

Transformation BEYOND 2030

Publication of Integrated Report 2026

We have entered our third year since embarking on our journey under the banner of Transformation: BEYOND 2030.

While we are gaining a tangible sense of progress in our transformation, we are also keenly aware each day of how challenging it is to continue growing amid a rapidly changing external environment.

The driving force behind forging a course toward becoming an “excellent company capable of contributing to society with Smart Material” is the collective strength of the entire Group. As each of us demonstrates our strengths in our respective roles and continues to row in the same direction, the Sakai Chemical Group’s earning power grows stronger. Even amid turbulent times, we are moving steadily forward as one, embracing trial and error and believing that each stroke will open the way to the future.

In this report, we have included as much as possible about our challenges, how we are addressing the challenges we must overcome, and the aspirations behind these efforts. We hope that our stakeholders will gain an understanding of where the Sakai Chemical Group stands today and the future we aspire to create, and that you will support us as we move boldly into the future.

Chemicals make dreams come true

MISSION

Chemistry for a Friendly Future

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

VISION

Exciting Company

We will build an exciting company together.

Disclosure of financial and non-financial information

The Sakai Chemical Group separates financial and non-financial information as appropriate for disclosure.
Details of non-financial information not contained in this report (for example, environmental initiatives, social activities, and policies related to ESG) can be viewed on the "Sustainability" page of the Sakai Chemical Industry website.
The "IR Library" page discloses financial information (including financial statements and corporate governance information), as well as the Medium-Term Management Plan, annual Integrated Reports, and past information.

Sustainability



IR



Scope and period of report

Organizations covered: Sakai Chemical Industry Co., Ltd. and its domestic/overseas consolidated subsidiaries
(referred to as Sakai Chemical Group)
Reporting period: April 1, 2025 to March 31, 2026
The latest information at the time of publication is included as much as possible.
Publication date: October 2026

Reference guidelines

- Integrated Reporting Framework (IFRS Foundation)
- Guidance for Collaborative Value Creation 2.0 (Ministry of Economy, Trade and Industry)
- Global Reporting Initiative (GRI) GRI Sustainability Reporting Standards

Notes regarding forward-looking statements

This report contains forward-looking statements. These statements are based on information available at the time of publishing and therefore include risks and uncertainties. Please be aware that actual results may differ from the forward-looking statements due to changes in various factors.

CONTENTS

01 About SAKAI
01 Publication of Integrated Report 2026 MISSION & VISION
02 Information disclosure framework / Table of contents
03 History of Sakai Chemical Group
04 Current businesses of the Sakai Chemical Group
05 Core technologies of the Sakai Chemical Group
07 Value creation strategy

08 Value created by the Sakai Chemical Group
09 Transformation: Progress, challenges, and outlook
10 Messages from executive officers
11 Interview with the President
15 Dialogue 1: Business portfolio transformation and capital policy
19 Roundtable discussion: Innovation strategy
21 Dialogue 2: Human capital management
23 Financial and non-financial highlights

25 Innovation strategy / New business creation
26 Innovation strategy / New business creation
27 Smart Material certified products
30 On-site initiatives

35 Value creation method (business)
36 Business strategy for growth businesses: Electronic materials
37 Business strategy for growth businesses: Cosmetic materials
38 Business strategy for growth businesses: Organic chemicals (1)
39 Business strategy for growth businesses: Organic chemicals (2)
40 Business strategy for businesses considered for efficiency improvement
41 Business strategy for stable businesses and the medical business
42 Highlights for the fiscal year ended March 31, 2026
43 Special feature: Success at group company

45 Source of value creation (capital)
46 Materiality and key performance indicators (KPIs) for Sakai Chemical Group
47 Sakai Chemical Group human capital investment strategy
48 Linking business strategy and human resources strategy
49 On-site initiatives for value creation
55 Occupational health and safety / Product quality
59 Initiatives for value creation: Protect the global environment
60 Corporate governance
61 Governance dialogue
63 Directors, corporate auditors, and executive officers

History of Sakai Chemical Group

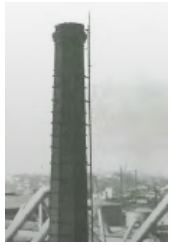
Sakai Chemical Group began business in 1918 as Sakai Refinery Factory in Sakai City, Osaka Prefecture.
Since then, the Group has continued to pursue constant technological innovation and to provide products and services that contribute to Chemistry for a Friendly Future.

1918



Zinc business

White pigment zinc oxide ZnO→ Lithopone
$ZnS{\cdot}BaSO_4$→ Titanium dioxide TiO_2



1918

Founded

Began operation as Sakai Refinery Factory, a wooden zinc white factory with an octagonal brick chimney and two oxidation furnaces

1950s



Plastic additive business

From zinc stearate

1970s



Catalyst business

Titanium dioxide as carrier

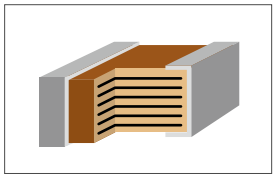
1980s



Cosmetic materials business

From ultrafine particle zinc oxide technology

1990s



Electronic materials business

From barium titanate



Organic chemicals business

2000s



Started overseas production

Sakai Chemical (Vietnam) Co., Ltd.

Net sales for FY2025

¥81,447 million

Founding period

1918	Founded Sakai Refinery Factory in a corner of the current Sakai Manufacturing Site premises
1918	Started production of zinc white (zinc oxide)
1920	Started production of various barium products
1932	Changed trade name to the present Sakai Chemical Industry Co., Ltd.
1935	Became the first in Japan to succeed in factory production of anatase type titanium dioxide
1936	Founded Sakai Trading Co., Ltd., expanding into trade business such as raw material and product imports

Growth period

1949-50	Started production of vinyl chloride stabilizers and metal soaps
1950	Listed on the Osaka Securities Exchange (at that time)
1961	Listed on Tokyo Stock Exchange
1963	Completed Onahama Factory (to cope with the increasing demand for titanium dioxide)
1969	Completed Yumoto Factory and Semboku Factory
1978	Started production of de-NOx catalyst
1991	Completed Otsurugi Factory

Expansion and transformation of business domain

1992	Started commercial production of electronic ceramic materials
1994	Acquired all shares of Tomioka Chemical Co., Ltd. (expanded into the organic chemicals business)
2007	Founded Sakai Chemical (Vietnam) Co., Ltd. (plastic additives business)
2012	Acquired all shares of Katayama Seiyakusyo Co., Ltd. (expanded into the active pharmaceutical intermediates and ingredients business)
2013	Established Kaigen Pharma Co., Ltd.
2018	Acquired the major stocks of Siam Stabilizers and Chemicals Co., Ltd. (Thailand)
2024	Began business portfolio transformation
2024	Merged with SC Organic Chemical Co., Ltd. via an absorption-type merger
2025	Opened the Hanoi Sales Office of Sakai Chemical (Vietnam) Co., Ltd.
2025	Opened the India Liaison Office of Sakai Trading Co., Ltd.

The Sakai Chemical Group engages in 10 businesses.
Among these, we have positioned the electronic materials business, cosmetic materials business, and organic chemicals business as growth businesses.

Inorganic chemicals

Titanium dioxide and zinc

Titanium dioxide

Note) We ended production of pigment-grade titanium dioxide in fiscal 2025.

Zinc oxide

➡ See p. 40 for details

Used as a raw material

Used as a raw material

Catalyst

➡ See p. 40 for details



Plastic additives

➡ See p. 40 for details



Contract processing

➡ See p. 41 for details



Used as a raw material

Used as a raw material

Inorganic chemicals

Barium salts

➡ See p. 40 for details

Uses barium sulfate as a raw material

Medical

➡ See p. 41 for details



Hygiene products

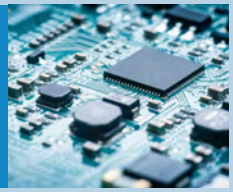
➡ See p. 41 for details



Growth businesses

Electronic materials

➡ See p. 36 for details



Cosmetic materials

➡ See p. 37 for details



Organic chemicals

➡ See p. 38 for details



Examples of applications utilizing core technologies and their contribution to growth

The Sakai Chemical Group's core technologies are seeds of innovation that generate new value.
These technologies support our sustainable growth by serving as the starting point for the development of new products and the creation of new applications.



Organic synthesis

Satisfy market needs

Powder processing

Create optimal products from infinite combinations

Pharmaceutical manufacturing

Deliver peace of mind through uncompromising quality

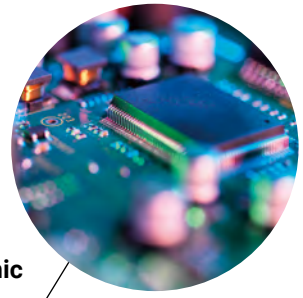


For automotive applications

Multilayer ceramic capacitors (MLCCs)



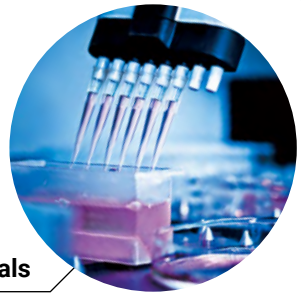
For smartphones



For electronic materials



For electric adhesives



For pharmaceuticals



For sunscreen

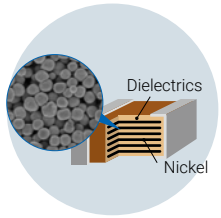


For cosmetics (foundation)

Examples of applications utilizing core technologies and their contribution to growth

Powder processing

Dielectrics for electronic components: Barium titanate



Average annual market growth rate of MLCCs **8%**

As a dielectric material for multilayer ceramic capacitors (MLCCs), barium titanate contributes to the enhanced performance and miniaturization of electronic components. Through microparticulation enabled by powder processing technology and a robust supply chain extending from procurement to sales, we are strengthening our presence in high-end and mid-range markets exhibiting high growth.

Cosmetic materials: Special-shaped barium sulfate



Japan's only materials manufacturer for cosmetics

Barium sulfate processed into flake and spherical shapes through powder processing technology provides excellent usability. In addition to soft focus effects that beautifully mask skin imperfections, anticipation is growing for its skincare effects. As such, it has captured the top market share in cosmetic applications. Going forward, we will also expand into using it as a substitute for microplastic beads and for skincare purposes.

Organic synthesis

Adhesives for electronic materials: Thiol products



Market growth rate **5% or higher**

Thiol products are a type of sulfur compound that are useful as resin curing agents which cure at low temperatures and in short time periods. Thiol products are highly adhesive and water resistant and have been adopted by multiple companies as a material used in adhesives for electronic materials and other applications.

The market for adhesives used with electronic materials is expected to grow at an annual rate of approximately 5%. Going forward, we aim to achieve adoption in the automotive field.

Optical functional materials β-Mercaptopropionic acid (BMPA)

Japan's only materials manufacturer

Sulfur compounds are materials that contribute to the high refractive index of resins. β-mercaptopropionic acid (BMPA) is used as an optical functional material. The Sakai Chemical Group possesses advanced synthesis technology for organic sulfur compounds and has established a solid position as the only manufacturer of BMPA in Japan.

Pharmaceutical manufacturing technologies

GMP management that supports manufacturing of pharmaceuticals



Manufacturing pharmaceuticals **46 years**

Pharmaceuticals are high-value-added products that require advanced technology and bring high profitability. At the same time, they have a significant impact on human life and therefore require strict manufacturing and quality control. We aim to solidify our industry position by enhancing the Group's governance structure, thereby ensuring compliance with regulations that become increasingly strict each year, and maintaining data integrity.

Powder processing and pharmaceutical manufacturing technology (management compliant with GMP)

Sunscreen material: Ultrafine zinc oxide



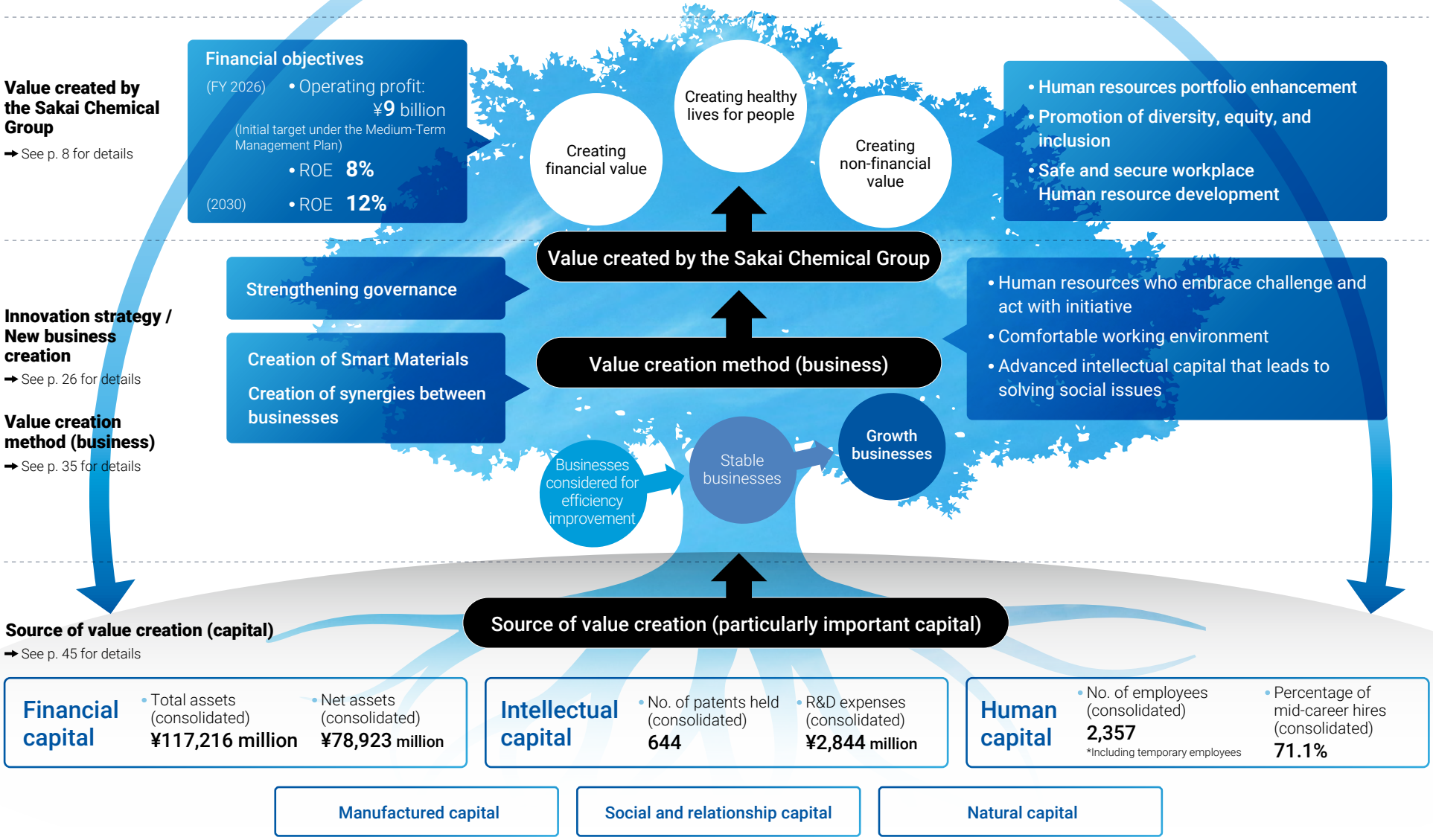
World's smallest diameter: **20nm**

Through our proprietary manufacturing process, we have achieved world-leading transparency while maintaining a high UV-blocking effect. To ensure the quality required for use as a cosmetic material, we manufacture the product under GMP management and have earned high recognition in Europe and the United States.

Going forward, we will leverage our product's transparency to expand into applications as a substitute for, or in combination with, organic UV absorbers.

Value creation strategy

The Sakai Chemical Group creates three types of social value through our business. By reinvesting a portion of this value as capital, we achieve business growth and create even more value. This positive cycle allows the Group to achieve both value creation and business growth over the long term.



Value created by the Sakai Chemical Group

The Sakai Chemical Group places the highest value on creating healthy lives for people.
We believe that this initiative will result in the creation of both financial and non-financial value.

Creating healthy lives for people

An excellent company capable of contributing to society with Smart Material

- Protect nature (protect the global environment)
- Support the development of an advanced information society (for a more equal society)
- Support people's health

Creating financial value

Financial objectives

(FY 2026)
- ROE **8%**

(2030)
- ROE **12%**

- Operating profit: **¥9 billion** (Initial target under the Medium-Term Management Plan)

Creating non-financial value

- Human resources who embrace challenge and act with initiative
- Comfortable working environment
- Reduction of environmental impact (reduction of CO_2 emissions, reduction of industrial waste emissions, and consideration for biodiversity)
- Advanced intellectual capital that leads to solving social issues

Financial capital | Manufactured capital | Social and relationship capital | Natural capital | Intellectual capital | Human capital

Shareholder return

- Financial strategy and shareholder return From p. 15

Reinvestment in further value creation

- Management strategy From p. 15
- Innovation strategy From p. 25
- Human resources strategy From p. 47

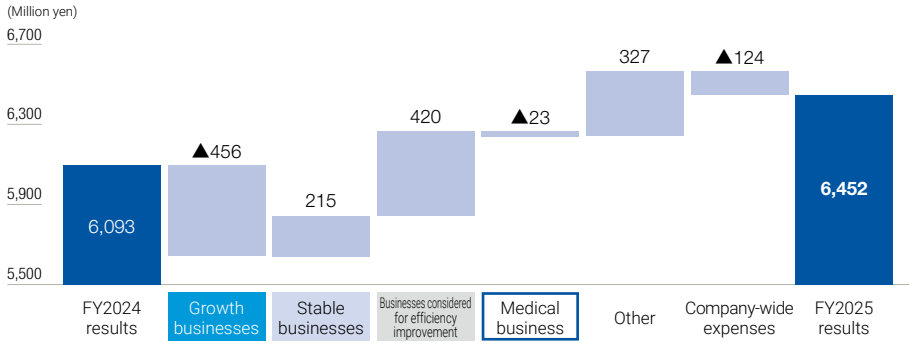
Building earning power through efficiency improvements Growth businesses drive profit growth

The Medium-Term Management Plan Transformation: BEYOND 2030 has steadily improved our earnings structure over its first two years. By continuing to implement measures that emphasize business profitability, including withdrawing from unprofitable products, implementing price revisions, and optimizing fixed costs, we have improved our earning power, particularly in businesses under consideration for efficiency improvement.

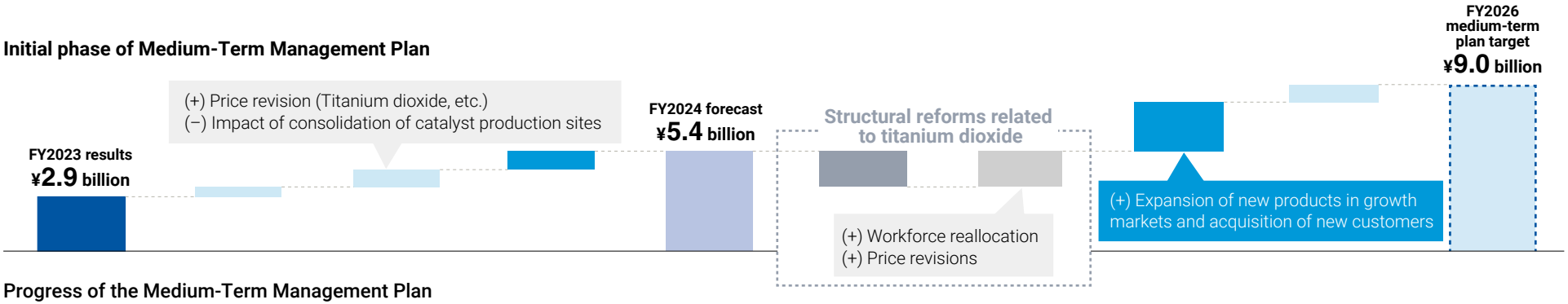
At the same time, increasing earnings from our growth businesses is essential for sustainable profit growth. From year three onward, we will expand sales of electronic materials to capitalize on market growth, improve profitability in cosmetic materials, and secure new projects in organic chemicals. In parallel, we will steadily develop new pillars of earnings.

Despite continued uncertainty in the business environment, we will continue our reform efforts without pause, aiming to enhance corporate value through both profitability and growth.

YoY change in operating profit by segment



Initial phase of Medium-Term Management Plan



Progress of the Medium-Term Management Plan

Progress	(1)	(2)	(3)	Year 1	(4)	(5)	(6)	(7)	Year 2	Year 3
FY2023 results	Depreciation, etc.	Improvement of businesses under efficiency review	Capitalizing on market recovery through growth businesses	FY2024 results	Impact from discontinuation of pigment-grade titanium dioxide business	Improvements addressing rising fixed cost ratios	Capitalizing on market expansion through growth businesses	Expanding earnings from stable businesses, etc.	FY2025 results	FY2026 forecast
FY2024 (Year 1)	In line with projections	Exceeded projections	Some projections unmet	**¥6.1 billion**	–	–	–	–	–	–
FY2025 (Year 2)	–	Effects of improvements were demonstrated throughout the fiscal year	Cosmetic materials: Deterioration in the external environment	–	Proceeding as planned	Review of workforce reallocation	Electronic ○ Cosmetic ▲ Organic chemicals △	Proceeding as planned	**¥6.4 billion**	–
FY2026 (Year 3)	–	Steadily progressed toward becoming stable businesses that serve as a foundation for earnings	–	–	–	Special Career Transition Support Program	Initiatives to improve profitability in cosmetic materials	Proceeding as planned	–	**¥6.0 billion**

Self-assessment (○: On track △: Slightly behind schedule ▲: Not achieved)

How we should earn—Executive officers and outside directors discuss achievements and challenges

Last fiscal year, we posed a key management question: How should we earn? In these dialogues, we will examine the results achieved through implementing our Medium-Term Management Plan "Transformation: BEYOND 2030," and the new challenges that have come into view, drawing on both internal and external perspectives to examine the question from multiple angles.



Interview with the President ➡ See p. 11 for details

The resolve to continue implementing structural reform

— Building the future of Sakai Chemical, step by step

Toshiyuki Yagura

President and Representative Director
Executive Officer
Member of the Nomination and Compensation Committee



Roundtable discussion: Innovation strategy ➡ See p. 19 for details

Now is the time to act— Turning Smart Materials into results through a sense of urgency and ownership

Hiroshi Nakao
Executive Officer
Deputy Head, Research & Development Division
Sakai Chemical Industry Co., Ltd.

Koichiro Magara
Director and Executive Officer
Head of Research & Development Division
Sakai Chemical Industry Co., Ltd.

Yoshikazu Ito
Outside Director
Member of the Nomination and Compensation Committee



Dialogue 1: Business portfolio transformation and capital policy ➡ See p. 15 for details

Winning starts with customers, not the market

Finding the winning path, focusing capital, and driving growth

Shinji Ogama
Director and Executive Officer
Head of Corporate Strategy Division
Member of the Nomination and Compensation Committee
Sakai Chemical Industry Co., Ltd.

Hisao Miyagawa
Outside Director
Member of the Nomination and Compensation Committee



Dialogue 2: Human capital management ➡ See p. 21 for details

Enhance management strategy through human capital management

Leverage people by connecting individual initiatives to management strategy

Akira Morioka
Executive Officer
Head of Administration Division
Sakai Chemical Industry Co., Ltd

Yoshiko Hamazaki
Outside Director
Chairperson of the Nomination and Compensation Committee



Toshiyuki Yagura
President and
Representative Director
Executive Officer

The resolve to continue implementing structural reform

— Building the future of Sakai Chemical, step by step

Q1. The final year of the Medium-Term Management Plan Transformation: BEYOND 2030 is now underway. How do you assess the progress made over the past two years?

A sense of progress and a sense of frustration

Starting with our accomplishments, we completed all the structural reforms we had planned for the past two years. As planned, we ended our pigment-grade titanium dioxide business, which had continued for approximately 90 years. Also, compared with before the start of the Medium-Term Management Plan, we more than doubled the earning power of the businesses considered for efficiency improvement. Cash flow management has also taken root. We achieved a cash conversion cycle (CCC) of 178 days, which is ahead of the Medium-Term Management Plan target of 180 days. We also reduced working capital by ¥8.9 billion. In terms of shareholder returns, we are also on track to significantly exceed the initial plan of at least ¥8 billion, with total returns expected to reach approximately ¥9.4 billion over the three-year period (as of the end of May 2026). I am truly grateful for how incredibly hard every one of our employees has worked.

As for frustrating aspects, expanding profits from our growth businesses has taken longer than we anticipated. Our initial target for operating profit was ¥9 billion, but our plan for the final year is ¥6 billion, a substantial deviation from that original target. In particular, our cosmetic materials business recorded impairment losses of approximately ¥3 billion in the fiscal year ended March 31, 2026. Our original plan placed considerable emphasis on a recovery in demand and expectations for the use of inorganic materials, but we were overly optimistic. We cannot simply blame the external environment. As management, we recognize the lack of rigor in our investment decisions.

If you look only at the numbers, the fiscal year ended March 31, 2026 brought mixed results, with operating profit of ¥6.4 billion and net income of ¥2.7 billion. But the picture inside those numbers is clear. Our stable businesses and businesses considered for efficiency improvement merely offset the decline in our growth businesses. This ability to support earnings is a result of the reforms we carried out over these two years. Even so, we are striving toward our vision of a structure in which our growth businesses drive profits.

Q2. Do you expect to achieve the final-year ROE target of 8%?

From both the profit and capital efficiency perspectives, we will work as hard as possible to reach our targets

In terms of profit, we expect higher earnings from our growth businesses, centered on electronic materials and organic chemicals. In addition, following the termination of our pigment-grade titanium dioxide business, we transferred our industrial waste final disposal site and recorded approximately ¥1 billion in gain on the sale of non-current assets. As a result, we expect net income attributable to owners of the parent to reach ¥4.4 billion.

In terms of capital efficiency, we cancelled 1 million treasury shares in the previous fiscal year. We are also currently acquiring approximately the same number of treasury shares as those to be issued upon conversion of the CB, in order to curb dilution of our shares resulting from CB conversions.

Our business structure is susceptible to changes in the external environment, and we accept that operating profit generated through our businesses will fluctuate to some extent. However, I do not want us to fall short of our ROE target simply because of that. Once we have set a target, I want us to do everything we can and think through every possible measure to achieve it. I believe that reaching that target is the first step toward enhancing corporate value.

As the next step, we need to think of and implement measures to increase operating profit from our core businesses and show that the Company is growing. To that end, we will continue to pursue structural reform in our businesses under the next Medium-Term Management Plan as well, transforming them into businesses with greater earning power.

Q3. Looking at the businesses individually, electronic materials are performing well, while cosmetic materials are facing difficulties. What is the reason for this difference?

It depends on whether we have become an indispensable presence in that market

Our electronic materials business is benefiting from strong demand related to AI servers, and the proportion of highly profitable high-end products is increasing. For the fiscal year ending March 31, 2027, we anticipate net sales of ¥11.5 billion and operating profit of ¥2.4 billion. Our Group has several strengths. First, in dielectrics, rather than using the solid-phase method, which is the mainstream approach in the industry, we have a hydrothermal synthesis method suited to the trend toward miniaturization. This is a technology that can perform particularly well in high-end applications, including those for AI servers, where uniform, fine particles are required. Second, our product lineup includes not only dielectrics but also dielectric materials. Having materials essential to the solid-phase method enables us to keep pace with developments in the industry. Third, we do business with a broad range of customers across the industry without relying on any particular customer. There are not many companies that possess all three of these strengths. That is precisely why we have become an indispensable presence for our customers. The AI server-related market is expected to remain strong through 2026 and 2027, and we will maintain high plant operating rates. We are also considering capital investment to expand the supply of high-end products, and this is an area where we aim to grow faster than the MLCC market itself.

Our organic chemicals business is also an area where we have become an indispensable presence for specific applications. One reason is that relatively few companies handle organic sulfur compounds. More recently, our new product Multhiol has also begun to contribute gradually to profits in the electronic materials field. For the fiscal year ending March 31, 2027, we plan net sales of ¥8 billion and operating profit of ¥1 billion. The competitive environment for active pharmaceutical ingredients and intermediates is severe, and we are facing difficulties in this area. However, building on our track record as a contract manufacturing organization (CMO), we will expand the scope of our business as a contract development and manufacturing organization (CDMO).

The cosmetic materials business is an issue for us. It posted an operating loss of ¥400 million in the fiscal year ended March 31, 2026, and we expect a similar loss in the fiscal year ending March 31, 2027. As I mentioned earlier, there are things we need to reflect on regarding the gap from our initial plan, which was overly optimistic. We underestimated the market value of inexpensive, easy-to-handle organic UV absorbers. The current situation is difficult, and there has been a temporary shift toward organic UV absorbers, but we have no intention of giving up this business. We believe that the value of inorganic materials, which are gentle on both people and the environment, will inevitably be recognized by the market. We will fundamentally review our strategy, including the time horizon, as part of the next Medium-Term Management Plan. In the fiscal year ending March 31, 2027, while deepening our relationships with existing major customers, we have also begun active sales efforts with local manufacturers in China and Southeast Asia that we were unable to visit during the COVID-19 pandemic. We want to become an indispensable presence in this market. To achieve that, we will develop this into a business that can generate solid earnings.

I would also like to touch on the businesses considered for efficiency improvement. This is where we have changed the most over these two years. We have not

simply worked to improve profitability in each business. In catalysts, we consolidated our production sites and improved production efficiency. In inorganic materials, high-value-added products for optical applications have begun to emerge. In plastic additives, we are steadily expanding sales of lead-free stabilizers, particularly in Southeast Asia. Together, these efforts have enabled us to make an impressive shift toward a product mix that prioritizes profitability. The combined operating profit of the businesses considered for efficiency improvement and other businesses was ¥1.9 billion in the fiscal year ended March 31, 2024, before the start of the Medium-Term Management Plan. The combined operating profit is expected to increase to ¥4.1 billion in the fiscal year ending March 31, 2027, as these businesses become a stable earnings base.

Q4. You have said that you are moving into a phase of "taking aggressive action." Looking ahead to the next Medium-Term Management Plan, what are you planning to put into place?

Moving in three directions

The first is to increase the agility of our R&D. As product life cycles continue to shorten, we feel a strong sense of urgency that unless we sow the seeds now, there will be nothing to harvest three or five years from now. With that in mind, we are advancing our Multi-Pilot system so that we can generate more of those seeds. Through this initiative, we will encourage the creation of new Smart Materials while accelerating the further development of products that we have designated as Smart Material. At the same time, under the concept of "Chemistry for a Friendly Future," we are also working to create new businesses that are not bound by existing frameworks. We are no longer in an era in which making good products guarantees sales. What do customers want? Where is the market heading? Unless we accurately understand those things, R&D will end up being an exercise in self-satisfaction. I believe this is another area where our Group needs to change.

The second is growth investment, including strategic business alliances and M&A. Focusing primarily on the cosmetic materials and organic chemicals fields, we are creating shortlists from our longlists and moving forward while flexibly reviewing our target areas and potential partners in response to changes in market and technology trends. We are not yet at a stage where we can make any announcements, but we are continuing to examine opportunities with a focus on our growth businesses.

When deciding whether to invest, of course we look at economic rationality, but I value just as much whether the proposal has an exciting story behind it. Can the person who proposed it talk positively and passionately about the future they want to create through the investment? Have we examined it from multiple perspectives and reached a conclusion based on the consensus of everyone involved? We aim to be an Exciting Company, so we look at both the numbers that support the proposal and the passion behind it.

The third is to further pursue transformation of our business portfolio. Business portfolio management does not end once you have organized the portfolio. You need to constantly review it as market conditions and technological advantages change. We will continue disciplined renewal, concentrating investment in businesses that we should grow while withdrawing from businesses that have fulfilled their role.

Taking on new challenges requires time, and things do not always go according to plan. Therefore, patience is required even while taking aggressive actions. We need to face reality and move forward one step at a time. I believe that maintaining that attitude is our responsibility as management.

Q5. Could you share your thoughts on the people and organization that will support this transformation?

Trusting people and connecting are important

The source of our ability to drive reform is our people. I sincerely believe in the capabilities of every employee in our Group. I have seen their high level of practical ability and their sincere commitment to their work many times firsthand. The fact that we were able to complete the structural reforms of these two years without any major problems is entirely because each employee understood what we were doing and stood firm while taking ownership.

Our next aim should be creating a self-directed organization where each person can envision the Company growing through their own work and take action toward the future. Here, "growth" means expanding profits through our businesses. For departments directly linked to sales and profits, their contributions are relatively easy to understand. The challenge lies in corporate and indirect departments, where results are less directly visible. However, since these departments are indispensable to the Company, we need to connect the direction each department is pursuing to the Company's growth story. If every department can tell its own "success story," and more employees share a common purpose, the organization will become stronger and more vibrant. I want to further increase the number of organizations and employees who think and act this way.

As one of our initiatives, at the monthly *Syain kai* meeting, we recognize employees who are working hard in their workplaces as "shining employees." Whenever I hear why someone was nominated and hear a few words from the employees themselves, I am very happy to learn about the contributions they are making in their respective workplaces. We have also continued our Chain of Command Dialogue Meetings with department managers

and section managers since July 2025. These are not flashy initiatives, but I believe that organizational culture can only truly change through the accumulation of this kind of dialogue.

Another thing I am strongly conscious of is the importance of people who connect different areas of expertise. For example, even within an SBU (Strategic Business Unit), people in sales, procurement, development, manufacturing, quality, legal affairs, and other functions all have different perspectives. Naturally, their priorities, ways of thinking, and time horizons also differ. We will increasingly need people who can bring those differences to the table, discuss them, and guide everyone toward a shared vision. Chemical manufacturers are collections of specialized expertise, but the act of refining expertise alone does not create value. Unless we are a group that shares a common purpose of which each person can take personal ownership and that understands one another's positions and acts accordingly, we will not achieve significant results. I believe my role is to further develop that capability and pass it on to the next generation.

Q6. As president, what are you keeping in mind as you work to see this transformation through?

The first thing that will be tested is my own attitude as the head of management

Continuing transformation requires a great deal of energy. I am entering my fifth year as President. I am confident that I can harness this energy going forward, but I also recognize that I have to keep motivating myself constantly. When faced with a rocky road or a smooth path, people naturally want to choose the easier route. That is precisely why we have to maintain a heightened sense of awareness and resolve at all times. If we are asking our employees to transform, then unless the management team, including myself, shows them how we are changing ourselves, no one will follow us. That is why I continue to communicate what I intend to do and what I am committed to in my own words. And transformation cannot be achieved by one person alone. I feel that the presence of the Executive Officers working alongside me to drive this transformation is enormously important. Whatever the challenge, taking it on as a team makes our efforts more effective and helps us sustain them over time.

Q7. Finally, what kind of organization would you like the Sakai Chemical Group to be 10 years from now?

I want to make this a company where employees in their 20s and 30s will think "I'm glad I chose to work here."

When I look at our engagement scores, I feel that there is room for improvement. I want to continue building an environment where every employee can take on challenges with confidence, while listening carefully to what our employees have to say.

Enhancing corporate value is not simply about raising the share price. It means creating a workplace where employees can work with pride, having customers appreciate the presence of Sakai Chemical, and delivering value to society. I believe that the accumulation of these results will ultimately lead to enhanced corporate value.

If we put forward a flashy vision and fail to achieve it, we will have lied to both our investors and our employees. That is why I do not want to draw up some eye-catching, fictional scenario. Even if it takes time, we will keep at it. I believe there is no future except the one we build one step at a time. That is why I will continue visiting our workplaces, engaging in dialogue, and moving forward without ever stopping our transformation.



Challenges inevitably involve failure, but failure has meaning if it becomes an experience that leads to the next step. Guided by our mission of "Chemistry for a Friendly Future," we aim to become an excellent company that delivers value to society with Smart Material at its core. It may be a steady journey, and we are committed to moving forward with certainty, one step at a time.

Toshiyuki Yagura
President and Representative Director
Executive Officer



Shinji Ogama
Sakai Chemical Industry Co., Ltd.
Director and Executive Officer
Head of Corporate Strategy Division

Hisao Miyagawa
Outside Director

Winning starts with customers, not the market

Finding the winning path, focusing capital, and driving growth

Progress in structural reform: Current status of business portfolio transformation and capital policy

Miyagawa In business management, there are two concepts: market-in (identifying market needs and supplying products to meet them) and product-out (supplying products to the market primarily by leveraging the company's own development capabilities).

In my view, the Group has traditionally been a product-out company, developing competitive products by leveraging its technological capabilities as a strength and cultivating markets by applying its technologies to a wide range of uses. The Group has historically leveraged the strengths of the upstream materials industry to continually develop downstream customer markets, driven by its technological capabilities and its ability to apply its technologies to a wide range of uses.

However, as a result, the number of customers and business areas gradually expanded, and before we knew it, some businesses with low profitability had begun to emerge. Moreover, because our business model depends on economies of scale, we can easily get drawn into price competition built around continuous, mass production at large-scale facilities. This inevitably weighs on the balance sheet and reduces capital efficiency.

It was against this backdrop that we launched this major transformation under the Medium-Term Management Plan Transformation: BEYOND 2030. Under this plan, we reassessed our businesses from the perspective of return on capital and ultimately achieved the symbolic and bold restructuring step of exiting the pigment-grade titanium dioxide business, as we seek to reinvent the Group. That is how I see the Group today. Mr. Ogama, you have been directly involved in driving this transformation. How do you feel about the progress we have made so far?

Ogama I think your assessment is spot on, Mr. Miyagawa. That analysis is exactly what led us to Transformation: BEYOND 2030. The Medium-Term Management Plan Transformation: BEYOND 2030 differs significantly from our previous medium-term management plans. Through this plan, the Sakai Chemical Group seeks to achieve continuous transformation by envisioning the future of society, people's lives, and the ideal form of each company within the Sakai Chemical Group, while clearly deciding which businesses to expand and which to scale back or exit.

Among the key initiatives set out in Transformation: BEYOND 2030, under the initiative to realign our business portfolio toward high-value-added products, we have worked to exit the pigment-grade titanium dioxide business and withdraw from unprofitable products such as lead-based stabilizers for the domestic market in the plastic additives business, as well as to improve production efficiency by consolidating production sites. Even in our continuing businesses, we took decisive measures such as raising prices and reducing costs, which helped us establish a stable earnings base. I believe we have made solid progress in structural reform and achieved meaningful results.

On the other hand, our growth businesses, which are expected to drive future increases in profit, have struggled to grow. The electronic materials business has been keeping pace with the rapidly growing demand related to AI, with sales of dielectrics and dielectric materials that meet this demand doubling year on year. However, the cosmetic materials

business has struggled to respond to changing trends in sunscreen products, while the organic chemicals business has struggled to win new contract projects for active pharmaceutical ingredients and intermediates. So, growing profits in these businesses remains a major challenge as we move toward the next Medium-Term Management Plan.

Miyagawa It may be a point for reflection that businesses initially expected to be growth areas have not delivered the anticipated results, but I am actually optimistic. After all, it is called a business portfolio, and it is natural for various issues to emerge in individual businesses and to address them over time, repeating this process. What concerns me more is capital policy, which is the other side of the coin of the business portfolio discussion. How is that progressing?

Ogama We've made progress, but we still face some challenges. First, we've made progress in generating stronger operating cash flow and improving CCC. We are targeting ¥34 billion in operating cash flow generation over three years, and the cumulative figure for the first two years is ¥26.4 billion, putting us at 78% of the target, so we've been steadily generating cash. As for CCC, we set a target of reducing working capital by ¥7 billion over three years and improving CCC from 219 days to 180 days. By reviewing collection periods for trade receivables and reducing inventories, we have reduced working capital by ¥8.9 billion over two years. CCC has improved to 178 days, meaning we have essentially achieved the year-three target ahead of schedule. In addition, we have sold underutilized non-current assets and strengthened shareholder returns. Under Transformation: BEYOND 2030, our shareholder return policy is to provide dividends at a higher level than before, using a DOE of 3% as a guideline, and to conduct flexible share buybacks. We will also consider additional returns if profits exceed the plan, with a policy of returning ¥8 billion or more to shareholders over three years. In the first year, we paid a dividend of ¥135 per share (total dividends of ¥2.2 billion), while in the second year, we paid a dividend of ¥145 per share (total dividends of ¥2.2 billion) and conducted ¥2.5 billion in share buybacks. Total shareholder returns over the first two years totaled ¥6.9 billion, putting us at 86% of the target, so we are proceeding steadily.

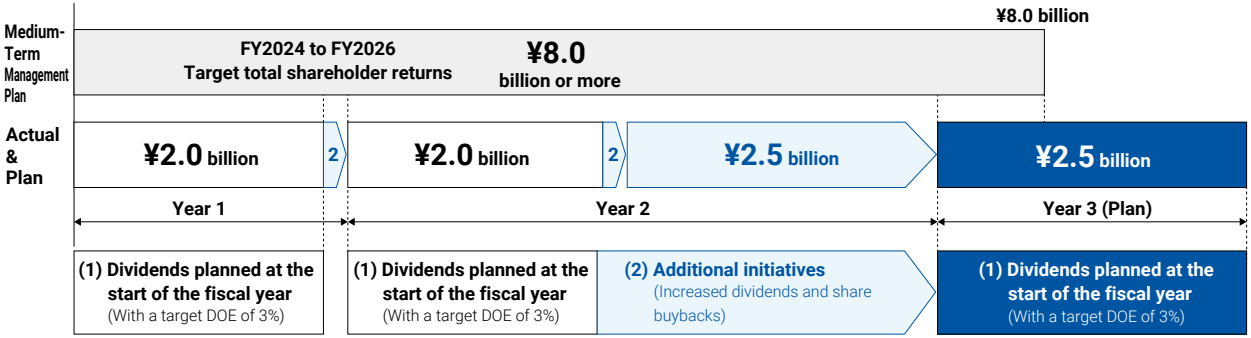
Operating profit: Difference from the initial plan for the final year of Transformation: BEYOND 2030 (FY2026)

(Unit: ¥ billion)

Business and corporate expenses	Initial plan under the previous segment structure	Initial plan after the segment changes* A	Outlook B	Difference B-A	Comments (Including businesses considered for efficiency improvement among stable businesses)
Growth businesses	5.7	6.5	3.0	(3.5)	Electronic materials: Generally in line with plan Cosmetic materials: Significantly below plan Organic chemicals: Below plan for active pharmaceutical ingredients and intermediates
Stable businesses	2.7	3.9	4.0	0.1	Businesses considered for efficiency improvement: Achieved profitability Stable businesses: Achieved profitability and expanded new sales opportunities
Medical business	0.2	0.2	(0.2)	(0.4)	Below plan due to drug price reductions for key products
Other	0.4	0.7	1.5	0.8	Achieved profitability in previously unprofitable products and other businesses
Corporate expenses	0	(2.3)	(2.3)	0	Controlled corporate expenses through workforce planning and other measures
Total	**9.0**	**9.0**	**6.0**	**(3.0)**	

Approximate figures before corporate expense allocation, as revised following the segment changes implemented in FY2024

Shareholder returns



Our biggest challenge is ROE. Despite implementing these capital policies, ROE was 6.6% in the first year of the Medium-Term Management Plan and 3.5% in the second year, which is still not sufficiently above our cost of capital. In addition to implementing capital policies, we need to further strengthen our earning power in our core businesses, and

we recognize this as our biggest challenge.

Miyagawa I'd like to emphasize one point again: Both the business portfolio revision and ROE targets are means, not ends in themselves. Wouldn't it be better to start with the strategies we have formulated, then review the business portfolio to execute them and place greater emphasis on return on capital when evaluating the portfolio? This is a trap that many Japanese companies—not just Sakai Chemical—can fall into. In a sense, this Medium-Term Management Plan has enabled us to put the necessary framework in place. I believe that the next step is to make greater efforts to communicate our strategies based on our competitive advantages to investors in a more straightforward and compelling manner.

Specific customer-focused business and the Multi-Pilot system

Miyagawa Financial indicator targets are important, but as a business scholar with practical experience at an investment bank and a consulting firm, I naturally focus on corporate strategy and business models. Returning to the discussion of market-in and product-out, there's another aspect of the Group's business model that a simple product-out explanation doesn't fully capture. Because the products we handle are intermediates, our customers are professionals with stringent quality requirements. Once a business relationship begins, stable supply is essential, stockouts are unacceptable, and a rapid response is required. Rather than developing the market as a whole through a conventional marketing strategy, such businesses need to target specific customers and develop the market customer by customer.

I believe that the Group's strength lies not so much in conventional market-in as in a business model built around specific customers, in which we become deeply integrated into specific customers' manufacturing processes and quality requirements—in other words, not market-in, but "client-in" with specific customers. I believe our ability to adopt this model is the Group's path to winning and a source of competitive advantage. Once a relationship has been established with a specific customer, contracts tend to be long-term, resulting in less deviation between sales forecasts and actual sales and making it easier to coordinate production and inventory operations. What matters is not marketing capability, but our technological capabilities and pricing. Furthermore, because our products occupy positions that are indispensable to producing the final product, thoroughly pursuing a business model built around specific customers allows us to make it increasingly difficult for customers to switch suppliers. This, in turn, enables us to compete through high-value-added, low-volume production. I see this as the Group's path to winning.

Commoditization and the shift toward bulk products are major threats to this model. We should not enter markets that are becoming commoditized or shifting toward bulk products. If we see even the slightest signs of such a trend, we should withdraw immediately. Wouldn't you say this is the essence of the Group's business portfolio transformation? I understand the symbolic concept behind this to be Smart Materials, while the Multi-Pilot R&D facility we are currently investing in is what puts that concept into practice. Everything the Group does is connected through a clear chain of cause and effect, and it can all be explained logically.

Ogama Mr. Miyagawa, you often say, "Rather than casually setting numerical targets, management should talk about its path to winning." I completely agree. I started out as an engineer, and when I was working in the R&D Division and electronic materials business, we always started by listening to customers' requests. We saw little value in developing and selling products that our competitors could also offer. That is where we began thinking about differentiation. What are our strengths? How can we leverage them to build sticky relationships with customers? Where are the opportunities for us to grow while creating value for customers? Those questions shaped the proposals we made. We achieved a certain degree of success in the electronic materials business, and once a supply chain is established, switching costs increase, making it difficult for competitors to break in. This also creates a positive cycle in which we are approached about the next development project and have opportunities to make further proposals.

We developed the Multi-Pilot system because we realized that we needed to systematize this path to winning. We wanted to establish a mechanism that would allow us, as a company, to apply this approach consistently and repeatedly, rather than relying on individual expertise and one-off successes. After several years of discussion, we are now putting the concept into practice. We expect many of the themes we pursue to fail, and that's why we take on a broad range of themes and repeatedly test and validate them on a small scale. We will synthesize and test materials early in the process. In other words, by going back and forth between technology and market hypotheses, we aim to reduce uncertainty, identify themes with a path to winning, and create Smart Materials one after another.

Toward the next stage of growth
The future of organizational capabilities and the business portfolio

Miyagawa However, one challenge in maintaining this path to winning is our high barriers to exit. Once we start supplying a product, it is difficult to withdraw because our business model is built around specific customers. The fundamental meaning of a business portfolio is to continually reconfigure the portfolio while monitoring the businesses. Mr. Ogama, how can we address this issue?

Ogama Businesses with high barriers to entry also tend to have high barriers to exit, so this is certainly a challenging issue. What matters, I believe, is to consider—over an appropriate time horizon—whether each theme is truly necessary for achieving the future state we want for the Sakai Chemical Group. From the outset, can we achieve sustainable growth while anticipating future changes in the market structure? Is the individual business profitable, and does it have market growth potential and technological advantages? Can we leverage the Group's strengths to solve social issues? Have we clearly established an exit threshold? After thoroughly discussing these questions, we should move forward with the themes that we believe should be pursued. I believe that accumulating these efforts can enable us to further enhance our business portfolio management.

Miyagawa That is precisely the key point. When we talk about business portfolio management, it tends to sound like a matter of selecting which businesses to grow and which to exit, but, in my opinion, its essence is more dynamic. Businesses should not simply be classified once and left at that; they need to be continually reassessed in light of changes in the market environment, customer needs, technological advantages, and capital efficiency. Particularly in the business model built around specific customers we discussed earlier, as Mr. Ogama pointed out, we need the ability to anticipate change, the ability to consider things from a range of time horizons, and the courage to make decisions.

Business portfolio management is not simply about exiting low-profitability businesses; it is management itself, in the sense of determining where to direct our organizational capabilities. Through mechanisms such as Multi-Pilot, we can conduct small-scale trials, make decisions quickly, and concentrate management resources on themes with growth potential. At the same time, we should review themes at an early stage when we are no longer able to leverage our strengths. I believe that continuing this disciplined renewal will create the future of the Sakai Chemical Group. In that sense, numerical targets are certainly important, but going forward, I would like the Board of Directors to engage in deeper discussions about where we should invest our management resources to create competitive advantages unique to the Group, as well as which businesses are approaching the end of their role.

Ogama When I was working in the R&D Division, I often asked my supervisor, "What are our strengths?" However, we focused mainly on technology in those discussions, and I do not think we fully considered our strengths across the entire value chain. The company is celebrating its 108th anniversary this year, and when I consider why we have been able to survive, the answer is undoubtedly because we have continued to provide unique products and services that create value for customers while adapting to changing times. The world and capital markets are changing rapidly. To thrive in the years ahead, we once again need to keep providing unique products and services that create value for customers. I see business portfolio transformation and capital policy as the means to achieve this.

Going forward, I will take on the important responsibility of not only running the business but also making and overseeing management decisions. I would like to further explore our strengths across the entire value chain and continue building a path to winning and a growth story unique to the Sakai Chemical Group.

Miyagawa As an outside director, I'd also like to share what I hope to accomplish. What I am most focused on now is the organizational capabilities unique to the Group. By "organizational capabilities," I mean our ability to recognize changes in the external environment that we cannot control and develop the management resources we can control. These resources include the skills and knowledge we have built up over many years in areas such as coordination, management, production, and distribution. We must then have the ability to execute strategies that give us a competitive advantage.

The Group possesses not only the capabilities of individual employees but also unique organizational capabilities cultivated over many years. These include, for example, the ability to quickly identify customers' challenges and seamlessly connect R&D, production, and sales to bring products to market, as well as the ability to turn trust-based relationships with customers into long-term business relationships. Perhaps what has enabled us to remain in business for 108 years is not any individual product or technology, but the organizational capabilities we have built to identify customer value and nurture it into businesses.

To fully leverage these organizational capabilities, we need to explore them in greater depth. I believe that taking a deeper look at what factors influence the performance of the Sakai Chemical Group, identifying where risks might be hiding, and considering how the competitive environment is likely to change going forward will enable us to uncover even greater potential.

My role is to keep verifying whether we are gathering enough information, whether we are thoroughly discussing the path to winning we have identified, and whether we are appropriately allocating management resources to make it a reality. Ultimately, it is management's business ideas that will shape our future. As an outside director, I would like to support the effort to connect those capabilities to our next growth strategy.



Hiroshi Nakao
Executive Officer
Deputy Head, Research & Development Division
Sakai Chemical Industry Co., Ltd.

Koichiro Magara
Director and Executive Officer
Head of Research & Development Division
Sakai Chemical Industry Co., Ltd

Yoshikazu Ito
Outside Director

Now is the time to act

Turning Smart Materials into results through a sense of urgency and ownership

Formative experiences in R&D

Ito Since becoming an outside director in 2021, I have advocated optimizing CCC and strengthening the PDCA cycle by setting KGIs and KPIs. As we transform our business portfolio under Transformation: BEYOND 2030, I believe our key priorities are an innovation strategy that continuously creates new products and businesses, along with high-return capital investment that translates those innovations into earnings. Today, I'd like to ask Director Magara, who oversees this strategy, and Executive Officer Nakao, who leads its execution, about these efforts. To begin, could you tell us about some of your formative experiences?

Magara About 20 years ago, I was responsible for technology development for cosmetic materials. I visited many customers and developed products tailored to their individual needs, aiming to increase customer adoption. Although customer adoption increased, production efficiency deteriorated as we shifted toward high-mix, low-volume production, and volumes did not grow as much as expected. At the time, I focused too much on the customers right in front of me and was not looking at the end markets or consumers. This experience taught me to set themes in areas where we can leverage our strengths while keeping end-market needs in mind.

Nakao I experienced both the failure to commercialize a product based on single-crystal growth and the withdrawal from a business after we successfully developed phosphors for plasma displays. The former taught me the importance of setting themes based not on technology seeds alone, but on market needs and business potential. The latter taught me that no business lasts forever, which is precisely why now is the time to act. These lessons still shape how I manage R&D today.

Ito Powder materials used in chemical products, including their crystal structures, particle size distributions, and particle shapes, can significantly affect the functionality and yield of our customers' products. Our expertise and integrated strength in the core technologies of powder processing—crystallization, pulverization, classification, and dispersion—are the lifeblood of the Sakai Chemical Group. Even when individual themes do not succeed, we need to continue passing on and advancing these fundamental technologies.

Breaking away from commodities with Smart Material

Ito Could you tell us about the Group's key challenges in recent years and its basic R&D policy?

Magara Our biggest challenge is moving away from commodities and transforming our business toward high-value-added functional materials. Our decision to end the pigment-grade titanium dioxide business at the end of 2025, after almost 90 years, was also based on the reality that we could not differentiate ourselves sufficiently through material performance alone and remained exposed to price competition. High-value-added functional materials are not simply expensive materials. They deliver value proposals by solving customers' challenges through functionality, performance, and environmental compatibility, while integrating formulations, processes, and services into a single offering. We need to transform the business structure itself from a low-margin commodity model to a model based on technological differentiation

and co-creation with customers.

Ito This is the shift from B2B to B2B2C that I often talk about. We need to gain a foothold in customers' R&D divisions and earn their trust so they will share insights into what end customers are looking for.

Magara Exactly. For cosmetic materials, we have begun joint research with development personnel at brand manufacturers and ODMs, as well as initiatives to become involved from the formulation design stage of the final products. Our relationships with customers are shifting from simply proposing specifications to building partnerships.

Nakao Smart Materials are at the heart of this transformation. In 2021, we established the Research & Business Development Department and adopted a market-needs-driven approach, but simply setting a direction does not change how people work. We have now placed Smart Materials at the center of R&D as a common banner that helps everyone understand why Sakai Chemical is doing this and how we will contribute to society. We have designated three products as Smart Materials: Lumate, a cosmetic inorganic fluorescent material; Multhiol, a multifunctional thiol; and SZR, a zirconium oxide dispersion.

Ito I've seen companies come up with good concepts but fail to turn them into results. What do you think is the key to making this work?

Nakao I believe the key is each person's sense of urgency and sense of ownership. Materials inevitably become commoditized, and no business lasts forever. The concern that now is the time to act drives us to venture into high-value-added fields. I believe many companies that fail to make progress do so because their strategies remain plans on paper because no one takes ownership and sees them through.

Magara What I particularly value on the front lines is that researchers do not limit themselves by stating where their job ends. Only when researchers stay involved from theme exploration through prototyping and commercialization can we turn concepts into tangible results.

Five Innovation Initiatives

Ito Could you tell us about the specific initiatives you are undertaking to continuously generate results?

Magara Looking beyond the current Medium-Term Management Plan, we will pursue five initiatives to maximize the results of our R&D efforts over the long term (see right). I place particular emphasis on the first, "Deepening and expanding Smart Materials." I want to expand this initiative from individual companies across the entire Group and combine the strengths of each company—including the creation of inorganic and organic materials, powder processing, formulation, and engineering—to create valuable processes and services beyond the materials themselves. We will also steadily increase the number of products designated as Smart Materials.

Nakao I place particular emphasis on the second initiative, "Strengthening marketing capabilities at the organizational level." Rather than simply assuming that an interesting material will sell, we need to look ahead and consider who we are creating value for. That is the key to making Smart Materials work. The Marketing Subcommittee analyzes markets in the three fields of electronic materials, healthcare, and carbon neutrality and identifies white space opportunities where target customer needs intersect with our strengths.

Ito So this framework combines conventional product innovation with process innovation through the Multi-Pilot system, with intellectual property strategy and external collaboration supporting both. I also strongly felt collaboration and mutual growth at the SAKAINOVATION presentations, the Group-wide technology presentation event.

Nakao As one example of connecting customer needs with product development, we applied materials informatics (MI) to non-nano zinc oxide, one of our priority themes for

<Five Innovation Initiatives>

1. Deepening and expanding Smart Materials
2. Strengthening marketing capabilities at the organizational level
3. Establishing a Multi-Pilot system
4. Strengthening the intellectual property strategy
5. Promoting external collaboration and open innovation

accelerated development, and shortened the time needed to transfer production to a plant. Last year, we established a Pilot Plant Group within the Production Technology Department and launched a joint task force to advance prototyping in collaboration with developers at the Corporate Research Laboratories. The transition from research to mass production is becoming increasingly seamless.

Magara In terms of collaboration across the Group as well, new cross-Group projects have emerged from the New Business Creation Project and are now underway. We select themes through Smart Materials, identify markets through marketing, rapidly commercialize new products through the Multi-Pilot system and external collaboration, and protect them through our intellectual property strategy. I want these five initiatives to be closely linked and work as an integrated whole, enabling us to continuously generate results that extend beyond the scope of the Medium-Term Management Plan.

Ito You've given us a comprehensive overview of the challenges, our basic policies, the thinking behind Smart Materials, and how we can make commercialization more effective. I find the outlook very encouraging. This transformation can only bear fruit through strong collaboration with the sales, production, and corporate divisions. As we optimize our business portfolio, I look forward to seeing new products and businesses begin to grow. I will continue to monitor their progress closely.



Enhance management strategy through human capital management

Leverage people by connecting individual initiatives to management strategy

Where we stand two years after establishing the Human Capital Committee

Morioka In April 2024, Sakai Chemical established the Human Capital Committee at the initiative of two members of our internal Diversity Subcommittee. It all started when these members took ownership of these issues from their position close to the front lines. Over the past two years, we have steadily put into practice a series of initiatives that the Human Resources Section and Human Capital Committee had identified as necessary. These include developing a curriculum for management personnel development, conducting training by organizational level, holding career training for women, introducing talent management, conducting an employee engagement survey, and holding Syain kai meetings.

Hamazaki I think the Human Capital Committee's emergence from an awareness of internal issues was a very good starting point. Looking back over these two years, what do you feel has been the biggest challenge?

Morioka Implementing initiatives individually has left weak connections between them. Our initiatives for development, placement, evaluation, and ways of working cannot readily be described as fully connected to our management strategy as one coherent line. That is precisely why, in the next Medium-Term Management Plan, I want to clearly define the ideal form of our Company, develop a human resources portfolio, and connect everything from investment to initiatives that make work more rewarding as one coherent line.

Hamazaki In developing the next Medium-Term Management Plan, the first step is to review and analyze all initiatives to date, identify what we have and have not accomplished, and incorporate the findings into our next strategy. Human capital management is not just about individual initiatives such as talent development or the talent portfolio. It is a comprehensive design for integrating strategy, including compensation, human resources systems, ways of working, the workplace environment, DEI, dialogue between management and the front lines, and more.

Connecting initiatives to management strategy

Morioka One challenge in advancing human capital management is strengthening ties between the Human Capital Committee, senior management, and individual departments. However, the committee alone has limited capacity to connect initiatives across departments.
Ms. Hamazaki, what are your thoughts on this matter?

Hamazaki Human capital management is not something the committee can handle on its own. We need to incorporate our human resources strategy into our management strategy, with the Human Capital Committee serving as the driving force behind its implementation. It also needs to connect organically with themes that management itself needs to decide on, such as DX and improvements to the workplace environment. If that connection is weak, individual initiatives will remain confined within individual departments. If we want to make human capital management an important strategic theme for the Company, establishing a project that operates under a structure close to direct oversight by the President can also be an effective way to demonstrate the Company-wide commitment. By reconsidering the optimal organizational structure, including staff functions and frontline operations, creating an environment in which everyone feels comfortable voicing their opinions, and listening to workplace issues, I believe that we can expand awareness across the Company and raise organizational consciousness.