

June 20, 2017

To our shareholders:

Masaaki Yabe

President

SAKAI CHEMICAL INDUSTRY CO., LTD.

**SUPPLEMENTAL EXPLANATION REGARDING PROPOSAL 2 OF
THE 122ND ORDINARY GENERAL MEETING OF SHAREHOLDERS**

SAKAI CHEMICAL INDUSTRY CO., LTD. (the “Company”) has received information that Institutional Shareholder Services Inc. (“ISS”) is advising a vote against election of Director candidate Masaaki Yabe in Proposal 2: Election of Twelve (12) Directors at the 122nd Ordinary General Meeting of Shareholders, scheduled for June 28, 2017.

The Company would like to provide the supplemental explanation for this proposal as below.

1. Reason for ISS’s recommendation to vote against the election of the candidate

ISS is against the appointment of the top management because the Company’s ROE has not reached ISS’s standard.

2. The Company’s initiatives

The Company also recognizes increase of ROE as an important priority. The following measures now being taken by the Company are designed to increase the Company’s earnings. They will lead to improvement of ROE.

(1) Initiatives to increase sales and profits in the chemical business.

(i) Increase the utilization rate at our three major invested plants

To support its future business, the Company group (the “Group”) has constructed the following plants, which are already operating: a nickel hydrogenation catalyst plant (SAKAI CHEMICAL INDUSTRY CO., LTD.) a dispersion agent plant (RESINO COLOR INDUSTRY CO., LTD.), and a pharmaceutical ingredients and intermediates plant (KATAYAMA SEIYAKUSHO CO., LTD). These can be expected to grow going forward, and represent investments in the Company’s strategic business fields of hydrogenated plastic, cosmetics and pharmaceuticals. To increase the utilization rate of these plants going forward, we will aggressively engage in sales activities and business activities for acquiring orders.

(ii) Increase in facilities and production efficiency for core products

In electronic materials products, we expect to see strong demand going forward, driven by demand for smartphones and tablets, as well as growth in demand for use in automobiles, which are recently using an increasing amount of electronic equipment. We have therefore started to bolster our production facilities for high-purity barium carbonate. In addition, we also plan to increase our production facilities for highly refractive materials used in optical films as a new product.

Meanwhile, as fuel prices are currently following an upward trend, we are planning to enable stable production of high quality products at lower cost by making capital investments to integrate production facilities, mainly inorganic materials plants, and to improve processes.

(iii) Acceleration of collaboration with other companies and overseas expansion in plastic additives

The PVC stabilizer market today is seeing a global shift away from lead. The Group manufactures calcium and zinc-based stabilizers and hydrotalcite, which is used as a raw

material for calcium and zinc-based stabilizers and in films for agricultural use. We are strengthening sales of these products, primarily overseas.

As part of this initiative, the Company's subsidiary SAKAI CHEMICAL (VIETNAM) CO., LTD. has opened an office in Ho Chi Minh City to conduct market research and promote sales, mainly in Asia. By establishing an office in the economic center of Vietnam, where we already have a manufacturing base, we will be able to gather information quickly and conduct agile sales activities.

In addition, the Company has decided to collaborate with TODA KOGYO CORP. in the field of hydrotalcite. Specifically, the production of hydrotalcite using a new manufacturing method jointly developed by the two companies will be consigned to TODA KOGYO, while the Company will be responsible for sales. This will bring the Group's total handling volume to 15,000 ton, enabling it to compete at the same level with major global players. We are now ready to sell high quality, cost-competitive hydrotalcite in the global markets going forward.

(2) Initiatives for increasing sales and profits in the pharmaceutical business

The pharmaceutical business has faced adverse conditions for the past few years due to decreases in drug prices and the impact of generic drugs. KAIGEN PHARMA CO., LTD. has determined its direction for the pharmaceutical business as "transitioning to business that is not influenced by drug price revisions, the impact of generics, or traditional trade flows in OTC drugs," and is making concerted efforts in this regard.

The following are some of the results of these efforts.

(i) Launch of GLUCAGON for Inj. 1 unit "ITO"

This product is used to suppress peristalsis during preparation procedures for endoscopy of the digestive tract.

(ii) Launch of products for cosmetic surgery and aesthetic dermatology

We launched four beauty-related products such as anti-wrinkle, anti-spot and whitening products.

(iii) Start of manufacture and exports to the U.S. of ReBOSSIS bone-void filling material

KAIGEN PHARMA has undertaken the manufacturing of this product, which was developed by the venture company ORTHOREBIRTH CO. LTD. Currently, the product is only being sold in the U.S.; however, we are looking to begin sales in Japan in three years.

In addition to the above new products, we are also working on new types of cancer screening. To realize our blood and saliva testing business, in July 2017 we plan to open a clinical laboratory. Furthermore, with regard to sodium alginate preparations, we have been proceeding with development of a submucosal injection preparation for endoscopy under the direction of Oita University, with plans to commercialize it in 2019.

(3) Increase of capital efficiency and enhancement of shareholder returns

At a Board of Directors meeting held on August 8, 2016, we resolved to conduct a repurchase of shares over three years with an upper limit of 5.0 billion yen.

Accordingly, we first made a repurchase of 1.0 billion yen worth of shares on November 25, 2016, through which we acquired 2,944,000 shares. Furthermore, at a Board of Directors meeting held on May 11, 2017, we resolved to conduct another repurchase with an upper limit of 1.0 billion yen and 2,500,000 shares through to September 21. We are currently conducting this repurchase.

Contact:

General Affairs Department (in charge : Yamaguchi, Matsumura)

TEL: 072-223-4111