

Reference Material

Shareholder Proposal to SK Kaken

No.1 Proposed Subject Matters

- (1) Amendment to the Articles of Incorporation (1)
- (2) Stock split
- (3) Amendment to the Articles of Incorporation (2)
- (4) Amendment to the Articles of Incorporation (3)
- (5) Cancellation of treasury shares
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- (7) Amendment to the Articles of Incorporation (4)
- (8) Amendment to the Articles of Incorporation (5)
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No.2 Summary and Reasons for the Proposals

- (1) Amendment to the Articles of Incorporation (1)
 - (i) Summary of the proposal

In the "Chapter 3: Ordinary General Meeting of Shareholders (OGM)" of the Articles of Incorporation, the following article is newly established as Article 12 and the articles after Article 12 of the present Articles of Incorporation are each moved down by one article. If any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

(Resolutions)

Article 12.

The Company may resolve at the OGM on matters relating to stock splits in addition to the matters provided for in the Companies Act.

- (ii) Reasons for the proposal.

The minimum purchase price of the Company's shares is extremely high at JPY3,700,000 (calculated from the closing price on 5 April, 2022) resulting in low trading liquidity and discouraging individual investors from investing in the company. Not only does this contribute to the Company's low valuation, but it has led to the Company only having 327 shareholders (as of March 2021), below

the 400 shareholder threshold for listing on the standard section of the Tokyo Stock Exchange ("TSE").

Furthermore, the Japanese Stock Exchange Conference and TSE have requested that the minimum purchase value of listed shares should be more than JPY50,000 and less than JPY500,000. 95% of TSE listed companies had a minimum purchase price of less than JPY500,000 (as of 5 April, 2022).

To improve the Company's liquidity, valuation and ensure that it can remain listed on the TSE, the Company should undertake a stock split by which one common share is split into 10 shares. This will decrease the minimum purchase price allowing more investors to purchase the Company's shares.

The Proposer, therefore, makes the proposal to change the Articles of Incorporation as described in "Summary of the proposals" so that the general meeting of shareholders may resolve the matters concerning the share split.

(2) Stock split

(i) Summary of the proposal.

Subject to the approval of the proposals "(1) Amendment to the Articles of Incorporation (1)" and "(3) Amendment to the Articles of Incorporation (2)", the following stock split shall be carried out in respect of the Company's ordinary shares.

(a) Split ratio

10 shares for each share

(b) Record date for split

Three weeks after the business day following the date of this Annual General Meeting of Shareholders

(c) The date of which the stock split becomes effective

Four weeks after the business day following the date of the Ordinary General Meeting of Shareholders

(ii) Reasons for the proposal

A stock split is proposed for the reasons stated in the agenda item "(1) Amendment to the Articles of Incorporation (1)".

(3) Amendment to the Articles of Incorporation (2)

(i) Summary of the proposal

Subject to the approval of the proposals "(1) Amendment to the Articles of Incorporation (1)" and "(2) Stock split" and the stock split in the proposal "(2) Stock split" taking effect, Article 5 of the Articles of Incorporation shall be amended as follows.

(Total number of shares authorized to be issued)

Article 5.

The total number of shares authorized to be issued by the Company shall be 96 million.

(ii) Reasons for the proposal.

To increase the total number of shares authorized for issue as stipulated in Article 5 (Total number of shares authorized for issue) of the current Articles of Incorporation in connection with the stock split described in the agenda item "(1) Amendment to the Articles of Incorporation".

(4) Amendment to the Articles of Incorporation (3)

(i) Summary of the proposal.

In the chapter "Chapter 3: Ordinary General Meeting of Shareholders" of the Articles of Incorporation, the following article is newly established as Article 12 and the articles after Article 12 of the present Articles of Incorporation are each moved down by one article. In addition, if any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

(Resolutions)

Article 12.

The Company may resolve at the OGM on matters relating to the cancellation of treasury shares, in addition to the matters provided for in the Companies Act.

(ii) Reasons for the proposal.

The Company held 438,469 treasury shares (as of 31 December 2021) which equates to approximately 14.0% of the total outstanding shares. Among the c.3,800 companies on the Tokyo Stock Exchange, only 207 companies have more treasury shares as a % of total shares, and the average company has only 3.8%. The percentage of shares held as a treasury by the Company is excessively large.

The Company has put forward no reason for holding so many treasury shares, and shareholders are exposed to the risk of these treasury shares being reissued and the value of their shares being diluted.

To eliminate such risk and for investors to recognize the true value of the Company's shares, the Company should cancel 394,560 treasury shares which equate to approximately 90% of the total treasury shares. The cancellation of treasury shares will contribute to enhancing the corporate value of the Company with no adverse effect.

Therefore, the Proposer proposes to amend the Articles of Incorporation as described in "Summary of the proposal" above so that the matters related to the cancellation of treasury shares can be resolved at the general meeting of shareholders.

(5) Cancellation of treasury shares

(i) Summary of the Proposal.

Subject to the proposal "(4) Partial amendment to the Articles of Incorporation (3)" being approved, 394,560 treasury shares held by the Company will be cancelled. In addition, if any adjustment (including, but not limited to, an adjustment based on a share split) to the number of shares stated in this proposal is necessary as a result of the passage of any other proposal (including a proposal based on a company proposal) at this Ordinary General Meeting of Shareholders, the number of shares stated in this proposal shall be read after the necessary adjustment.

(ii) Reasons for the proposal

For the reasons stated in the proposal item (4) Amendment to the Articles of Incorporation (3), the Proposer proposes the cancellation of treasury shares.

(6) Appropriation of surplus funds

(i) Summary of the proposal.

The surplus shall be appropriated as follows.

(a) Type of dividend property

Cash

(b) Dividend per share

800 per share of the Company's common stock, less the amount of surplus dividend per share of the Company's common stock proposed by the Board of Directors to this OGM and approved by the same meeting (or 800 per share of the Company's common stock if the Board of Directors does not propose an appropriation of surplus at the same meeting).

(c) Matters relating to the allocation of dividend assets and the total amount of such assets

The dividend amount per ordinary share as the Company's year-end dividend for the year ending 31 March 2022, as per (a) above (the total dividend amount is calculated by multiplying the dividend amount per share by the total number of ordinary shares issued by the Company (excluding treasury shares) as of 31 December 2021).

(d) the date on which the distribution of surplus becomes effective.

The date on which this OGM is held

(e) Commencement date of dividend payments

Three weeks after this OGM

(ii) Reasons for the proposal.

The Company's cash and cash equivalents have increased every year for the past 20 years. Even in times of economic difficulty, the Company has not needed to rely on its cash pile. Between 31-Mar-2020 and 31-Dec-2021, amidst a global pandemic, the Company's cash increased by 12%. While the Proposer is supportive of the Company having a secure financial base, stockpiling almost 70% of balance sheet assets in cash (as of 31-Dec-2021) defies reason. The Company's high cash balance has been caused by the Company's low priority on shareholder returns. Over the past five years, the Company has paid out only 14% of its profits through dividends, compared to Nippon Paint's and Kansai Paint's 35% and 38% respectively.

As the return on cash is far below the cost of capital, the Company holds most of its assets in cash, which reduces its ROE and damages shareholder value. The Company does not disclose its capital policy or the reasons for holding approximately 70% of its assets in cash.

In order to correct inefficiencies and ensure adequate shareholder returns, it is proposed to set the dividend payout ratio at 30% and to pay a dividend of 800 yen for the year ending 31 March 2022 (total dividend of 2,157 million yen (see Dec 2021)).

(7) Amendment to the Articles of Incorporation (4)

(i) Summary of the proposal

Paragraph 1 of Article 20 (Term of office of directors) of the Articles of Incorporation is amended as follows. In addition, if any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

The tenure of directors shall expire at the conclusion of the OGM relating to the last of the fiscal years ending within one year after their election.

(ii) Reasons for the proposal.

Against a background of increased awareness of the need to strengthen corporate governance, companies have been reducing the director terms from two to one year. 74% of all listed companies on the Tokyo Stock Exchange (“TSE”) in 2020 had one-year director terms, compared to 58% six years earlier (estimated from the TSE Listed Companies Corporate Governance White Paper 2017 and 2021). One year director terms allow shareholders to express their views at more frequent intervals fostering improved dialogue and accountability.

Amongst a myriad of various corporate governance failings, the Company adopts a system of two-year director terms. The Proposer proposes, therefore, that to allow for shareholders to voice their opinions more frequently, the term of office of directors is shortened from the current two years to one year.

(8) Amendment to the Articles of Incorporation (5)

(i) Summary of the Proposal

Article 18 (Number of directors) of the Articles of Incorporation is amended as follows. In addition, if any formal adjustments (including, but not limited to, the correction of misplaced article numbers) to the articles listed as this proposal are necessary as a result of the passage of other proposals (including those proposed by the Company) at this OGM, the articles listed as this proposal shall be amended accordingly.

The Company shall have no more than 10 directors, at least two of whom shall be independent outside directors.

(ii) Reasons for the proposal.

In the Corporate Governance Code, the issue of board independence is frequently emphasized. For companies that have a controlling shareholder the Corporate Governance Code stipulates that at least one-third of directors should be independent and for Standard Section listed companies even without a controlling shareholder, there should be at least two independent directors. According to the Tokyo Stock Exchange 2021 Corporate Governance White Paper, 85% of all companies had at least two independent directors

The Company is heavily intertwined with its controlling shareholder. The Chairman, President and one other director are related to the controlling shareholder. Furthermore, the Board of Directors is comprised of only one outside director. Based on this fact, minority shareholders of the Company are exposed to the risk of being treated unfairly.

To ensure effective oversight of management and directors, and to bring diverse perspectives to Board meetings, the Proposer proposes that the Articles of Association stipulate that the Company shall appoint at least two independent directors.

(9) Amendment to the Articles of Incorporation (6)

(i) Summary of the proposal

The following chapters shall be newly established in the present Articles of Incorporation, and the present Articles of Incorporation 'Chapter 7 Calculation' shall be changed to 'Chapter 8 Calculation' and Article 43 onwards shall be moved down by one article each. In addition, if any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

Chapter 7: Disclosure of Greenhouse Gas Emissions

(Disclosure of Greenhouse Gas Emissions).

Article 43.

The company discloses the company's Scope 1 and Scope 2 greenhouse gas emissions annually.

(ii) Reasons for the proposal

Principle 2 of the Corporate Governance Code states that companies should promote positive and proactive responses to sustainability issues. Unlike the Company's peers, Nippon Paint and Kansai Paint, who have made great efforts to address sustainability and provide transparent disclosure, the Company has not formulated even a basic sustainability policy, nor has it set targets for environmental improvements.

As part of the global concerted effort to reduce Greenhouse Gases (GHG) and Japan's own target of net-zero GHG emissions by 2050, it is paramount that companies recognise and manage their environmental impact.

While the Company needs to formulate a complete and all-encompassing sustainability policy, the Proposer proposes as a first step to allow for improved stakeholder accountability that the Proposer commits to disclosing scope 1 and 2 Greenhouse Gas emissions.