with sales prices, we aim to increase the profit ratio, thereby rendering the business profitable.

Monozukuri Transformation

There are countless ways for us to reliably generate profits through manufacturing across the supply chain, from purchasing to sales. Focusing on how to achieve efficient, stable production, we promote the visualization of the entire supply chain, from purchasing to sales.

Many issues have already been raised, such as diversifying suppliers, reviewing capacity assessments at manufacturing sites, and reducing inventory, and these are steadily improving. I hope that there will be many more improvements to come in the future.

Inventory visibility

We have had a very complicated inventory due to our 3,000 different products and hundreds of packaging styles, with each product being delivered in multiple containers. However, we have not implemented precise inventory management for a long time. Under Monozukuri Transformation, we work to make our inventory more visible.

This will allow us to avoid having separate inventory of the same product in different containers, and to reduce the number of containers and inventory. We also expect a significant improvement in the cash conversion cycle (CCC), which will enable us to generate a large amount of cash.

Safety and quality

Believing that safety is our lifeline, we always place the highest priority on it.

Business continuity is impossible without safety. Various safety measures are under way in parallel, with Monozukuri Transformation serving as their foundation. Efficient, lean operations reduce the burden on manufacturing sites and improve safety.

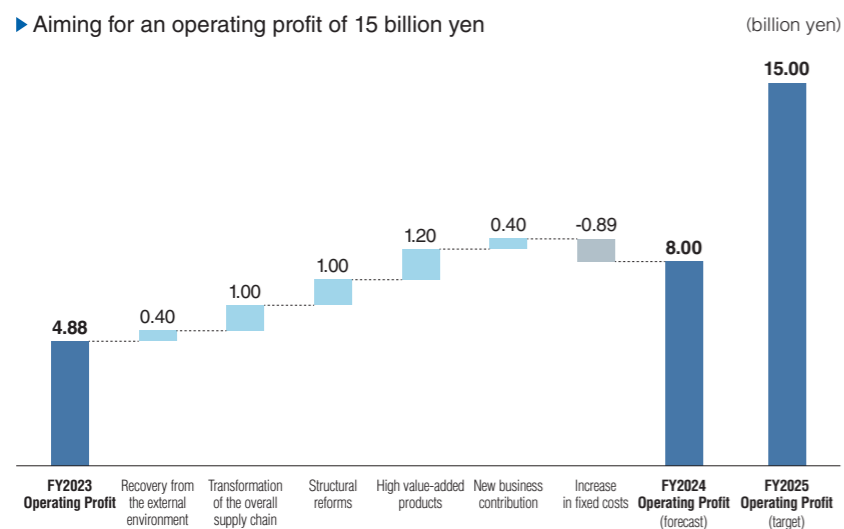
Moreover, a stable supply of high-quality products is essential for the company's future globalization and growth. As part of Monozukuri Transformation, we have made new organizational changes and established a department that thoroughly checks quality within the Responsible Care Division, separate from the Production Division. To improve productivity, reliability, and quality, we have introduced a system that can transfer analytical data for product quality control to our ERP system without human intervention. We also plan to introduce a system that enables those involved to immediately share even minor changes in analysis methods due to revision of the law.

R&D and new businesses

We have many researchers working to "create innovations beyond the boundaries of chemistry with its chemical capabilities" in order to create and develop new businesses. However, given the limited resources of the company, we cannot have too many research topics. We will therefore focus on a few topics from the categories of carbon neutrality and improved QOL to thoroughly improve the value of each topic.

For example, can a certain product be made more valuable worldwide? Or is there another way to use this technology? Thus, we are looking for ways to increase added value from a broad and multifaceted perspective, rather than focusing on each technology and product separately.

▶ Aiming for an operating profit of 15 billion yen



- Sanyo Chemical's Promotion Actions**
- Promotion of Monozukuri Transformation
 - Implementation of structural reforms
 - Expansion of sales of high value-added products
 - Early profit contribution from new businesses

How to achieve our targets

Although we aim for an operating profit of 8 billion yen for FY2024, the full results of our withdrawal from the SAP business and Monozukuri Transformation will not be seen until FY2025 onward. By leveraging these effects, expanding sales of high value-added products, and commercializing products on a growth path, we aim to achieve the operating profit target of 15 billion yen set in the MTP 2025 despite difficulties. As for our operating profit target of 50 billion yen for FY2030, announced in our management policy, we will maintain our determined stance to achieve it.

Outside Director Shirai appointed Chairman of the Board of Directors

In June 2024, Outside Director Aya Shirai was appointed Chairman of the Board of Directors. Director Shirai served as Mayor of Amagasaki City for eight years, and responded to the JR Fukuchiyama Line derailment accident as the mayor. Having also served as an outside director for other companies, she has the insight unique to an outside director regarding the direction our company should take. I believe that stakeholders can expect the Board of Directors to be run in a more transparent manner that incorporates an outside perspective.

To all stakeholders

Since taking up my post at the Head Office as a management member nine years ago, I have worked with the sole desire to make the Sanyo Chemical Group an even better company. I was appointed President in 2021 and announced our long-term management policy, and I am currently leading the implementation of the MTP 2025 as its first stage. Although we are lagging behind our initial plan, demand for our products is improving due to the recovery of the automobile-related industry. We will continue to focus on completing the MTP 2025.

It is not easy to sustainably increase profits and grow a company. With the understanding and cooperation of stakeholders, I hope to put into practice our company mission, "Establish a better society through our corporate activities," by returning the added value and products we create to stakeholders and society, and to help the Sanyo Chemical Group continue to grow into the future.

I want all employees working on the MTP 2025 to continue to think about how their departments should function as profit centers, share their views without hesitation, and act accordingly. It is my sincere hope that everyone in every department will feel "WakuWaku" about their work.

September 2024

Representative Director, President and CEO



Special Feature: New Growth Path

Artificial protein Silk-Elastin QOL

Damage and deformation of cartilage and meniscus can lead to knee osteoarthritis, which in turn increases the risk of decreased motor function and affects the locomotive syndrome. Since it has become clear that meniscus repair and regeneration is important for the complete cure of knee joint diseases, the number of meniscal suture surgeries is increasing. However, since the meniscus is difficult to repair once damaged, about 30% of the three million suture surgeries performed annually worldwide result in insufficient healing and the risk of re-rupture.

Silk-Elastin for meniscus regeneration applications

Against this background, a research group at Hiroshima University has conducted joint research with the concept of an ultimate cure, using our Silk-Elastin to regenerate both the knee cartilage and the meniscus.

Silk-Elastin is an artificial protein created using gene recombination technology introduced by us. Featuring a high affinity with human cells, it creates an environment for cell proliferation that promotes the repair and regeneration of biological tissues. Its efficacy and safety were confirmed in physician-initiated clinical trials, with a comment from the investigator stating that the results were astonishing.

Silk-Elastin for wound healing applications

In the fields of chronic wounds (e.g., diabetic foot ulcers) and acute wounds (e.g., burns), a joint research project with Kyoto University has completed physician-initiated clinical trials for wounds that were not expected to heal with conventional treatments, with favorable results

obtained in corporate clinical trials. We therefore plan to obtain regulatory approval in FY2024 and start sales in FY2025.

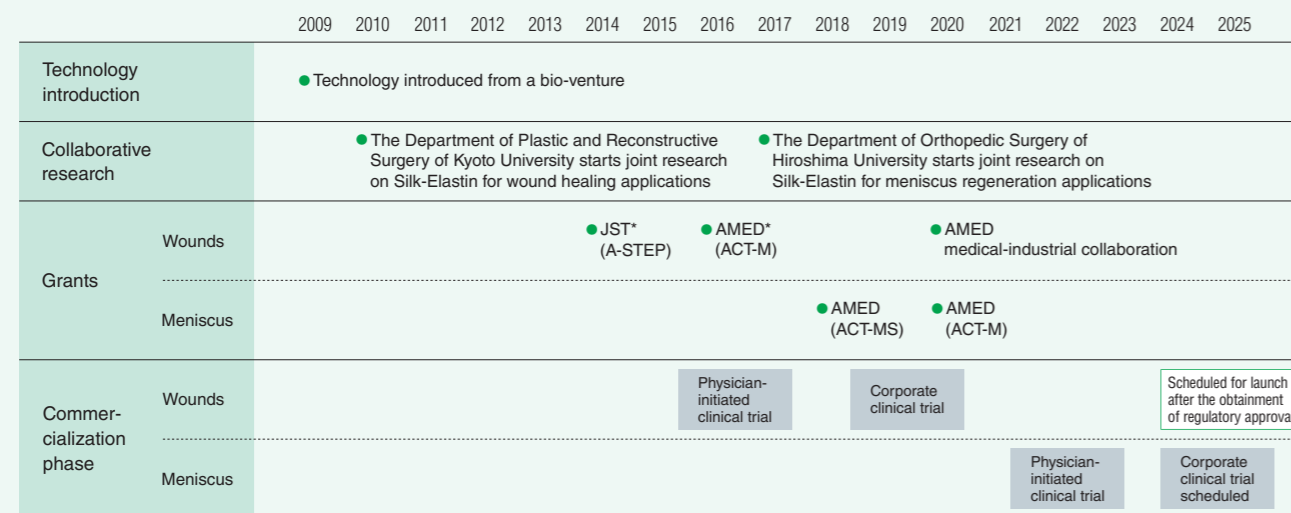
Expected market and future potential

The global market for Silk-Elastin for meniscus regeneration applications is expected to be worth over 100 billion yen, with the U.S. accounting for more than half of this total. For wounds, (bedsores, and burns), due to its wound healing ability and ease of handling, we aim to replace competitive medical devices (artificial dermis, NPWT*) with Silk-Elastin.

With strong advantages such as excellent healing ability and shortened healing time, Silk-Elastin has a wide range of uses and applications. We promote 10 or more research topics, including muscle regeneration applications. We plan to first establish a track record in wound healing applications, and then develop Silk-Elastin into a pillar of our business by 2030 for meniscus regeneration applications, for which there is a large market.

* Negative pressure wound therapy

► Silk-Elastin development history



* JST: Japan Science and Technology Agency
* AMED: Japan Agency for Medical Research and Development

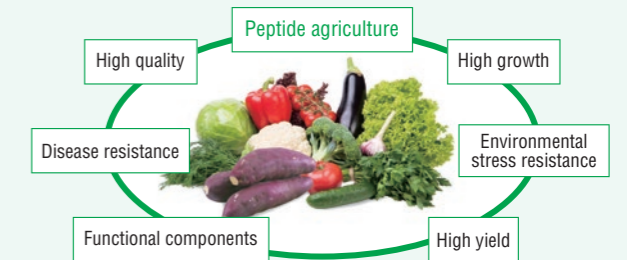
Toward building a sustainable agricultural system CN

In Japan, the aging of agricultural workers and a shortage of successors are becoming apparent, while the world is facing major issues such as the reduction of chemical fertilizers and pesticides, greenhouse gas emissions, and water and soil contamination. We aim to provide solutions to agricultural issues using interface control technology and other chemical technologies we have cultivated over the years.

Peptide agriculture

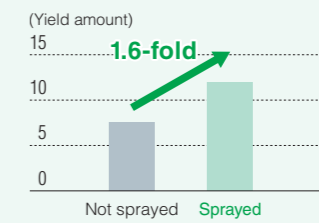
We are involved in R&D on peptides* for agriculture that allow plants to express properties they naturally lack, and that can bring out various plant functions more easily and safely than with conventional breeding. By improving plant resistance to stress caused by climate change and other factors, the yield and quality of agricultural crops are expected to improve. We will actively establish new peptide agriculture and provide agricultural support.

* Peptides play a key role in plant metabolism and information transmission between tissues, and are essential components for adapting to the growing environment and improving resistance.



Increasing cucumber yield 1.6-fold

Evaluation of peptide spray



Research and demonstration testing in Shintomi Town, Miyazaki Prefecture

Electronic nose QOL

Humans use their five senses to collect information, grasp a situation, and make judgments. However, indicators based on these senses face issues such as lack of data reliability and reproducibility, as well as difficulty in data sharing and storage. Of the five senses, a sensor that visualizes olfaction has been the least developed due to the wide variety of odorants and the complex mechanisms used in detecting odors.

Launch of the electric nose "FlavoTone"

In November 2023, we launched "FlavoTone," an electric nose that can visualize complex and diverse odors using a mechanism similar to human olfaction. Since it can visualize both specific odors and complex odors, it offers solutions such as odor-based quality control, characteristic comparison, and monitoring. It is also equipped with an application that uses machine learning to analyze the obtained data, enabling output tailored to needs and applications, such as quality control, characteristic comparison, and monitoring.

The FlavoTone Business Promotion Dept. has received inquiries about joint research from various parties, and we aim to achieve an operating profit of 1 billion yen by 2030.

► [FlavoTone] Type-A



► [FlavoTone] Type-G

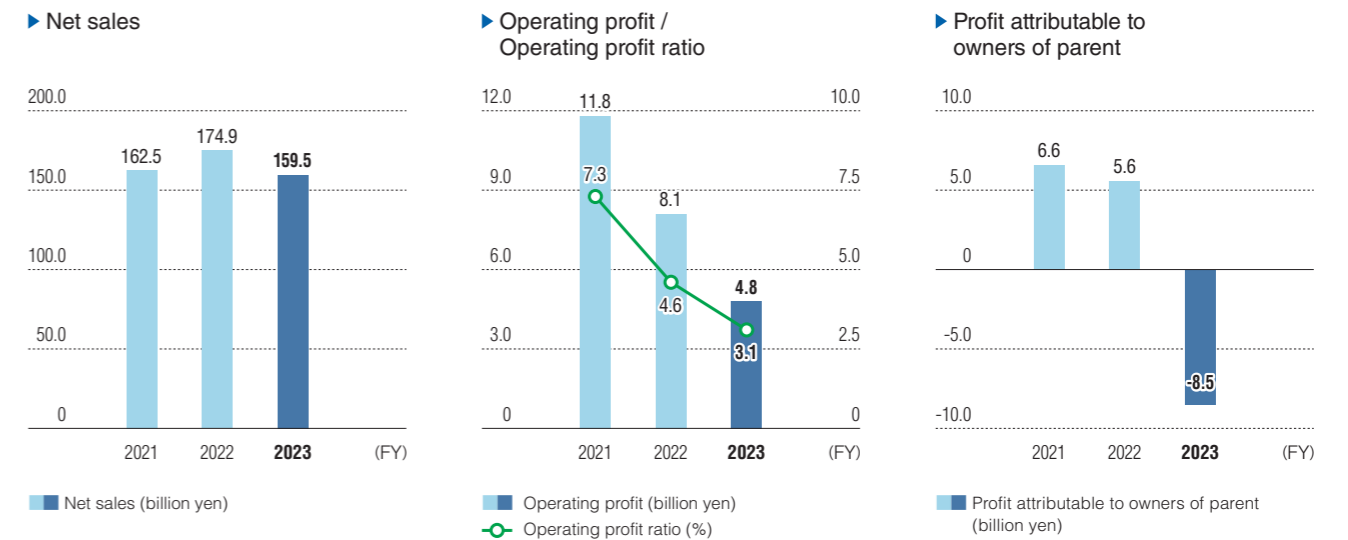


Message from the Director in Charge of Finance

Supporting the New Medium-Term Management Plan 2025 through financial policy and optimal resource allocation to increase corporate value

Kenichi Nishimura

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



Reviewing the first year of the MTP 2025

Net sales and profits decreased in FY2023

In FY2023, the yen weakened due to expectations of long-term monetary tightening in the U.S. and Europe, while crude oil prices continued to rise amid the worsening tension in the Middle East. Meanwhile, price competition for commodity chemical products in the Japanese and Asian markets intensified more than expected due to sluggish domestic demand in China and an oversupply of Chinese products. In the automobile industry, it took time to clear excess inventory within the supply chain, and production slowed in 4Q due to quality compliance issues. As a result, we faced an extremely tough business environment.

Net sales and profits for FY2023 fell far short of the initial plan. Specifically, net sales were 159.5 billion yen (a decrease of 8.8% year on year), operating profit was 4.88 billion yen (a decrease of 39.8% year on year) due to a rise in depreciation costs associated with the operation of a new core system, ordinary profit was 8.18 billion yen (a decrease of 17.5% year on year), and profit attributable to owners of parent recorded a loss of 8.5 billion yen (a profit of 5.68 billion yen in the previous fiscal year) due to an extraordinary loss of 12 billion yen associated with business structural reforms.

Extraordinary loss related to withdrawal from the superabsorbent polymer business (SAP business)

On March 25, 2024, we announced that, as part of the

structural reforms set out in the MTP 2025, we would withdraw from the superabsorbent polymer business (SAP business) and the surfactant and other chemical production business in China. We are now in negotiations to transfer all of our equity interests in San-Dia Polymers (Nantong) Co., Ltd., and are in the process of dissolving three companies: SDP Global Co., Ltd., SDP GLOBAL (MALAYSIA) SDN. BHD., and Sanyo Kasei (Nantong) Co., Ltd.

We estimated an extraordinary loss of up to 20 billion yen as costs associated with these structural reforms, of which 12 billion yen was recorded for FY2023. However, the impact of this loss on our financial base was limited. Structural reform costs expected to incur in FY2024 have been factored into our earnings forecasts, and we intend to settle all structural reform costs as far as possible during FY2024.

Free cash flow increased

Although the FY2023 financial results showed a large net loss, the impact on cash flow was minimal since a large portion of the loss was covered by reserves. Free cash flow for FY2023 increased significantly to 13.55 billion yen (an increase of 0.67 billion yen in the previous fiscal year). This is because, under Monozukuri Transformation which began in FY2023, we have worked more actively to decrease our working capital and improve our production site efficiency through inventory reduction, which has begun to show effects.

Toward achieving the numerical targets for FY2025

Although it will not be easy to achieve the operating profit target of 15 billion yen for FY2025 set out in the MTP 2025, we will not change our basic policy or the issues to be addressed, and remain committed to achieving the target.

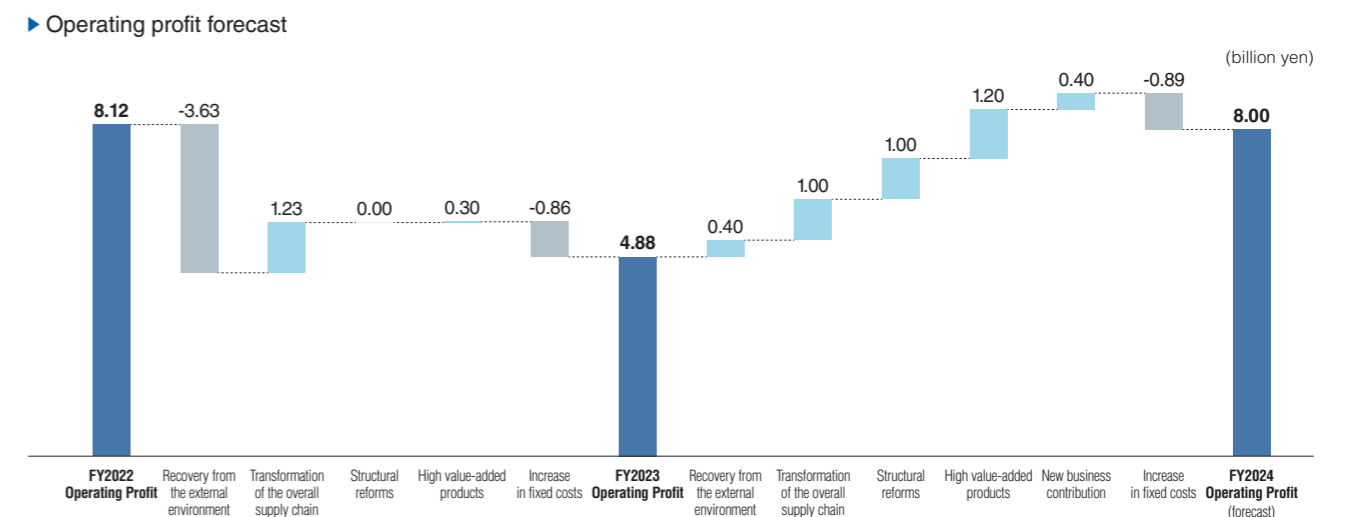
After our withdrawal from the SAP business, the importance of the automotive-related industry is increasing for us. Fortunately, it is on a recovery track, with demand for our products improving. To restore and enhance profits, we will focus on completing our ongoing initiatives under the MTP 2025, including accelerating Monozukuri Transformation and structural reforms throughout the supply chain, expanding sales of high value-added products, and getting new businesses on track quickly. We

will strive to achieve an operating profit of 3 billion yen for the first half of FY2024 and 8 billion yen for the full year, aiming to achieve an operating profit of 15 billion yen for FY2025. We believe that our operating profit ratio, ROE, and ROIC will also improve through structural reforms.

Investment policy

Investment in high value-added products

Based on the plan to increase profits by expanding sales of high value-added products in the MTP 2025, we have actively invested in production capacity expansion. To build a business portfolio that is not biased toward one market, we are also strengthening our sales efforts and product development to open markets outside the automobile-related industry.



(Note) Fixed costs included in high value-added products are calculated based on FY2022.

Another important issue is investment in facility renovation to improve production efficiency at existing factories to ensure the safe and stable production of high-quality products. To renovate facilities for labor saving and automation, a considerable amount of capital is required.

Operating cash flow for FY2023 increased by 19.81 billion yen. In the MTP 2025, we aim to generate an operating cash flow of 70 billion yen over three years, intending to use the earned cash to cover capital expenditure for facility renovation and other purposes.

Investment in new businesses

Having shifted the direction of the entire business toward two areas, carbon neutrality and contribution to improve QOL, we are concentrating our resources on products that are expected to provide high added value through our technological capabilities. Some businesses are already seeing results, while others are expected to achieve a certain level of sales volume. We plan to develop these businesses into future profit drivers. For investment in new businesses, we aim to build an asset-light structure that allows us to move swiftly through collaboration, joint ventures, and investment, rather than large-scale M&As.

R&D Investment

We adequately staff the R&D section to nurture researchers' ideas. However, it is not sufficient to simply increase R&D expenses. We need to determine whether the R&D topics are in line with the company's direction, and assess their prospects for commercialization. It is also important to carefully examine their content and manage their progress by setting milestones. Therefore, it is important to communicate clearly to R&D staff about the business direction that the Sanyo Chemical Group is focusing on and what is required in R&D.

Monozukuri Transformation

Monozukuri Innovation Center

In FY2023, the entire company focused on Monozukuri Transformation. In particular, with a focus on improving production sites, we established the Monozukuri Innovation Center in July 2023. Researchers visit production sites to review manufacturing processes and formulations and improve the work environment through automation or other means. Although only part of the improvements were seen in the FY2023 financial results, progress is definitely being made. We will roll out these on-site reforms throughout the supply chain, from purchasing to sales.

Cash conversion cycle (CCC)

We also focused on improving the CCC. Using digital transformation, we made inventory more visible and strengthened its management, resulting in significant inventory reduction.

We also addressed the issue of having a large number of different packaging styles and contents at product shipment. There were various packaging styles with different container shapes, sizes, and labels for the same product, and we had a large inventory of containers for around 3,000 different products. We will consolidate packaging styles to cut container inventory while reducing the burden on product filling work and increasing efficiency, which will lead to cash generation.

Management indicator: ROIC

In the MTP 2025, we have set an ROIC of 7.0% as one of the KPIs, aiming to achieve 10% by 2030. We need to pay more attention to the balance sheet, not just the P&L, and incorporate it into business operations and decisions. It is therefore necessary to visualize and follow ROIC by business unit or major product group. However, we often use a single facility to produce products that span multiple businesses, which makes it difficult to separate investment amounts and fixed assets for each business and product group. We cannot leave this issue unattended. We intend to start by visualizing ROIC by business unit or major product group in a simple manner.

Capital policy

The equity ratio at the end of FY2023 remained at a high level of 67.6%. If large-scale investment projects, such as factory rebuilding or M&A, arise in the future, it is highly likely that interest-bearing debts will be used depending on the content and scale of the projects.

In addition, the investments and loans in the MTP 2025 are planned to be funded from operating cash flow.

Cross-shareholdings

We review individual cross-shareholdings on an annual basis, and are gradually selling shares that we have determined are no longer meaningful to hold. In FY2023, as a result of selling the appropriate shares, we recorded a gain on sale of investment securities of over two billion yen.

Dividend policy

One of our key management issues is returning profits to shareholders. While considering resource allocation necessary for sustainable growth, including investing in employees, safe facilities, and future growth, and reinforcing the corporate base, we aim to increase shareholder returns in the medium to long term, targeting a consolidated payout ratio of over 30%. We will also consider share buybacks as an option.

Although we registered a loss in FY2023, we prioritized stable dividends and maintained the annual dividend per share at 170 yen, taking into account a significant improvement in free cash flow.

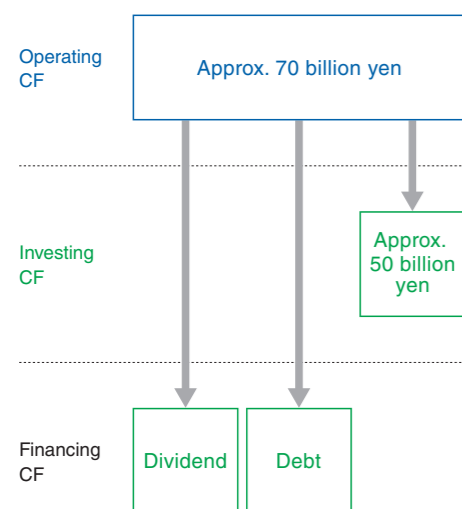
To all investors

Although I have talked directly with institutional investors via financial results announcements and on other occasions, I would like to increase these opportunities still further. As the Director in charge of finance, I would like to actively engage in dialogue with you to explain our sustainable growth scenario and financial policy, and to hear your requests and opinions.

The Sanyo Chemical Group has embarked on a journey under the banner of reforming its business portfolio and transitioning to a new business model. Although we are still in a trial-and-error process, we hope to accelerate this transformation through dialogue with stakeholders.

► Cash flow / Investment policy

Targets for FY2023–FY2025



Operating CF

EBT: 37 billion yen
Profit increase due to high value-added products and basic products (Continuing intensive expenditures in R&D: 17 billion yen)

Depreciation: 34 billion yen
ERP system renewal and CAPEX

Working capital reduction: 5 billion yen
Cash generation by Monozukuri Transformation

Miscellaneous including taxes: -6 billion yen

Investing CF: Investment plan of 50 billion yen over three years

Growth from core business (high value-added products): 5 billion yen
Production capacity increase in response to strong demand and emerging markets

Reformation of existing businesses: 35 billion yen
Process optimization through Monozukuri Transformation and facility renovation/automation

New growth path (growing businesses): 10 billion yen
Strategic investment in M&A and commercialization of new products focusing on CN and QOL business

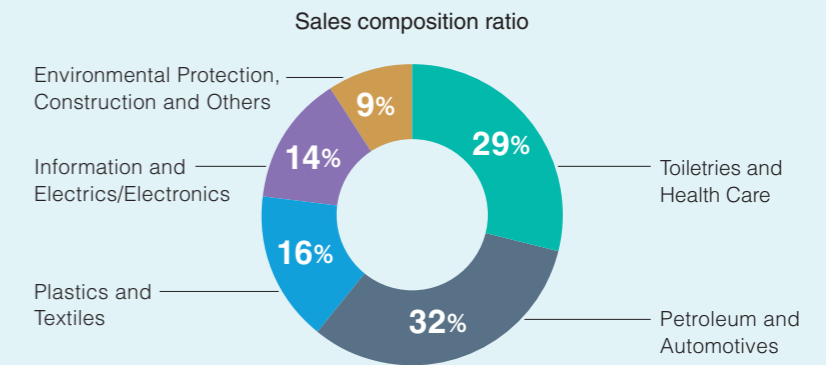
Reduction of cross-shareholdings: a decrease of several billion yen

Business Overview by Segment

Consolidated net sales for FY2023 were 159.5 billion yen (a decrease of 8.8% year on year) due to a decline in sales volume and other factors. In terms of profits, operating profit was 4.88 billion yen (a decrease of 39.8% year on year) due to a decline in sales volume and a rise in depreciation costs associated with the operation of a new core system, and ordinary profit was 8.18 billion yen (a decrease of 17.5% year on year). Meanwhile, loss attributable to owners of parent was 8.5 billion yen (a profit of 5.68 billion yen in the previous year) due to the recording of impairment losses at subsidiaries and losses related to withdrawal from the SAP business and the production business in China (business structural reform costs).

Net sales:
159.5 billion yen

Operating profit:
4.88 billion yen



Segment	Net sales / Operating profit by segment	Targets in the MTP 2025	Overview of segments for the current fiscal year	Main products
Toiletries and Health Care			<p>In the Toiletries segment, both the domestic and global markets for surfactants for liquid laundry detergents and polyethylene glycol were sluggish, with falling demand, causing a decline in sales. In the Health Care segment, sales of superabsorbent polymers decreased in volume in Japan and Asia, and sales overall declined significantly. Total net sales in this segment decreased by 19.6% year on year to 45.8 billion yen. Operating loss was 1.42 billion yen (a profit of 0.02 billion yen in the previous fiscal year).</p>	<p>Surfactants for detergents, surfactants for hair care products, agents for papermaking, superabsorbent polymers (SAPs), raw materials for pharmaceuticals, germicides/disinfectants, surgical hemostatic agents, clinical diagnostic reagents for enzyme immunoassay (EIA), potting resins for artificial kidneys</p>
Petroleum and Automotives			<p>In the Petroleum and Automotives segment, despite weak sales in polyurethane foams used in automobile seats and other applications due to the inflow of low-cost products from overseas, the increased traction of lubricant additives and thermoplastic polyurethane beads for interior parts of automobiles resulted in steady sales. Total net sales in this segment increased by 4.6% year on year to 50.4 billion yen. Operating profit was 2.81 billion yen (a decrease of 4.0% year on year).</p>	<p>Thermoplastic polyurethane beads for the interior parts of automobiles (TUBs), raw materials for polyurethane foams (PPG), lubricant additives, additives for fuel oil, water-soluble cutting fluid, halogen-free cleaning agents, base materials for synthetic lubricants, paste resins for design models, resins for automobile paints</p>
Plastics and Textiles			<p>In the Plastics segment, sales fell due to weak sales of permanent antistatic agents as a result of sluggish demand for electronic parts, along with a decrease in demand for paint coating agents and additives. In the Textiles segment, sales were weak due to sluggish sales of chemicals for carbon fibers used in wind turbines for wind power generation, and a slow recovery in demand for spin finish oil used in the manufacturing process of tire cord yarns and other items. Total net sales in this segment decreased by 10.4% year on year to 25.2 billion yen. Operating profit was 2.36 billion yen (a decrease of 14.9% year on year).</p>	<p>Permanent antistatic agents, pigment dispersants, resin modifiers, paint resins, defoaming agents, base materials for polyurethane elastomers, chemical boards for models, agents for textile manufacturing, chemicals for carbon fibers, agents for fiberglass, polyurethane resins for artificial and synthetic leather</p>
Information and Electrics/Electronics			<p>In the Information segment, sales were flat due to price revisions caused by soaring raw material prices and other factors, in spite of a decline in demand for toner-related materials. In the Electrics/Electronics segment, the recovery of the semiconductor market drove increased sales of related materials, but sales of electrolytes for aluminum electrolytic capacitors remained sluggish due to underperformance in consumer applications, and sales declined. Total net sales in this segment decreased by 1.3% year on year to 22.8 billion yen. Operating profit was 1.83 billion yen (a decrease of 27.0% year on year).</p>	<p>Polyester beads used as a core component of polymerization toners (PEBs), toner resins, electrolytes for aluminum electrolytic capacitors, adhesives for electronic materials, chemicals for use in electronic parts manufacturing, UV/EB curing resins</p>
Environmental Protection, Construction and Others			<p>In the Environmental Protection segment, sales were weak due to sluggish demand for cationic monomers used in polymer flocculants. In the Construction segment, sales declined for raw materials for polyurethane foams, mainly used in furniture and heat insulating materials, and for raw materials for building sealants. Total net sales in this segment decreased by 17.8% year on year to 15.0 billion yen. Operating profit was 0.53 billion yen (a decrease of 60.7% year on year).</p>	<p>Polymer flocculants for wastewater treatment, cationic monomers, PPG for furniture and heat insulating materials, slurry agents, reactive hot-melt adhesives, raw materials for building sealants, cement chemicals</p>

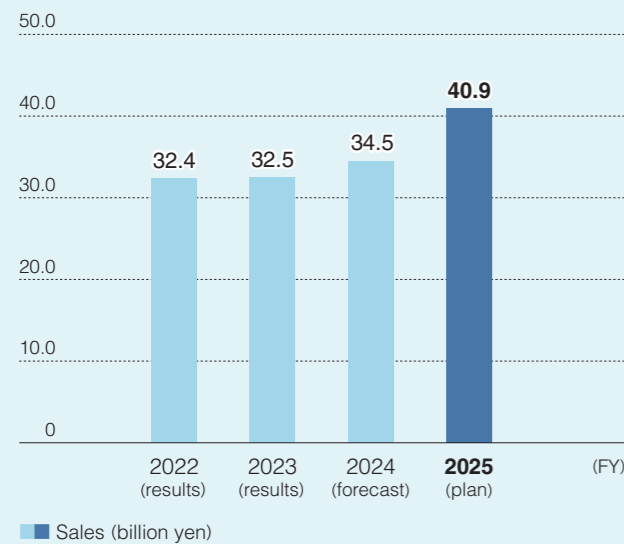
(Note) Operating profit for each reportable segment is calculated without including R&D expenses related to new businesses that do not belong to each segment.

Overview of High Value-added Products

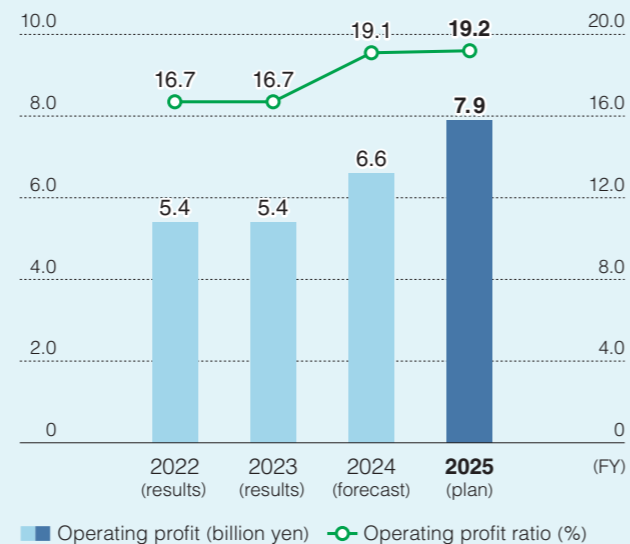
Positioning chemicals for special fibers, chemicals for special electronic parts, lubricant additives, permanent antistatic agents, and medical and pharmaceutical products, which contribute to carbon neutrality and improved QOL, as high value-added products, we plan to conduct capital investment of 9 billion yen from FY2021 to FY2025, including the MTP 2025 period. 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 in FY2025.

However, faced with a tough situation due to sluggish markets for electronic parts and semiconductors and intensified price competition in the Japanese and Asian markets caused by weakened domestic demand in China and an oversupply of Chinese products, we forecast an operating profit of 6.6 billion yen for FY2024.

▶ Sales of high value-added products (targets and results)



▶ Operating profit / operating profit ratio for high value-added products (targets and results)



(Note) Fixed costs included in high value-added products are calculated based on FY2022.

▶ Capital investment in high value-added products (plan)

Classification	Product group	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)	

FY2021 to 2025 Total investment 9.0 billion yen
Incremental operating profit during the MTP 2025 period 2.5 billion yen

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

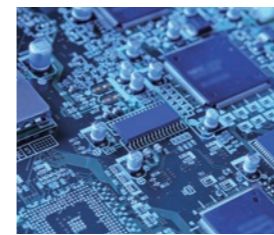
Contribution to CN (carbon neutrality)



Chemicals for special fibers

Composite materials using carbon fibers are used in a wide range of applications, such as wind power generation, automobiles, aircraft, and pressure vessels. Sales of carbon fibers for windmill blades were sluggish in FY2023, which affected our net sales.

However, as carbon neutral efforts have recently progressed around the world, demand for windmill blades has been growing rapidly due to the spread of renewable energy. Expecting demand for carbon fibers to increase in the medium to long term, we plan to increase our production capacity by about 50% by FY2025.



Chemicals for special electronic parts

Electrolytes for aluminum electrolytic capacitors used in electronic circuits are industry-standard, long-run products. With high electrical conductivity over a broad temperature range and excellent long-term stability at high temperatures, they are used in capacitors that require high reliability, such as control units for driving assistance system circuits in electric vehicles (EVs) and other vehicles.

In FY2023, sales were sluggish due to weakened demand for general consumer goods. However, since demand is expected to expand in the medium to long term, we plan to increase our production capacity by about 30%, with further increases planned for the future.



Lubricant additives

As polymethacrylate (PMA)-based additives, our lubricant additives help improve fuel efficiency. With the largest share of the PMA-based additive market in Japan and the second largest overseas, these products are used in engine oils for gasoline vehicles, hybrid vehicles (HVs), and plug-in hybrid vehicles (PHVs). We are also working on developing lubricant additives optimized for EVs.

To meet growing demand due to global trends of reducing CO₂ emissions, we are considering increasing the production capacities of our production sites in Japan and South Korea.

Contribution to QOL



Permanent antistatic agents

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, etc.) and accidents (fires, explosions, etc.). With the advent of an ultra-advanced information society, demand is increasing for applications such as semiconductor carrier trays and packaging for electronic devices and precision parts. However, sales fell in FY2023 due to continued inventory adjustments in the semiconductor industry.

We began production at the Rayong factory of our Thai subsidiary in 2022, aiming to strengthen our competitiveness and develop new applications.



Medical and pharmaceutical products

Polyethylene glycol for pharmaceuticals is used as a pharmaceutical additive in a base material for ointment, a suppository base material, and tablet coating agents. It is also used as the active pharmaceutical ingredient for cleaning agents for the digestive tract. Other applications include tissue regeneration and cell culture. We increase production capacity at the Nagoya Factory by about 20% in May 2024, with further increases planned for the future.

Non-absorbable topical hemostatic materials for the central circulatory system are surgical hemostatic materials made of polyurethane. They are used in many vascular surgeries in Japan as hemostatic materials for the anastomosis of all blood vessels, excluding cerebral vessels. Having obtained CE marking, we have entered the European, Hong Kong, and Taiwanese markets. To meet future demand growth, we are working to enhance our facilities and production efficiency (scheduled to start operation in December 2024). We will ensure stable quality and supply capacity to further expand overseas.

Message from the Director in Charge of R&D

Working to strengthen our R&D system to accelerate R&D with an eye on reforming our business portfolio

Yuichi Fujii

Managing Executive Officer in charge of R&D, and General Manager of Polyurethane Division



Through interface control technology, which constitutes our core technology cultivated through continuous R&D for over a century, we supply society with 3,000 types of functional chemicals. To capture valuable customer needs, we must evolve such technologies and product development capabilities to render them more competitive than ever.

Toward achieving business portfolio reform

In order to achieve company-wide business portfolio reform, we need to take a higher-level view of the entire business and quickly incorporate this into an R&D strategy. To this end, we established a new research position in April 2024, working to strengthen our R&D system and to accelerate R&D while promoting collaboration with each business division.

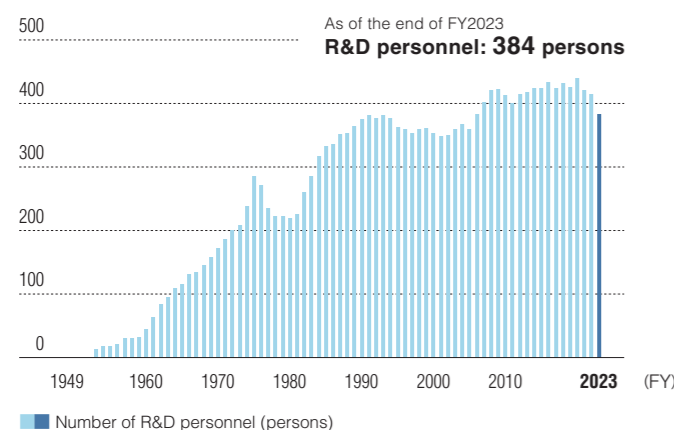
We will also make changes to the composition of our R&D topics. We review the balance between short-term

and long-term topics and shorten the time required to complete the topics by deploying research workforce flexibly, thereby aiming to accelerate development cycles. Moreover, while reinforcing our strengths through technological fusion, we will reorganize our R&D topics and review the appropriate distribution of our research workforce.

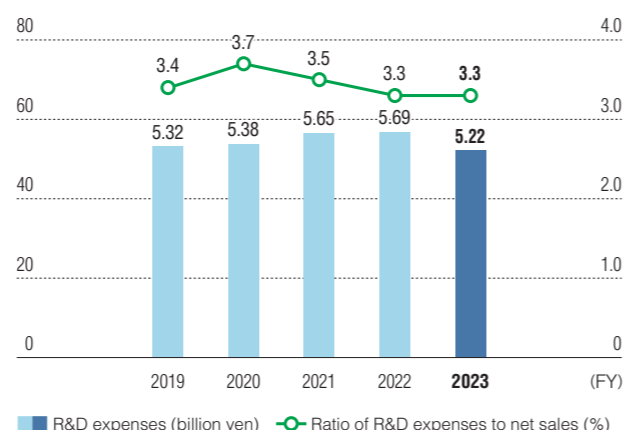
The evolution of the R&D system is essential for reforming our business portfolio, and by implementing each step, we will solidify our foundation for sustainable growth.

► Changes in the number of R&D personnel

Nearly 30% of our employees are involved in R&D activities. (equivalent to about 5% of net sales each year).



► R&D expenses / Ratio of R&D expenses to net sales



R&D/Intellectual Property

The Sanyo Chemical Group's strength lies in its various core technologies, including interface control technology, and its development style of translating customer value and needs into functional solutions. We have developed performance chemicals that are used in various fields.

■ Promptly meeting diverse customer needs with NeeSeeds-Oriented approach

The "NeeSeeds-Oriented approach" is our unique term that describes the approach of combining a technique developed to meet a specific need with another technique to create new seed technology for new products. By taking this approach in a chain reaction manner, we will develop highly original products in new business fields.

In recent explorations of new business ventures in the energy, electronics, and biomedical fields, we have placed special focus on this approach on open-innovation and alliances with other companies.

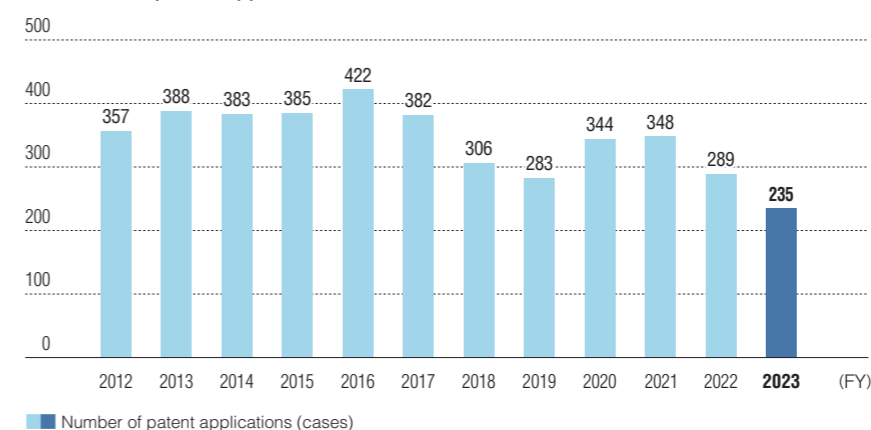
■ Measures to foster motivation

We have various measures to keep individual researchers highly motivated and active, such as the challenge system, the commendation system, and opportunities for technology fusion and human resource development. Researchers can take on appropriate challenges at any time and gain successful experience with support from others.

■ Commendation system established for each stage of R&D

The commendation system for R&D includes the Inventor of The Year Award (best invention), which is granted to a patent application selected at the early stage of development, The Best R&D Award, which evaluates the quality of R&D at the development stage, and The Best RU Award, which evaluates the benefits of the development results after development.

► Number of patent applications



■ Using intellectual property information in R&D

In terms of intellectual property activities, we have developed highly unique products and ensured their reliability by patenting developed technologies, building a patent network to increase the technological advantage and improve profitability, and avoiding infringement of third parties' intellectual property rights.

We also conduct overall analysis of intellectual property and market information, and formulate and implement a business strategy based on the IP landscape.* We combine the NeeSeeds-Oriented approach, which is the hallmark of our Group's R&D, with the IP landscape to verify the advantages of our proprietary technologies in both existing and new fields, and search for new applications. This approach increases the reliability of our R&D and accelerates development. We also analyze patent information in the areas of focus and expertise of other companies in order to understand their technological issues and examine the possibility of aligning with their technologies, thereby promoting proposals for creating new businesses.

Through the IP Landscape, we encourage the Techno Research Dept., with its expertise in intellectual property, to collaborate with the sales section as well as the R&D section. We share the information obtained by combining the technical issues and needs of customers with intellectual property information to promote interdepartmental dialogue, thus aiming to make our business even more unique and profitable.

* IP landscape: A coined term derived from "intellectual property" and "landscape"

Message from the Director in Charge of Sustainability

Aiming to achieve sustainable growth into the future by improving both economic and social value while collaborating with stakeholders



Hiroyuki Susaki

Director, Managing Executive Officer in charge of Sustainability and Corporate Strategy

Since its founding, the Sanyo Chemical Group has developed a wide range of products that enhance comfort and convenience in society and people's lives, and we are proud to have contributed to building a better society. Meanwhile, we must recognize the fact that today's global environmental damage and widening disparities in human society are urgent issues resulting from corporate activities.

Sustainable management

In FY2022, we established the Basic Policy on Sustainability to communicate our management stance of aiming to achieve sustainable growth into the future by improving both economic and social value while collaborating with our stakeholders, and announced our material issues. To tackle these issues, we have formulated the long-term management policy "WakuWaku Explosion 2030" and have been transforming into a new business model under the MTP 2025 since FY2023.

The material issues have been identified based on our company mission, "Establish a better society through our corporate activities." Envisioning a sustainable future, we have identified six material issues to resolve social issues by leveraging our strengths. The two material issues on the business domain, "Achieve carbon neutrality" and "Improve QOL," and the four material issues on the management domain, "Create innovations," "Develop human resources and improve work environment," "Conduct the risk management thoroughly," and "Implement challenge-oriented and transparent management," have been incorporated into the MTP 2025, on which the entire Group is working diligently toward achieving this goal. (See pages 57–58 for details.)

As the Director in charge of sustainability, my current primary focus is on ESG initiatives that support the MTP 2025. I promote sustainability activities throughout the supply chain, including making our decision-making system more transparent, increasing opportunities for dialogue with stakeholders, further reducing our CO₂ emissions, implementing human rights due diligence based on our commitment to the Human Rights Declaration, and disclosing further information on human capital.

The ESG section of the Integrated Report 2024 has been simplified due to space constraints. However, we have separately established a sustainability website and issued a sustainability report, and we hope that stakeholders will also take a look at them to gain an understanding of our Sustainable Management.

[WEB Basic Policy on Sustainability >](#)

[WEB Report Library >](#)

Respect for Human Rights

The Sanyo Chemical Group recognizes the potential for its business activities to have a negative impact on human rights, and believes it is important to address human rights issues across stakeholders and the supply chain.

Human rights policy

Since we formulated our Human Rights Policy in March 2023, we have established a system, provided education and training, and conducted due diligence regarding human rights.

Sanyo Chemical Group Human Rights Policy

1. Basic attitude
2. Scope of application
3. Responsibility to respect human rights
4. Compliance with applicable laws and regulations
5. Human rights due diligence
6. Identification of human rights risks
7. Prevention and mitigation measures
8. Corrective and remedial measures
9. Education
10. Information disclosure/engagement

[WEB Full version of the Human Rights Policy >](#)

Addressing human rights issues in the supply chain

Supplier survey

Since FY2022, we have conducted a questionnaire survey of oil and fat raw material suppliers based on the UN Global Compact's CSR Procurement Self-Assessment Tool to understand human rights issues.

	Survey targets	Number of responses
FY2022	Key raw material suppliers	14 companies (out of 14)
FY2023	Suppliers and distributors of oil and fat raw materials, the main raw materials for surfactant products	51 companies (out of 67)

In the FY2023 survey, four companies had problems with addressing human rights issues. We will promote understanding of respect for human rights by explaining our Sustainable Procurement Guidelines, and conduct a follow-up review one year later. In FY2024, we will conduct a survey of inorganic raw material suppliers.

[WEB Sustainable Procurement Guidelines >](#)

Harassment whistleblowing/consultation services

We provide consultation services for sexual harassment, maternity harassment, and LGBTQ issues at two external institutions in addition to internal whistleblowing contact points. We investigated the facts with the utmost care to ensure that whistleblowers would not be disadvantaged. When a problem was identified, we provided guidance and education to the persons involved.

Harassment whistleblowing/consultation services

- **Compliance hotline**
Director of the Internal Audit Office (internal) / Corporate lawyer (external)
- **Harassment consultation desks**
Personnel Dept. (internal) / Outside specialized institutions (external)

Human rights issues in the supply chain



[WEB Respect for Human Rights >](#)

Climate Change (response to TCFD recommendations)

We support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In addition to developing products that contribute to reducing CO₂ emissions, we have worked to reduce CO₂ emissions from our business sites. We will actively work to reduce CO₂ emissions across the supply chain toward our target set out in the Sustainability Action Plan of “50% reduction of CO₂ emissions by 2030 (compared to the FY2013 level) and net zero by 2050.”

Governance

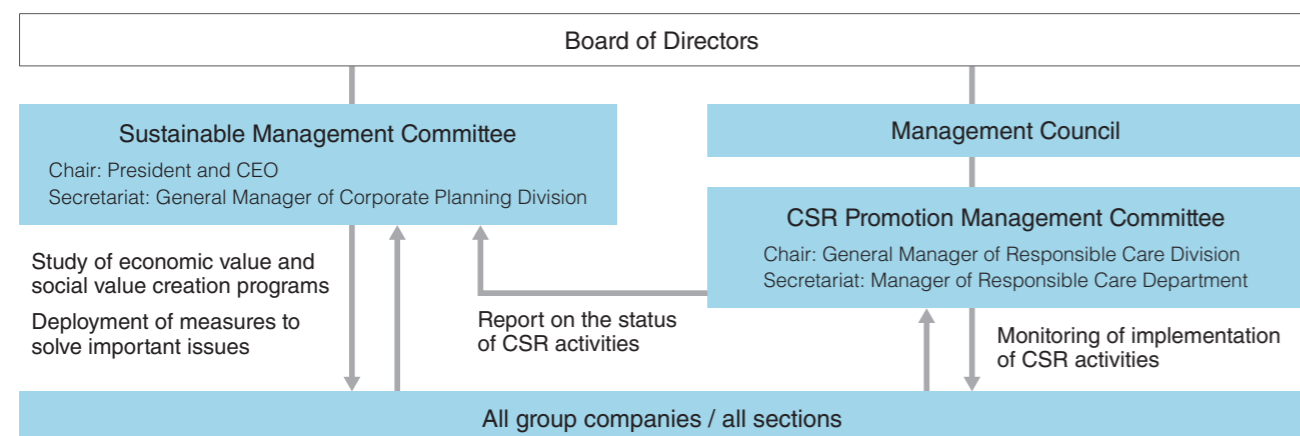
The Sanyo Chemical Group has established the Sustainable Management Committee, chaired by the President and CEO, under the supervision of the Board of Directors. The Committee deliberates on sustainability issues, including carbon neutrality and responses to the TCFD recommendations, as well as collaboration with stakeholders, and checks their progress. It also makes proposals and reports to the Board of Directors as appropriate. 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 its CSR activities to the Sustainable Management Committee.

Scenario concept

- 1.5°C scenario** A scenario where CO₂ emissions are strongly curbed to limit the temperature rise to +1.5°C
(Reference) International Energy Agency's long-term outlook: "Net Zero Emissions by 2050"
(Note) Strengthening of regulations and major changes in society and markets are considered the main transition risks.
- 4°C scenario** A scenario in which climate change progresses to the point where the global average temperature rises by 4°C by the end of the 21st century compared to pre-industrial times
(Reference) Intergovernmental Panel on Climate Change's Sixth Assessment Report (IPCC AR6) "SSP3-7.0"

World anticipated in the 1.5°C scenario	<p>Top priority placed on the realization of a decarbonized society, and implementation of an ambitious climate change policy</p> <ul style="list-style-type: none"> 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 of consumption of chemicals through recycling Manufacture of chemicals from biomass and CO₂-derived raw materials Increasingly severe natural disasters Realization of carbon neutrality (2050)
World anticipated in the 4°C scenario	<p>A slow decarbonization transition with priority placed on economic activities, and implementation of climate change policies only in the current situation</p> <ul style="list-style-type: none"> Increase in demand for fossil energy and raw materials Increasingly serious natural disasters due to abnormal weather Significant increase in CO₂ emissions

System and roles to promote response to TCFD recommendations



Strategy

In formulating the strategy, risk management approach, metrics, and targets for climate change, the Group conducted scenario analysis in line with the TCFD recommendations to select business risks and opportunities and assess their materiality. In FY2023, in addition to the 1.5°C scenario, in which a transition to a decarbonized society is realized, a qualitative analysis was conducted for the 4°C scenario, in which climate change advances with no progress in global decarbonization. The results were then discussed and determined by the Sustainable Management Committee.

Measures to address major risks and opportunities related to climate change

Classification	Scenario	Climate change risk item	Impact of climate change risks on the Sanyo Chemical Group	Impact assessment	Countermeasure
Risk	1.5°C	Introduction / raising of carbon tax	Increase in energy procurement costs	High	Reduction of GHG emissions by introducing cogeneration and solar power generation
		Reduction of CO ₂ emissions	Decrease in demand for our products with high GHG emissions	High	Reduction of GHG emissions during manufacture through energy management
		Replacement with low-carbon products	Reduction of sales opportunities for our products that do not use biomass raw materials	High	Expansion of sales of PPG, a surfactant made from biomass raw materials
		Recycling regulations	Decrease in demand for our products that do not use recycled raw materials	Intermediate	Development of products using recycled raw materials
	4°C	Changes in consumer behavior	Decrease in sales of gasoline-fueled and hybrid vehicles	High	Increase in sales of lubricant additives that contribute to higher fuel efficiency of gasoline-fueled and hybrid vehicles
Opportunity	1.5°C	Natural disasters (typhoons, heavy rain, drought, etc.)	Supply chain disruptions Damage to company facilities	High	Establishment of a BCP system (storm water measures, disaster prevention measures for buildings and facilities, efficient water use, multiple procurement of raw materials, etc.)
		Introduction / raising of carbon tax	Spread of CCUS Increase in demand for our products that contribute to reducing GHG emissions	High	Development of CCU-related products Development of cutting-edge semiconductor-related products that contribute to energy conservation
	Reduction of CO ₂ emissions	Expansion of the market for products that contribute to reducing GHG emissions	High	Expansion of sales of carbon fiber convergents for blades for wind power generation	
	Replacement with low-carbon products	Market expansion of products made from bio-based raw materials	High	Expansion of business of bioethanol processing chemicals	
	4°C	Recycling regulations	Increase in demand for recyclable products	Intermediate	Product development using recycled materials (In the fields of imaging chemicals, polyurethane chemicals, resin dispersants, etc.)
	Changes in consumer behavior	Reduction of weight of batteries in line with the higher mileage of vehicles Increase in sales of electric vehicles	Intermediate	Development of organic cathodes for organic cathode secondary batteries that contribute to weight reduction Increase in sales of electrolytes in line with the electrification of vehicles Development of permanent antistatic agents for IC trays due to growing demand for semiconductors	
	Natural disasters (typhoons, heavy rain, etc.) Rising average temperatures	Increase in demand for paint binders due to growing demand for heat insulating paints Expansion of the market for agricultural products that are resistant to environmental changes Increase in demand for water quality improvement as a measure against water quality deterioration	Intermediate Intermediate Intermediate	Development of binders for heat insulating paint Development of products with a biostimulant function that contribute to improving agricultural productivity Development of water quality improvers	

(Note) The impact assessment is based on the estimated monetary value, and is classified as high, intermediate, or low depending on the magnitude of the impact.

Risk management

We anticipate tighter regulations due to policies such as carbon pricing toward decarbonization, and a demand shift to materials suitable for decarbonization as the main climate change risks of the Group. We also need to consider the accelerated transition to a circular economy and the progress of innovative technologies toward a decarbonized society.

For opportunities, we contribute to the reduction of CO₂ emissions by actively promoting sustainable management, including a fundamental review of our business portfolio.

Metrics and targets

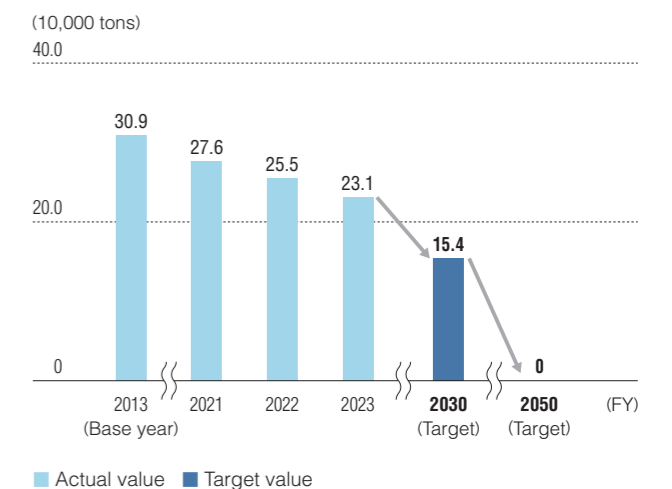
Scope 1*1 and Scope 2*2: CO₂ emissions from business sites

Our Group has promoted efforts to achieve its targets of “reducing CO₂ emissions by 50% by FY2030 (compared to the FY2013 level)” and “achieving net zero CO₂ emissions

by 2050.” By withdrawing from the SAP business in FY2023, we expect to achieve our FY2030 target ahead of schedule.

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

Target of CO₂ emissions reduction (Scope 1, Scope 2)



WEB Roadmap toward carbon neutrality/Scope 3: CO₂ emissions through the supply chain >

Digital Transformation (DX) Strategy

In June 2024, we established the Digital & Development Division within the Corporate Strategy sector. With this new structure consisting of departments in charge of IT infrastructure, data utilization, and business support, we will accelerate and promote innovation and create new value through DX to strengthen our business foundation.

Our goal

Increasing added value, labor productivity, competitiveness, and management speed

With the goal of increasing added value, labor productivity, competitiveness, and management speed, the Digital & Development Division aims to automate and streamline operations from the perspective of optimizing the entire Group based on our management vision, and to create value from the customer's perspective.

① Digital platform creation

We promote the company-wide use of our integrated search tool, "Sanyo Data Hub (SDH)." Creating an environment for all employees to use generative AI, we promote knowledge exploration and work efficiency through integration with SDH. We aim to accelerate DX by expanding SDH as a company-wide data use platform, and continuing to develop digital talent.

* A tool that integrates data scattered across the company, allowing users to search and view the data for various business purposes

② Increased R&D speed and success rate

We are building a system that enables us to set high-quality research topics and increase the turnover,

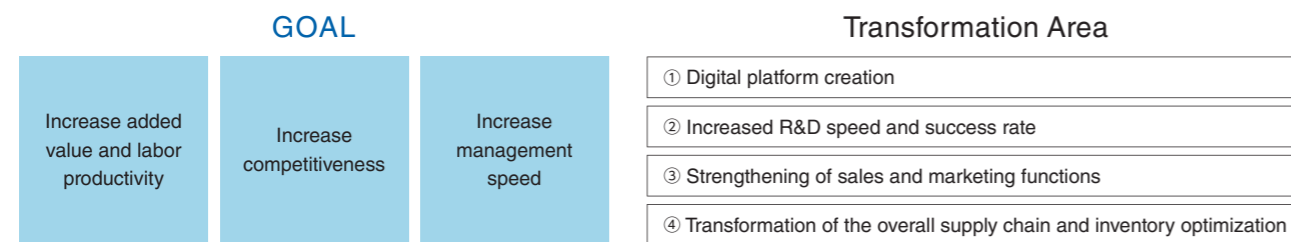
completion rates, and speed of research by centralizing product and technology information and promoting MI (Materials informatics), as well as visualizing and analyzing research management data from various perspectives.

③ Strengthening of sales and marketing functions

We are building a system for business maintenance and expansion and R&D through centralization of sales activities and visualization and analysis of business performance. We will use accumulated information on customers, products, and their applications as well as external information to shift to proposal-based sales and achieve optimal pricing, thereby strengthening our existing businesses.

④ Transformation of the overall supply chain and inventory optimization

By introducing an ERP system (SAP system) and reviewing operations through the visualization of PSI (production, sales planning, and inventory), we improved cash flow by about two billion yen in FY2023. We aim to improve profits and cash flow by using data and reforming operations across the supply chain.



VOICE



Through SDH operation, renewal, and study sessions, I realize that both data infrastructure development and HR development are essential to promoting the company's DX. Although I was assigned to the Research & Development Dept. at first, I learned programming and MI on my own and through voluntary study sessions. Since I was the one who was learning, I can imagine the questions and concerns of those unfamiliar with SDH, which is useful in my current work. When I heard another employee say, "SDH is so convenient that I can't imagine going back to a time without it," I was overwhelmed with joy. I would like to keep my eyes on the ever-evolving world of DX and work with a sense of urgency every day.

Yuki Matsuda DX Promotion Group, Business Innovation Dept., Digital & Development Division

HR Development

We have established our HR Philosophy as "Respect diversity and collaboration" to promote changes toward our Vision. Under this philosophy, we will foster job satisfaction and pride in each employee based on our HR policy, "Create an environment in which individual abilities can be maximized."

Target

Everyone can play an active role

Measure	Target value / Vision	Achievement time (FY)
Ensuring that every employee can play an active role To provide an environment in which all employees can play an active role regardless of their course, we unify the grade system from the current generalist and specialist positions to an associate position.	Unification of courses	2023
Supporting proactive challenges and independent learning <ul style="list-style-type: none"> We improve existing systems, such as the "Internal multiple work system," which allows employees to take on their own challenges, "Awards from General Managers to encourage challenges," "Recommendations from the president," "JET (Job Exchange Training)," and "Training retreats," to make them more accessible based on employees' views. We provide career development training to help employees understand their strengths and weaknesses, increase their value, and continue to grow, establishing an internal system that helps them realize their career aspirations. By actively implementing rotations within and between divisions (functions), we provide opportunities for employees to acquire diverse and wide-ranging knowledge and experience. We also conduct aptitude tests for all employees and collect personnel data to enable rotation based on an individual's characteristics (the right person in the right position). To develop human resources who can work globally, we continue to provide the "Study abroad system," "Overseas training," and "Language training." 	A state full of human resources with a spirit of challenge and a strong desire to grow	2027
Organizational evaluation system From 2024, we will introduce an organization evaluation system to maximize organizational performance. We will create a state in which each organization sets its own goal toward its vision (WakuWaku vision), with every member taking action toward the goal.	Achievement rate of organizational goals: 80% or more	2025

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

Measure	Target value / Vision FY2023 results	Achievement time (FY)
Systematic leader development We regularly hold human resource development meetings to select candidates for the next leaders and discuss a leadership development plan, thereby identifying missing human resource requirements. We provide training for selected leadership candidates to enable them to see the company from a manager's perspective and acquire the skills to formulate strategies. We implement rotations to fill missing human resource requirements. We provide career training to discover young employees who envision their career paths and want to take on the challenge of becoming a leader.	A state in which there are enough leadership candidates for each position → 8-month training program (Target participants: 12 people)	2027

VOICE



We received the "Awards from General Managers to encourage challenges" for our activities aimed at creating a comfortable work environment. The plant where I work is located outdoors, so when it rains, we have to change into a raincoat to work there. Based on staff views, we decided to install a locker room for rainy days in a location that allows for good traffic flow to the plant. It has a space to dry rain gear, benches, and a hand-washing area. After it was completed, our General Manager came to see the site. I was happy that our efforts were recognized. Encouraged by this award, I would like to continue to actively take on various challenges.

Yuka Nomura Manufacturing Department, San-Petrochemicals Co., Ltd.

Diversity, Equity & Inclusion (DEI)

Aiming to be a company where all employees can work comfortably while valuing their individuality, the Sanyo Chemical Group promotes “DEI (Diversity, equity & inclusion)” to reform work styles, diversify its workforce, and create a work environment that respects and accepts all human rights and diverse values and allows employees to thrive. To promote DEI, the perspective of equity is more important as it leads to the valuing of individuality. We will contribute to the creation of a sustainable society by combining diversifying needs with the ideas and skills of each individual to create added value.

Targets and Results

Measure	Contents and items	Target value (deadline)	FY2023 results
Overall DEI promotion	Confirmation of various initiatives	D&I AWARD 2023 (highest rank certification)	Certified
Empowerment of women	(1) Female leader ratio	(1) 15% or more (FYE2023)	(1) 15.3%*1
	(2) Female manager ratio	(2) 6% or more (FYE2023)	(2) 4.9%*1
	(3) Female director ratio	(3) 30% or more (FYE2030)	(3) 22.2%*1
	(4) Ratio of male childcare leave takers	(4) 100% (FYE2025)	(4) 92.4%*2
LGBTQ	Raise awareness internally and externally	PRIDE Index 2023 (Gold certification)	Certified (5th consecutive year)
People with disabilities	(1) Support for continued employment	(1) Build a system (FYE2023)	(1) Already built
	(2) Employment rate	(2) 2.5% (FY2024)	(2) 2.71%*3
Employees with foreign nationality	Number of employees with foreign nationality	Hire at least two people each year	3 people

*1 As of March 31, 2024

*2 Calculated based on the provisions of the Law for the Promotion of Women's Activities

*3 As of June 1, 2024

DEI promotion system

From an early stage, we have been working to create a comfortable working environment for women, including the establishment of a women's empowerment promotion section and consultation service in FY2014. Based on the Law for the Promotion of Women's Activities, we have shifted our focus from women's continued employment to empowerment, accelerating various initiatives. Since FY2018, to further accelerate support for women as well as LGBTQ and other minorities in the company, we have appointed a dedicated person to promote DEI to strengthen our internal structure.



VOICE



With the support of my superior and those around me, I took one-month childcare leave. I took care of all the housework and childcare except for things that only my wife can do, such as breastfeeding, and came to appreciate the anxiety and worries she feels and the difficulty of balancing work and childcare. Since my work was usually done in a team, I didn't have many concerns, but I felt that eliminating tasks that are dependent on individuals would lead to more men taking childcare leave. Another person in my department took one-month childcare leave after me. I hope that a virtuous cycle of "standardization of work → increased childcare leave taken" will be created, leading to the creation of a work environment where diverse people can thrive.

Kentaro Matsuo Global Marketing Group, Sales & Marketing Dept. of Resins Industry, Performance Materials Division

Work Style Reform

We promote work style reform from three perspectives: flexible work styles, business reforms, and the use of IT and AI. By offering various work styles, we intend to create a work environment in which each employee can achieve results while feeling pride and job satisfaction.

Promotion of work-life balance

Based on the concept of “work hard, rest well,” we will promote an ideal work-life balance through flexible work styles. In addition to weekly no-overtime days as well as refreshment leave and memorial leave systems, we have the following systems in place. In FY2023, four employees made use of the flexible leave system.

Business innovation

To enable flexible work styles not bound by time or place and improve productivity, we promote the use of digital technologies, such as a virtual desktop service to allow intranet access from outside the company, an RPA (Robotic Process Automation) system to automate and streamline work, and a BI (Business Intelligence) system to use internal information.

Systems to promote work-life balance

System	Contents
Telecommuting system	A telecommuting system for full-time employees (contract and temporary employees may apply at the discretion of their department head) with no restrictions on the reason or number of days of use
Annual paid vacation accumulation system (Expired paid vacation reserve system)	The number of days accumulated is five days/year (up to 40 days). Vacation leave can be taken on a full-day, half-day, or hourly basis.
Super flextime system	A flextime system with no core hours that allows employees to voluntarily and systematically set their working hours
Hourly paid holiday system	A system of taking time off work in one-hour increments
Flexible leave system	A system that allows employees to take personal leave for up to two years, regardless of the reason
Work and childcare balance support system	Childcare leave can be taken until the child turns one year old (up to three years if there is a reason). Both men and women are paid for a total of 28 days from the start of the leave). It also supports men taking childcare leave, allows reduced, short-time, and staggered working hours for childcare, and provides subsidies for babysitting and childcare fees for sick children.
Nursing care support system	A total of 365 days of nursing care leave can be taken (the legal limit is 93 days), and working hours can be reduced by two hours a day for nursing care (as required by law).
Internal multiple role system	A system that allows employees to take on their own challenges in parallel with their existing work

Open work environment

To create a state in which employees can work safely, feeling job satisfaction and pride, and have a strong desire to contribute 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 the “Dojo,” a place for dialogue between executives and employees, and the “Salon,” a place for an interdepartmental dialogue among managers and higher-ranking executives.

VOICE



Since joining the company in 2020, I have participated in the “Dojo” four times. The Dojo provides an opportunity to discuss and interact with people with a wide range of experience and knowledge from different regions, sectors, and departments under the general manager or executive (Dojo owner). In addition to building relationships, we can have the experience of thinking seriously about the company's issues and future and speak in our own words in a frank atmosphere. For me, the Dojo is a time to experience the fun of learning new things. I believe that the ideas of diverse people will motivate me to grow and help me broaden the scope of my work.

Daigo Yokomizo New Business Development Group, Business Planning Dept., Business Planning Division

Health and Productivity Management

The Sanyo Chemical Group believes that each employee working in good mental and physical health will create happiness for themselves and their families, and contribute to the development of the company.

Targets and results

We promote health and productivity management, believing that it is a key management issue for the company to be actively involved in the maintenance and promotion of employee health, rather than leaving it to individual management. We have created the Health and Productivity Management Strategy Map Initiative to quantitatively

show health and productivity management initiatives and results and to implement the PDCA cycle of activities.

In addition to setting action goals for the five initiatives, we also implement measures for physical and mental health and health investment measures that will improve productivity and job satisfaction, ultimately aiming to resolve management issues.

Action goals for the five initiatives

Initiative	Item	2021	2022	2023	2025 (Target value)
Exercise	To have an exercise routine at least once a week	50%	50%	52%	70% or more
Sleep	To be well rested with sleep	66%	63%	61%	80% or more
Diet	To have a balanced diet	76%	75%	79%	90% or more
Drinking	To have two or more alcohol-free days per week	75%	76%	77%	90% or more
Smoking	Not to smoke (Smoking rate reduction)	82%	83%	84%	90% or more

Health-related indicator performance and 2025 targets*1

		2021	2022	2023	2025 (Target value)
Absenteeism*2	Personal injury/sickness absence rate	1.8%	1.9%	1.3%	1.0% or less
Presenteeism*3	Labor productivity loss rate	37.5%	36.6%	36.4%	30.0% or less
Work engagement*4	Self-motivated behavior and positive feelings toward work (deviation value)	49.7	50.1	49.6	51 or more

*1 Data from health checkups (obesity, liver function, lipids, blood sugar, blood pressure, etc.) are also used as intermediate indicators of action goals.

*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.

*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.

*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.

Promotion system

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 promot-

ing awareness and penetration of health and productivity management among employees and implementing specific measures in their respective regions. The company, the labor union, and the health insurance society work in unison to promote company-wide health initiatives.

VOICE



* Health Promotion Secretariat members (second from left, front row)

Having worked on health and productivity management through trial and error since 2018, I feel that awareness in the company is growing year by year. At the Health Promotion Council attended by all executives, information is shared about company-wide and regional health issues and related measures, and the executives in charge express their enthusiasm for local activity reports by regional health promotion teams. Through my interactions with executives and employees as a Secretariat member, I realize that health initiatives have the power to connect people because they are important to everyone. I will continue to work hard, believing that pursuing the health and happiness of employees will lead to the growth of the company in various ways.

Naoko Imajima Personnel Dept., Personnel Division

Occupational Safety and Health/Accident Prevention

Sincerely reflecting on a fatal accident that occurred in January 2022, we will give top priority to safety and accident prevention in all of our business activities. We will protect the safety and health of everyone working at our business sites, including subcontractors, and continue to operate with no accidents or injuries.

To improve essential safety

The Accident Response Committee investigated the cause of the fatal accident. We also 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. After the investigation, we established a permanent countermeasures committee 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. Having set priority measures in the MTP 2025, we will work steadily to ensure safety.

Status of labor accidents

To achieve zero labor accidents, we focus on assessing risks, creating a workplace culture of caring for one another, implementing thorough recurrence prevention measures, and creating a safer workplace environment.

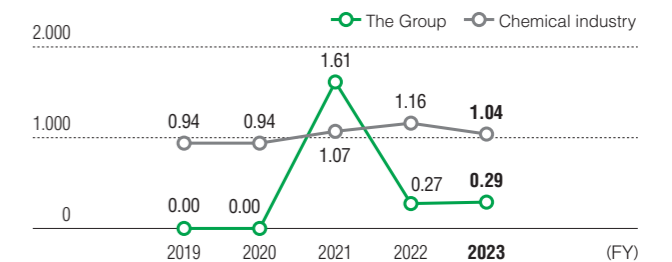
In FY2023, there was one lost-work injury and 10 non-lost-work injuries involving employees as well as two lost-work injuries and four non-lost-work injuries involving dispatched workers/subcontractors.

We investigated the true cause of each injury using the 5-Why method,*1 implemented recurrence prevention measures, and rolled out key countermeasures to all Group factories in Japan and abroad.

Fostering a safety-first mind

In FY2024, the Environmental and Safety Dept. of each factory and the Safety Promotion Dept. will be integrated into the Safety Promotion Group of the Environmental and Safety Dept., to foster a safety-first mind by changing safety awareness and deepening and expanding various measures.

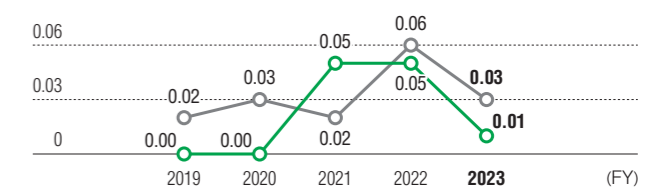
Occupational accident frequency rate*2



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 who can appropriately identify risks and devise mitigation measures, thereby improving on-site capabilities.

Occupational accident severity rate*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 lost-work injuries) ÷ (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.

VOICE



It is said that behind serious accidents there are many minor accidents and unsafe conditions. To prevent these, it is important to manage the mental and physical health of workers. As safety chiefs, we not only take command in the case of emergencies on holidays and at night, but also create an atmosphere where it is easy to talk so that we can quickly identify any concerns, worries, and changes in the physical condition of plant engineers. Since the fatal accident in 2010, the company has focused on its safety activities. Although the idea of "safety first" has recently become more prevalent among individual employees, there is no end to safety activities. I will continue to think about what I can do, and do my best.

Tomonori Ida Safety Chief, Kyoto Environment and Safety Group, Environment and Safety Dept., Production Division

Roundtable Discussion between Outside Directors



Outside Director
Chairman of the Board of Directors
Aya Shirai



Outside Director
Hideaki Obata



Outside Director
Yumi Sano

On the occasion of Outside Director Aya Shirai's assumption of the position of Chairman of the Board of Directors, we planned a roundtable discussion for the first time in two years. Three outside directors reported on their activities and discussed how the Board of Directors had changed and how they would like to change it in the future.

Renewal of the Board of Directors' structure

Shirai: Following the general shareholders meeting and the Board of Directors' meeting in June, I will become Chairman of the Board of Directors. Compared to inside directors, I do not have much knowledge about Sanyo Chemical's businesses and technologies. However, I'd like to run the Board of Directors in a way that encourages further discussion while continuing to uphold its good points.

Obata: The number of directors has decreased from nine to eight, resulting in an increase in the ratio of both female directors and outside directors. Although the ratio of outside directors has risen with increased diversity, we were not actively conscious of the materiality target of having more than 30% of directors be women and more

than one-third be outside directors. However, it is a positive development that the proportion of comments made by outside directors has increased.

Shirai: Although the number of directors has been reduced by one, that was not our aim.

Obata: The selection of new directors is based on recommendations from President Higuchi, and is discussed and determined by the Nomination and Compensation Committee. However, since it is a voluntary advisory body, the new directors were finally decided after discussion at the Board of Directors. With an atmosphere that allows speedy decision-making and encourages discussion, we have achieved a good balance of inside and outside directors.

A major change in the company's direction

Shirai: As you can see from the MTP 2025, the company's direction has changed significantly over these two years. The poor profitability of the Malaysian group company,*¹ a producer of SAP, had been discussed many times. In FY2023, we finally decided to withdraw from the SAP business. It was a major decision, which was difficult for us to judge on.

Obata: There were four important themes: withdrawal from the SAP business, review of all resin and battery businesses, formulation of the MTP 2025 based on WakuWaku management, and reconstruction of safety and accident prevention measures based on lessons learned from the fatal accident in 2022.

Sano: Before I became an outside director, I had the impression that the company was problem-free. However, at the Board of Directors' meeting in June 2021, I realized that there were serious issues to be addressed. Since the discussions at the Board of Directors' meetings were long and deep, I could not have got through these three years without studying hard.

Obata: Sanyo Chemical has a history of accumulating diverse businesses and has over 3,000 different products. Although each product is not large, the company has grown them into a highly profitable business. Historically, that has been Sanyo Chemical's strength. I believe it has made the choice to return to being such a company once again.

*1 SDP GLOBAL (MALAYSIA) SDN. BHD.

Changes in the Board of Directors

Obata: To achieve growth through small-quantity, high-mix production of high-performance products, board diversity and lively discussion are important. My impression over the past three years is that the Board of Directors has become an organization that fulfills these requirements. It is now discussing the issues that need to be addressed in order for Sanyo Chemical to achieve high profits. I believe we have now created a system in which the Board of Directors can take the lead and drive management.

Sano: When I became an outside director, my impression was that it was a fairly homogenous organization. However, over the past three years, we have had extensive discussions, with Mr. Obata and Ms. Shirai contributing

from various perspectives.

Obata: Since I have a different career path from people within the company, I can offer views from a different angle, but I think there are limitations to what outside directors can do. They have less information than the company's executives. In that sense, my opinion is not necessarily correct, but the current Board of Directors can hold discussions to understand each other's views and ways of thinking and determine the overall direction. I feel that it has the ability to accept and digest the different views of outside directors.

Sano: Although there is a sense of tension, there is no over-familiarity.

Shirai: We can have frank discussions, and it is not infrequent that comments from outside directors lead to the revision of discussion topics or their resubmission at the next meeting after reconsideration outside the meeting. Regarding the withdrawal from the SAP business, we discussed 23 topics for a total of over 12 hours in one year. This shows there were a large number of different issues. Each country has its own labor-management and employment practices, and we must make decisions that are highly conscious of human rights in accordance with international rules. It was a very tough year.

Sano: We positioned people-related issues, such as employment, as our top priority, and had many detailed discussions on them.

Shirai: When liquidating overseas subsidiaries related to business withdrawal, we conducted discussions in accordance with OECD rules. We confronted local management, employees, and their countries based on the Sanyo Chemical Group's Human Rights Policy. Mr. Obata made various statements in line with his career history.

Sano: That's true. Since outside directors have different backgrounds, their statements are also varied. While people from the same company tend to see things in the same way, outside directors can add their own views based on their area of expertise. That's the significance of having diverse members.

Shirai: Since we now have executive officers from the manufacturing field, who have not been greatly involved in management, I think the overall balance of the Board of Directors has improved.



Challenge-oriented and transparent management

Obata: “Challenge-oriented and transparent management,” one of our material issues, is the essence of Sanyo Chemical’s management. When diverse people discuss freely with “WakuWaku”, thus influencing the entire company, this leads to creation of the foundation for innovations. It is therefore important that the Board of Directors be composed of diverse people.

Shirai: If the Board of Directors can guarantee a sense of security, it will lead to a culture that encourages taking on challenges.

Sano: The company mission is “Establish a better society through our corporate activities.” However, I wonder whether each director and employee can say how they can contribute to establishing a better society.

Recently, President Higuchi has been saying: “Let’s think of work as our personal business.” This may be easier to understand if you think of it in terms of “Will, Can, Must.” “Will” refers to what you want to do. “Can” refers to what you can do. “Must” refers to what you have to do, which is stated as the company mission. When what individual employees want to do, can do, and have to do all match up, they feel “WakuWaku” and want to take on challenges. This will become Sanyo Chemical’s strength. By drawing out what employees with diverse values want to do, developing what they can do, and helping them feel like they are contributing to society, we can foster a challenge-oriented culture.

Obata: To explain the Sanyo Chemical Group’s direction to various stakeholders, including employees, customers, and local communities, we need to communicate our thinking in easy-to-understand language, rather than using loan words or complicated jargon. That is transparency. Historically, the company has had the power to do so.

Stakeholder engagement as the Board of Directors

Shirai: The company has offered on-site chemical classes for many years and has launched a project to revitalize Kyoto’s traditional industries, using its expertise. It is proactive in engaging in dialogue and exchanges with external parties. Although its steady efforts and interaction with young people in the local community are not easily reflected in figures and are difficult to evaluate, this is what makes the company appealing, representing a step toward the future. This attribute should be treasured.

Sano: Another method to make its activities visible is to create a stakeholder communication map.

Obata: The fact is, we haven’t received such feedback. Although the map hasn’t been created yet, we should put this on the Board of Directors’ agenda to ensure transparency through disclosure.

Sano: Actually, there are various guidelines and frameworks for disclosure, and companies are somewhat overwhelmed.

Obata: In this respect, Sanyo Chemical has clearly decided what is important to it. That’s what makes Sanyo Chemical unique.

Sano: In the Showa Era, a period of steady growth, companies could grow without such standards. Today, in order for Sanyo Chemical to continue to grow in the long term, it must pay attention to issues related to the environment and society so that it may be recognized globally. That is why we need to have a solid foundation.



Human capital disclosure

Sano: Japan is lagging behind when it comes to disclosing consolidated human capital. It has become mandatory to disclose gender pay differences and the female manager ratio in annual securities reports. Although we should understand our current situation, and analyze issues to disclose specific measures, we are only halfway there. Sanyo Chemical’s leadership in DEI will encourage its Group companies to think of this as their own issue. By working together as a whole group, it will gain support from stakeholders.

Obata: Aside from disclosure requests, a database of global human resources information is essential for global management. From a business perspective, it is better to have such a database. If the company doesn’t have one, now is the time to take action. Having data makes global management easier.

Sano: In terms of global management and DEI, a Group company in South Korea*2 has had a female president for two years.

Shirai: A U.S. company*3 has also had an American president for two years. Since the Safety and Quality Conference brings together the presidents of subsidiaries and affiliated companies around the world and many others, outside directors can also communicate with people from overseas Group companies. It is a good opportunity to learn about issues facing local subsidiaries and the concerns of managers in a variety of languages.

*2 Sanyo Kasei Korea, Ltd.

*3 Sanyo Chemical Texas Industries, LLC

Ideal Board of Directors

Shirai: I’d like to continue the good parts of the Board of Directors. In the effectiveness evaluation survey, it received a high average score of 4.6 out of 5 for the question: “Does the Board of Directors discuss and exchange views not in a formal way, but in a free, open, and constructive way?” While continuing the positive aspects, I’d like to make the Board of Directors a place for future-oriented discussions on how to rebuild Sanyo Chemical and how to use people, goods, and money shifted from the SAP business. I’d also like to secure more time for discussion by carefully examining report items.

Obata: The Sanyo Chemical Group’s future management style is a return to its roots. The keys to achieving high

profits with 3,000 types of high-performance products of small quantity and great variety are diversity, “WakuWaku,” and a commitment to profits. Only when these three elements are in place can Sanyo Chemical grow. We must also aim for true growth while keeping an eye on global trends in ESG. I think balance is important. However, there are still issues to be addressed when it comes to a commitment to profits. We are concerned that if more thought is not given to this matter, the very essence of the company’s management may be shaken. Combining the qualitative strengths of diversity and “WakuWaku” with the quantitative strength of profits will improve the company.

Sano: I’d like to speak with an appropriate sense of tension so that the company will still be chosen by society when the current board members are gone and the next generation takes over in the future. When I talk to young people and students, I feel that the criteria for choosing a company involve not just salary, but whether it properly discloses information. To become a company chosen by the next generation, I’d like to change the corporate culture as an outside director so that executives and managers will be more open to the voices of on-site staff. It is important to develop management assistants who can practice management with psychological safety, in a place where people can engage in open dialogue.

Shirai: The Board of Directors shares these concerns about how to develop candidates for directors, executive officers, or managers. In the effectiveness evaluation survey, most respondents cited the development of female directors from within the company as a key issue. This is also a very big mission for us.



Corporate Governance

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 eight 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 2023, 15 meetings of the Board of Directors were held.

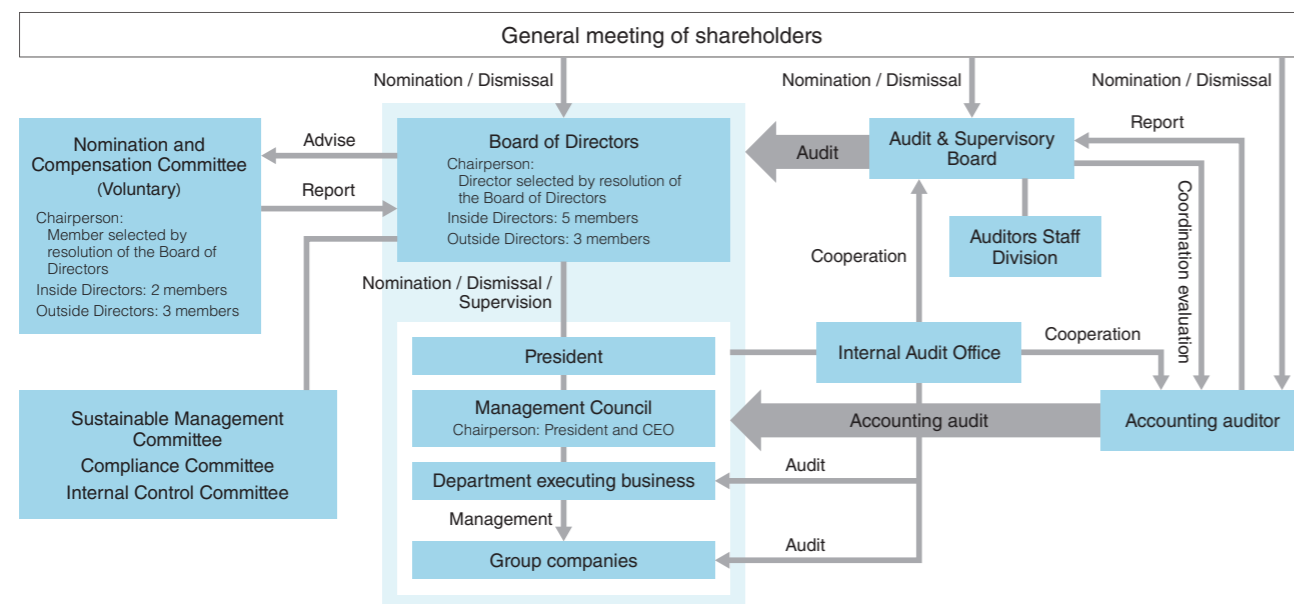
Auditors and the Audit & Supervisory Board

Of four auditors, three are outside auditors. The auditors 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 auditors 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

Chair: Outside director
Frequency of meetings: Six times (FY2023)
Role: As an advisory body to the Board of Directors, the Committee, the majority of whose members are outside directors, reports to the Board of Directors on the nomination and compensation of directors, and considers and makes recommendations on matters related to strengthening the functions of the Board of Directors without consultation from the Board of Directors.

Sustainable Management Committee

Chair: President and CEO
Frequency of meetings: Twice (FY2023)
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

Chair: President and CEO
Frequency of meetings: Twice (FY2023)
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

Chair: President and CEO
Frequency of meetings: Twice (FY2023)
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.

Composition of each committee

	Shirai	Higuchi	Harada	Susaki	Oku	Nishimura	Obata	Sano
Nomination and Compensation Committee	○	○			○		○	○
Sustainable Management Committee		○	○	○	○	○		
Compliance Committee		○	○	○	○	○		
Internal Control Committee		○	○		○	○		

(Note) ○ Chair ○ Member

Standards for selection of directors

The Company’s policy is to form a Board of Directors consisting of inside directors who have objective judgment, 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 auditors

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 in 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	Reason for selection
Aya Shirai	○	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	○	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	○	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 resource 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

As of the end of June 2024, the Board of Directors consists of eight directors with knowledge in line with these skill items (including three independent outside directors,

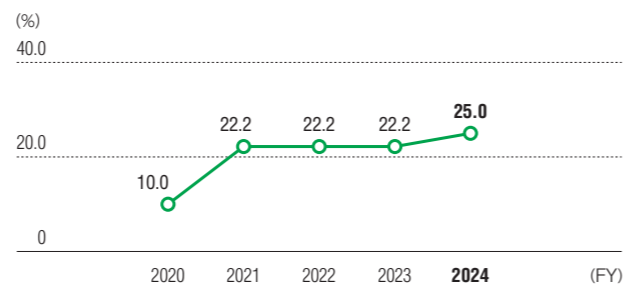
two of whom are female) and four auditors (two of whom are independent outside auditors). Independent outside directors include members who have management experience at other companies.

How to address board diversity

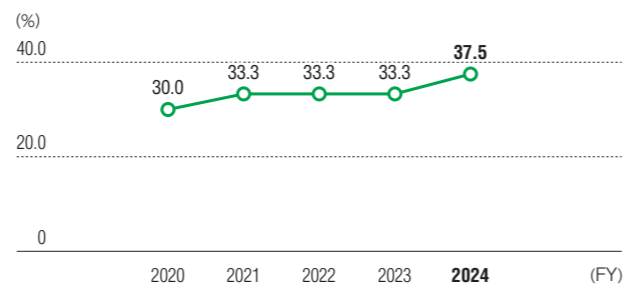
In 2022, the Sanyo Chemical Group identified its material issues. To address one of these issues, "Challenge-oriented and transparent management," it has set out the following indicators for board diversity.

- Raise the female ratio to 30% or more
- Ratio of independent outside directors: 1/3 or more of the Board of Directors

Female ratio on the Board of Directors As of June 21, 2024



Independent outside director ratio on the Board of Directors



Skills matrix

Name	Position	Skills										
		Outside	Independent	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	
Aya Shirai	Outside Director	●	●	●	●	●						
Akinori Higuchi	Representative Director, President and CEO			●	●	●	●	●	●	●		
Masahiro Harada	Director			●	●	●		●	●	●		
Hiroyuki Susaki	Director			●	●	●	●	●	●	●		
Yoshiyuki Oku	Director			●	●	●	●	●	●	●	●	
Kenichi Nishimura	Director			●	●	●	●	●	●	●	●	
Hideaki Obata	Outside Director	●	●	●	●	●	●	●	●	●		
Yumi Sano	Outside Director	●	●	●	●	●	●	●	●	●		
Hirokazu Kurome	Outside Audit & Supervisory Board Member	●	●	●	●	●	●	●	●	●		
Sho Takeuchi	Audit & Supervisory Board Member			●	●	●	●	●	●	●		
Jun Karube	Outside Audit & Supervisory Board Member	●	●	●	●	●	●	●	●	●		
Yusuke Nakano	Outside Audit & Supervisory Board Member	●	●	●	●	●	●	●	●	●	●	

Compensation and incentives for directors

Basic policy on compensation for directors

- Secure excellent human resources to improve corporate performance
- Design a compensation level and system that are commensurate with job responsibilities

Process for determining the compensation level and system

The compensation level and system are based on business performance trends and external objective data, and their appropriateness is verified by the Nomination and Compensation Committee, the majority of whose members are outside directors. The basic policy for determining compensation for directors is deliberated and determined by the Board of Directors.

Overview of types of compensation, etc.,

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

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	To raise awareness of improving business performance, the base amount is calculated based on the financial results of the relevant fiscal year, with consolidated ordinary profit used as an indicator of the company's profitability. Allocation to each director is then determined based on their roles and responsibilities as well as their evaluation.
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.

Although the ratio of basic compensation, bonuses, and stock-based compensation to the total compensation for each director has not been determined, the compensation level and system are regularly verified by the Nomination and Compensation Committee, the majority of whose members are outside directors, so that they can

Compensation for directors

Classification of Directors	Total amount of compensation, etc. (million yen)	Total amount by type of compensation, etc. (million yen)			
		Basic compensation	Bonuses (Performance-linked compensation)	Stock-based compensation (Non-monetary compensation)	Number of applicable Directors (number of persons)
Directors (excluding Outside Directors)	210	150	13	46	7
Audit & Supervisory Board Members (excluding Audit & Supervisory Board Members)	30	23	6	—	1
Outside Directors	26	26	—	—	3
Outside Audit & Supervisory Board Members	48	41	6	—	3
Total	315	241	27	46	14

- (Notes)
- The number of applicable Directors and the total amount of compensation, etc., include those of one Director who retired during the period.
 - 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.
 - No Directors or Audit & Supervisory Board Members received compensation, etc., of 100 million yen or more in total.
 - There is no salary for employees who concurrently serve as Directors.
 - 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.

function as incentives to improve business performance.

Training for directors and auditors

For inside and full-time directors and auditors, we explain our Articles of Incorporation, Board of Directors Regulations, and other internal rules at the time of their inauguration. For outside directors and full-time outside auditors, we facilitate their understanding of our businesses by conducting tours of our factories and other business sites. In FY 2023, we invited an external lecturer to give a lecture on management that takes into account capital costs and stock prices.

Major discussion topics and themes

Board of Directors

- Formulation and revision of the Medium-Term Management Plan and the Comprehensive Plan
- Policy on operating major businesses
- Matters regarding investment and financing
- 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

- Evaluation indicators reflected in compensation for directors
- Verification of a development plan for the next Representative Director, President and CEO candidate
- Management responsibility for the extraordinary loss recorded following the withdrawal from the superabsorbent polymer business
- Terms of office of advisors, consultants, and special commissioned employees

Sustainable Management Committee

- Basic Policy on Sustainability
- Response to the TCFD recommendations
- Human capital management activities
- Realization of management that takes into account capital costs and stock prices
- CSR Promotion Management Committee activities
- Sustainable distribution

Compliance Committee

- Implementation plan and status of corporate ethics study meetings
- Results of the use of whistleblowing contact points for consultation or reporting
- Revision of the Compliance Committee Regulations
- 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 evaluates the effectiveness of the Board of Directors once a year. In FY2023, it conducted an anonymous questionnaire survey of all directors, including outside directors, and all auditors, and evaluated the effectiveness of the Board of Directors based on the results.

FY2023 questionnaire survey on the Board of Directors

- Target:** All directors including outside directors (nine people) and all auditors (four people)
- Timing:** March 2024
- Method:** Conducted anonymously using a third-party system to ensure objectivity
- Content:** Answer each question in the following major categories on a 5-point scale or in free text
 - 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 auditors
 - ⑥ Dialogue with shareholders
 - ⑦ Efforts made by each director
 - ⑧ Operation of the Nomination and Compensation Committee

The results were reported to the Board of Directors' meeting held in May 2024, and were discussed and analyzed based on the results of a 5-point evaluation and free comments to evaluate the effectiveness of the Board of Directors.

Overview of the effectiveness evaluation

The previous year's evaluation results indicated that there was room for improvement to further enhance the effectiveness of the Board of Directors in the areas of "individual matters related to the operation and discussion of the Board of Directors" and "enhancing support from the Secretariat." In this survey, there were no responses that gave the low rating of "no improvement," and almost all respondents rated things as "generally improved." Based on this, the Board of Directors was evaluated as having made some improvements. Through the survey, it was also evaluated that the effectiveness of the Board of Directors was generally ensured.

Future issues

To further enhance the effectiveness of the Board of Directors, it is necessary for the Chairman to encourage each director to be more active in expressing their views, and for inside directors to engage in more open discussion with awareness that they oversee management. It is also required to review feedback from investors and the appropriateness of holding cross-shareholdings, and to further advance efforts to realize "management that takes into account capital costs and stock prices." Also recognizing the need to further improve the support system provided by the Secretariat, such as by providing a space for exchange of views among outside directors alone and improving training for directors, we will tackle these issues sincerely.

Succession plan (plan to foster successors)

To realize our Vision 2030, we have established the personnel requirements that should be met by our Representative Director, President and CEO (the ideal image of the President). In light of these personnel requirements, we systematically provide training to equip successor candidates with the necessary qualities and capabilities, and the Nomination and Compensation Committee regularly reviews its progress, ensuring transparency in the selection process.

Compliance

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."

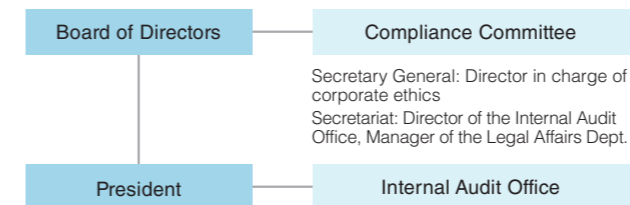
Internal compliance system

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 FY2023, 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 Internal Audit Office under the direct control of the President, so as to strengthen our internal auditing function.

Structure



Internal auditing

The Internal Audit Office conducts internal auditing. It objectively verifies and evaluates the business management and operation systems and the business performance status in terms of legitimacy, effectiveness, and efficiency. Based on the results, it makes proposals for improvement or corrective recommendations to facilitate the company's sound management and sustainable development.

Whistleblowing system

When an employee is aware of a compliance issue, the basic rule is to discuss it with their supervisor or the personnel concerned. If the issue cannot be resolved, the employee can use whistleblowing contact points (such as the compliance hotline) that conform with the Whistleblower Protection Act. The internal contact point is the Director of the Internal Audit Office, who serves as the Compliance Committee Secretariat, while an external

contact point is a corporate lawyer. We operate the regulation requiring that the whistleblowers' confidentiality be carefully protected to prevent their identification. In April 2023, we opened a consultation desk for harassment in addition to the whistleblowing contact points, working to create a system that makes it easier for whistleblowers (consultants) to use these services.

Harassment whistleblowing/consultation services (internal/external)

Compliance Hotline	Whistleblowing	Internal	Director of the Internal Audit Office
		External	Corporate lawyer
Internal consultation desk for sexual harassment, maternity harassment, and LGBTQ (harassment)	Consultation	Internal	Personnel Dept.
Harassment consultation desk LGBTQ consultation desk	Consultation	External	Outside specialized institutions

We investigate facts with the utmost care to ensure that whistleblowers are not penalized. If a problem is confirmed, we provide guidance, disciplinary action, and education to those involved. We also report the operation of the whistleblowing service to the Compliance Committee.

Education and awareness-raising activities

The Sanyo Chemical Group annually holds corporate ethics study sessions in all departments to prevent the occurrence of corporate misconduct. Recently, these sessions have placed particular focus on the kind of corporate culture behind corporate misconduct to learn how corporate culture reform leads to improved compliance.

Taking seriously the fact that four cases of harassment occurred within the Group in FY2022, we held study sessions on harassment in FY2023. The sessions consisted of three parts: online training to learn about harassment, a questionnaire survey to understand the actual situation, and group discussions. A total of 1,528 people participated. After each session, check the questionnaire survey was conducted to evaluate the Group's overall compliance activities, with a view to reflecting the results in education activities in the following fiscal years.

Risk Management

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

For significant risks that may affect management strategies and achievement of business objectives, the Internal Audit Office works to reduce the risks, evaluating the situation and making improvements.

To address risks surrounding the company and 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 manage the risks.

To ensure the reliability of financial reporting, we promote the establishment, operation, evaluation, and improvement of the internal control system related to financial reporting, and the Internal Control Committee guides and supervises these activities.

The Internal Audit Office audits the risk management status of each business execution department.

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 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

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.

Personal information protection

We have established the Privacy Policy, which stipulates the purpose and method of use of personal information, the management thereof, and a consultation desk. Based on this policy, we have established the Personal Information Protection Management Regulations and the Specific Personal Information Handling Regulations to ensure appropriate protection of personal information, including Individual Numbers under the Individual Number system. In the case of any contradiction or conflict between these regulations, the latter shall take precedence. An IT system is also in operation to ensure security.

We also comply with the Social Media Policy, which was established regarding the operation of official social media accounts and the use of social media by respective employees.

WEB	PRIVACY POLICY	>
WEB	SOCIAL MEDIA POLICY	>

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.

Directors, Auditors, and Executive Officers

As of June 21, 2024

Directors



Aya Shirai

Outside Director
Chairman of the Board of Directors

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)
Jun. 2024 Chairman of the Board of Directors of the Company (to present)



Akinori Higuchi

Representative Director,
President and CEO

Date of Birth: November 7, 1959
Apr. 1984 Joined the Company
Oct. 1984 Seconded to SAN NOPCO LIMITED
Oct. 2005 Senior Manager of Sales & Marketing Department No. 1
Jun. 2012 Representative Director and President
Jun. 2014 Executive Officer of the Company President, Representative Director of SAN NOPCO LIMITED
Jun. 2015 Managing Executive Officer and General Manager of Petroleum & Environment Division
Jun. 2016 Director, Managing Executive Officer in charge of Sales & Marketing Department No. 2, General Manager of Lubricant Additives Division, and General Manager of Petroleum & Environment Division
Jun. 2018 Director, Senior Managing Executive Officer in charge of Corporate Planning and Sales & Marketing Department No. 2, General Manager of Lubricant Additives Division, and General Manager of Petroleum, Construction & Environment Division
Jun. 2020 Representative Director and Executive Vice President in charge of Corporate Strategy
Jun. 2021 Representative Director, President and CEO (to present)



Masahiro Harada

Director, Senior Managing Executive Officer in charge of Sales & Marketing Department, General Manager of Surfactants Division, and Sales Base Group Supervisor

Date of birth: February 8, 1964
Apr. 1989 Joined the Company
Jul. 2010 Manager of Automotives II & Foam Industry Department
Apr. 2017 General Manager of Electronic Materials, Resins & Coloring Materials Division
Jun. 2018 Executive Officer and 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 Department
Jun. 2022 Director, Managing Executive Officer supervising Business Planning, General Manager of Energy Business Department, and General Manager of Biotechnology & Medical Division
Apr. 2023 Director, Managing Executive Officer supervising Business Planning, General Manager of Energy Business Department, and in charge of Beauty & Personal Care Supervisory Department
Apr. 2024 Director, Managing Executive Officer in charge of Sales, and General Manager of Surfactants Division
Jun. 2024 Representative Director and President of San-Apro Ltd. (to present)
Jun. 2024 Director, Senior Managing Executive Officer in charge of Sales & Marketing Department, General Manager of Surfactants Division, and Sales Base Group Supervisor of the Company (to present)



Hiroyuki Susaki

Director, Managing Executive Officer in charge of Sustainability and Corporate Strategy

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 and General Manager of International Project Promotion Division
Jun. 2022 Managing Executive Officer and 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, and General Manager of Corporate Planning Division
Jun. 2024 Director and Managing Executive Officer in charge of Sustainability and Corporate Strategy (to present)



Yoshiyuki Oku

Director, Managing Executive Officer in charge of Safety and Production

Date of birth: September 28, 1967
 Apr. 1990 Joined the Company
 Sep. 2011 Director and Deputy General Manager of SANYO CHEMICAL (SHANGHAI) TRADING CO., LTD. Director and Deputy General Manager of Sanyo Kasei (Nantong) Co., Ltd.
 Aug. 2019 Deputy General Manager of Corporate Planning Division and Deputy General Manager of Personnel Division of the Company
 Apr. 2020 General Manager of Personnel Division
 Jun. 2020 Executive Officer and General Manager of Personnel Division
 Jun. 2022 Managing Executive Officer and General Manager of Personnel Division
 Jun. 2024 Director and Managing Executive Officer in charge of Safety and Production (to present)



Sho Takeuchi

Audit & Supervisory Board Member

Date of birth: October 18, 1964
 Apr. 1989 Joined the Company
 Mar. 2009 Manager of Legal Affairs Department
 Jul. 2020 Deputy General Manager of Administrative Affairs Division
 Apr. 2021 General Manager of General Affairs Division
 Jun. 2022 Executive Officer and General Manager of General Affairs Division
 Apr. 2024 Executive Officer, General Manager of General Affairs Division, and Manager of Corporate Social Responsibility Promotion Department
 Jun. 2024 Auditor (to present)



Kenichi Nishimura

Director, Executive Officer in charge of Corporate Ethics and General Affairs, and General Manager of Administration 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
 Jun. 2024 Director, Executive Officer in charge of Corporate Ethics and General Affairs, and General Manager of Administration Division (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 Auditor 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)



Hideaki Obata

Outside Director

Date of birth: February 18, 1951
 Apr. 1973 Joined Sumitomo Electric Industries, Ltd.
 Jun. 1997 General Manager of Administration Division
 Jun. 2004 Executive Officer and 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)



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 Auditor of the Company (to present)
 Nov. 2023 Executive Senior Partner of Seiyu Tax Corporation (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)
 Jun. 2024 Outside Director of Sumitomo Densetsu Co., Ltd. (to present)*

* Took office as of June 25

Executive Officers

Yuichi Fujii

Managing Executive Officer in charge of R&D General Manager of Polyurethane Division

Motohisa Miyawaki

Executive Officer General Manager of Engineering Division and Manager of Maintenance Department

Takashi Tsubouchi

Executive Officer General Manager of Production Division

Koji Nire

Managing Executive Officer Representative Director and President of SAN NOPCO LIMITED

Tatsuya Nakano

Executive Officer General Manager of Performance Materials Division

Yutaka Imaizumi

Executive Officer Representative Director, President and CEO of SDP Global Co., Ltd.

Auditors



Hirokazu Kurome

Outside Audit & Supervisory Board Member

Date of birth: September 5, 1957
 Apr. 1982 Joined Toray Industries, Inc.
 Jun. 2003 Manager of Film Manufacturing Department at Gifu Plant
 Dec. 2005 Member of the Board of Penfibre Sdn. Bhd.
 Sep. 2008 Manager of Film Technology Department at Gifu Plant, 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 and Deputy Representative for Malaysia of Toray Industries, Inc. Vice President of Toray Industries (Malaysia) Sdn. Bhd. President of Penfibre Sdn. Bhd.
 May. 2021 Full-time Director in charge of Corporate Strategic Planning Division of Toray Industries, Inc.
 Jun. 2021 Outside Auditor of the Company (to present)

Minoru Tsuchiya

Executive Officer General Manager of Lubricant Additives Division

Yusuke Yamamoto

Executive Officer General Manager of SCM Supervisory Division

Takeshi Otaka

Executive Officer General Manager of Business Planning Division, General Manager of Biotechnology & Medical Division, and Owner of Siela Project

Material Issues

Classification	Material issues on the business domain	Opportunities and risks (○ Opportunity / ● Risk)	Our approach (Goal) / [KPI (achievement)]	Related page
E	CN Achieve carbon neutrality as Interface Innovator	<ul style="list-style-type: none"> ○ Demand shift to materials suitable for decarbonization ○ Accelerated transition to a circular economy and the emergence of innovative technologies for a decarbonized society ● Deteriorating business performance due to stricter regulations caused by policies such as carbon pricing to combat climate change 	Contribute to carbon neutrality with the interface control technology →MTP 2025	→P13 Message from the President
L	QOL Improve QOL by performance through chemistry	<ul style="list-style-type: none"> ○ Growing needs for preventive medical care and health promotion ● Deteriorating business performance due to insufficient response to social needs 	Create value in the medical field through new technologies Create new value closely linked to people's lives →MTP 2025	

Classification	Material issues on the management domain	Opportunities and risks (○ Opportunity / ● Risk)	Our approach (Goal) / [KPI (achievement)]	Related page
S	In Create innovations by supporting value creation of industry, culture and education	<ul style="list-style-type: none"> ○ Coexistence with the local community and the creation of business opportunities through interdisciplinary communication ● Deteriorating business performance due to a decline in Japan's competitiveness and market shrinkage caused by decreasing chemical capabilities and ailing local industry 	Challenge beyond the boundaries of chemistry with our chemical capabilities <ul style="list-style-type: none"> ● Utilize the matching platform which called "UQ Chem" services to link unused chemical knowhow to untapped needs ● Support various traditional Kyoto industries through technical and financial contributions (Sanyo Chemical Foundation for Social Contribution) ● Promote collaboration and alliances with different fields and investment on startups ● Promote DX and MI ● Carry out on-site chemical classes at elementary and junior high schools ● Participate in the Kyoto beyond SDGs Consortium with Kyoto University 	→P37 Digital Transformation (DX) Strategy
	HC Develop human resources and improve work environment by recognizing diversity	<ul style="list-style-type: none"> ○ New value creation through diversification ○ Improved employee engagement through workplace culture reform ● Decreased employee engagement due to insufficient response to diversifying values and work styles, and difficulty in personnel acquisition and personnel outflow 	Diversity, equity & inclusion (DEI): Facilitate culture, which all employees can be excited ("WakuWaku") <ul style="list-style-type: none"> ● Promote women's empowerment [Female leadership ratio: 15% or more by FY2023 (FY2023: 15.3%); Female manager ratio: 6% or more by FY2023 (FY2023: 4.9%)] ● Promote LGBTQ understanding ● Make the Ikuboss declaration and join the Ikuboss Corporate Alliance [Ratio of male childcare leave takers: 100% by FY2025 (FY2023: 92.4%)] ● Promote health and productivity management ● Enhance communication between management and employees: Morning meeting (lecture to all employees), Training camp (discussion with general managers), Dojo (handing down to executive assistants, etc.), and Salon (dialogue with mid-level and young employees, etc.) ● Create a work environment where employees with disabilities can work [Employment rate of people with disabilities: 2.7% or more by FY2026 (2.71% as of June 1, 2024)] 	→P39 Diversity, equity & inclusion (DEI) →P40 Work Style Reform →P41 Health and Productivity Management
G	RM Conduct the risk management thoroughly by strengthening the Guardian function	<ul style="list-style-type: none"> ○ Improved business performance through stable supply of high-quality products ○ Improved corporate value through the gaining of stakeholder trust ● Business continuity risks, unexpected losses, and loss of credibility due to internal control failure 	<ul style="list-style-type: none"> ● Strengthen quality governance by isolating quality assurance from production ● Establish a management system for significant risks that may be critical to corporate value ● Strengthen the legal compliance system ● Strengthen the safe and healthy system by using the safety education center 	→P53 Risk Management
	TM Implement challenge-oriented and transparent management	<ul style="list-style-type: none"> ○ Improved corporate value through the gaining of stakeholder trust ● Decline in corporate credibility and value due to corporate governance failure 	<ul style="list-style-type: none"> ● Promote WakuWaku Management: Every department shall be profit-oriented. ● Diversify directors [Raise the female ratio to 30% or more (25% as of June 21, 2024)] [Ratio of independent outside directors: 1/3 or more of the Board of Directors (3/8 as of June 21, 2024)] ● Enhance disclosure of non-financial information and corporate governance ● Enhance dialogue with shareholders, investors, employees, and other stakeholders ● Strengthen sustainable management 	→P47 Corporate Governance

Recognition of the future business environment

- Resource and energy prices are expected to remain high due to the worsening situation in Russia and Ukraine as well as the Middle East. The increased use of electricity and water resources due to the spread of AI will also move society further toward environmental improvement and carbon neutrality.
- The declining birthrate and aging population are not just issues in developed countries but also global issues. From a societal perspective, there is a growing need for longevity and health industries, while companies need to address a decline in the productive population.
- As values become more diverse, the pace of change in business is accelerating, and independent businesses and various networks are actively being created. This leads to the decline of some industries. There are concerns that traditional and local industries will fade due to a lack of successors.
- Due to recent quality compliance issues, society is looking at companies more strictly, making it essential for companies to strengthen their risk management systems and corporate governance. They are also expected to make appropriate disclosures in response to stakeholder requests.

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." To create value for all stakeholders, we have identified material issues by following the processes 1 to 4 below, considering that identifying and prioritizing medium- to long-term themes is the shortest route to value creation.

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	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.

Eleven-year Financial and Non-financial Summary

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Annual											
	(Millions of yen)										
Net sales	165,183	167,045	157,992	150,166	161,692	161,599	155,503	144,757	162,526	174,973	159,510
Operating profit	8,110	8,944	12,486	13,647	11,999	12,919	12,439	11,932	11,868	8,123	4,886
Ordinary profit	9,212	10,278	13,294	15,341	13,866	15,205	12,704	11,999	12,771	9,918	8,186
Profit before income taxes	8,179	9,554	11,640	13,854	12,144	7,541	11,008	10,638	10,734	9,414	-7,346
Profit attributable to owners of parent	4,918	5,876	6,926	10,192	9,272	5,345	7,668	7,282	6,699	5,684	-8,501
Comprehensive income	11,071	15,341	2,627	11,196	11,356	-760	2,178	15,272	8,082	5,725	-3,399
Investment in plant and equipment	7,497	10,520	14,333	13,500	13,923	10,848	8,219	10,073	9,847	12,033	8,649
Depreciation	9,642	9,604	9,256	7,412	8,299	9,087	9,078	9,569	9,533	10,083	10,686
Research and development expenses	4,659	5,515	5,622	5,443	5,365	5,569	5,322	5,384	5,650	5,691	5,222
Cash flows from operating activities	15,769	11,518	22,625	20,416	15,710	14,603	17,232	22,300	11,328	10,852	19,814
Cash flows from investing activities	-8,659	-8,656	-13,510	-14,198	-14,198	-11,312	-11,115	-12,498	-11,704	-10,172	-6,264
Free cash flow	7,110	2,862	9,115	6,218	1,512	3,291	6,117	9,802	-376	679	13,550
Cash flows from financing activities	-2,567	-2,922	-5,493	-1,043	-7,328	-1,492	-7,084	-4,146	-5,979	-2,336	-4,006
Year-end											
	(Millions of yen)										
Total assets	166,529	181,029	175,321	186,863	199,179	193,630	178,873	195,723	200,194	202,182	205,818
Property, plant and equipment	56,076	58,766	60,870	63,530	69,883	62,324	60,716	61,255	61,389	59,791	51,477
Interest-bearing debts	18,756	18,492	14,862	15,204	10,599	11,985	9,667	9,274	7,887	10,232	10,704
Net assets	103,907	117,688	118,284	127,651	136,270	132,623	130,097	142,951	147,032	148,994	141,577
Amount per share											
	(Yen)										
Basic earnings per share	44.60	53.29	62.83	462.28*1	420.57	242.50	347.87	330.34	303.76	257.57	-384.99
Net assets per share	899.24	1,014.19	1,016.06	5,515.51*1	5,901.23	5,868.58	5,789.88	6,371.77	6,549.60	6,617.11	6,295.31
Dividends per share	15.00	15.50	17.00	100.00*1	110.00	125.00	140.00	150.00	170.00	170.00	170.00
Major indicator											
	(%)										
Operating profit ratio	4.9	5.4	7.9	9.1	7.4	8.0	8.0	8.2	7.3	4.6	3.1
ROA (Return on assets)	5.7	5.9	7.5	8.5	7.2	7.7	6.8	6.4	6.5	4.9	4.0
ROE (Return on equity)	5.2	5.6	6.2	8.7	7.4	4.1	6.0	5.4	4.7	3.9	-6.0
Equity ratio	59.5	61.8	63.9	65.1	65.3	66.8	71.4	71.8	72.2	72.2	67.6
ROIC (Return on invested capital)*2	4.9	5.0	6.8	8.1	6.6	5.8	6.6	6.3	5.5	3.2	2.4
Environment											
	(Ton)										
CO ₂ emissions (Scope 1 + Scope 2)	309,499	318,296	310,412	331,988	340,386	313,031	311,225	308,004	276,036	255,257	231,038
CO ₂ emissions (Scope 3)	2,567,017	2,602,555	2,655,568	2,746,880	2,844,626	2,803,414	2,575,909	2,322,571	2,393,925	2,215,054	1,910,981
Waste generated	54,527	49,746	49,789	60,509	61,400	60,878	59,209	53,508	46,215	44,194	40,024
Society											
	(%)										
Number of employees	1,917	1,979	1,992	1,996	2,053	2,078	2,060	2,096	2,106	2,089	2,042
Occupational accident frequency rate	0.62	0.59	0.61	0.58	0.86	0.56	0	0	1.61	0.27	0.29
Female manager ratio	0.7	1.1	1.4	1.7	1.7	2.0	3.0	4.0	4.6	4.9	4.9
Female director ratio	0	0	0	0	0	10.0	10.0	10.0	22.2	22.2	22.2

*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 x 100

Stock Information

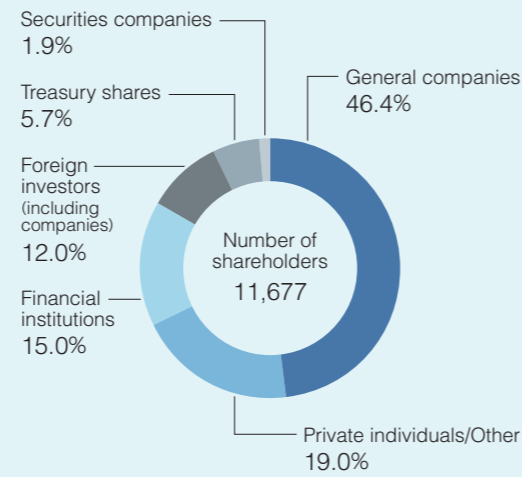
(As of March 31, 2024)

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	11,677 (down 171 from end of previous period)

Major shareholders (Top 10)

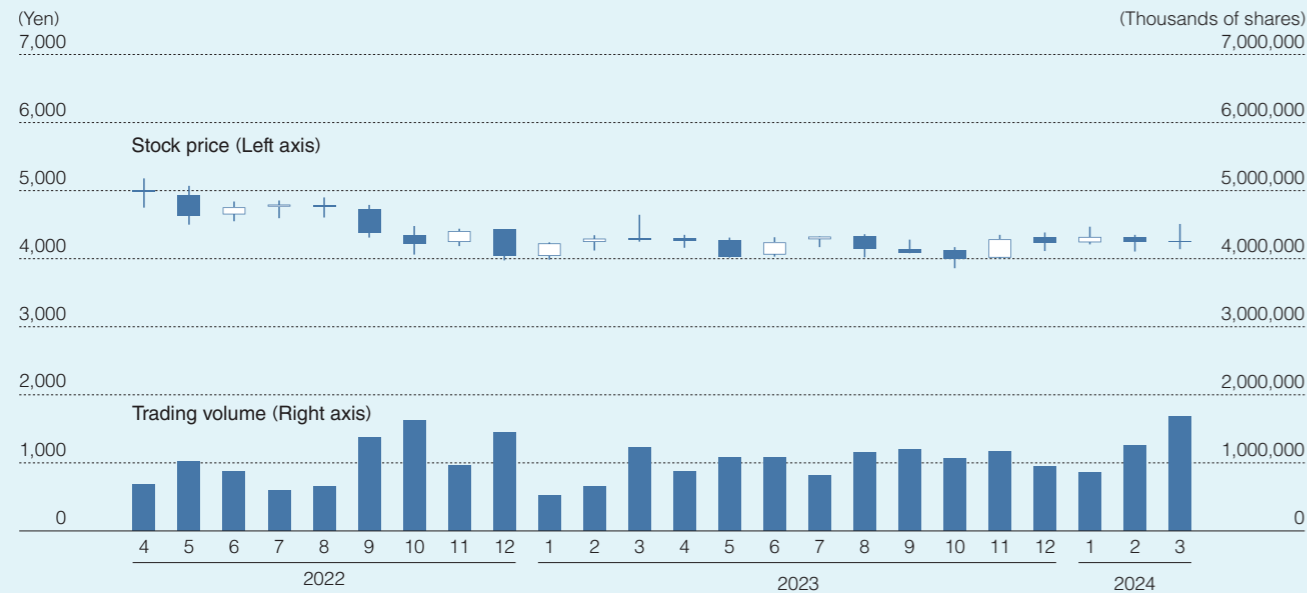
Name	Number of shares held (Thousands of shares)	Percentage of shares held (%)
Toyota Tsusho Corporation	4,286	19.3
Toray Industries, Inc.	3,826	17.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,810	8.2
Custody Bank of Japan, Ltd. (Trust Account)	1,225	5.5
ENEOS Holdings, Inc.	1,061	4.8
Nippon Shokubai Co., Ltd.	755	3.4
Sanyo Chemical Employees' Stock Ownership Association	571	2.6
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	203	0.9
DFA INTL SMALL CAP VALUE PORTFOLIO	187	0.8
J.P. Morgan Securities Japan Co., Ltd.	168	0.8

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 (1,344,455 shares) are excluded in calculating the "Percentage of shares held."
 2. The Company's shares (104,500 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 (1,225,200 shares) held by Custody Bank of Japan, Ltd. (Trust Account), and are not included in treasury shares (1,344,455 shares).

Trend of stock price and trading volume



Company Overview

(As of March 31, 2024)

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	2,042

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	

Group companies	SDP Global Co., Ltd.* SAN NOPCO LIMITED San Chemical Co., Ltd. San-Apro Ltd. San-Petrochemicals Co., Ltd. Sanyo Kasei (Thailand) Ltd. Sanyo Kasei (Nantong) Co., Ltd.* San-Dia Polymers (Nantong) Co., Ltd.* SANYO CHEMICAL (SHANGHAI) TRADING CO., LTD. Sanyo Kasei Korea, Ltd. SANYO KASEI (TAIWAN) LTD.	Sanyo Chemical America Incorporated Sanyo Chemical Texas Industries, LLC Sunrise Chemical LLC San Nopco (Shanghai) Trading Co., Ltd. DaXiang International Trading (Shanghai) Co., Ltd. San Nopco (Korea) Limited SDP GLOBAL (MALAYSIA) SDN. BHD.* Sanyo Chemical Manufacturing Korea, Ltd. Sanyo Chemical Logistics Co., Ltd. Shiohama Chemicals Warehouse Co., Ltd. FUJIFILM Sanyo Chemical Healthcare Corporation
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* We have resolved to withdraw from the superabsorbent polymer business and the production business in Nantong, Jiangsu Province, China. For details of the dissolution and transfer (transfer of equity interest) associated with this business withdrawal, please refer to the timely disclosure materials published on March 25, 2024.

Inclusion in ESG investment indexes

(As of July 2024)



FTSE Blossom Japan Index

FTSE Blossom Japan Index



FTSE Blossom Japan Sector Relative Index

FTSE Blossom Japan Sector Relative Index



S&P/JPX Carbon Efficient Index

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