

Risks and Opportunities

Based on changes in the external environment, the Hodogaya Chemical Group has identified key social issues that will affect our medium- and long-term value creation, as well as the associated risks and opportunities. By clarifying these risks and opportunities, we

have identified material issues (materiality) that must be addressed. We will address social problems by responding appropriately to risks and taking advantage of opportunities, leading to the realization of further value creation.

External environment	Risks	Response to risks
 <p>Global environment</p> <ul style="list-style-type: none"> • Uncertainty regarding the global environment has become a major business issue. We recognize that it is necessary to envision multiple scenarios regarding increases in temperatures and strengthen resilience as part of our management strategy. <p>▶ Adoption of Paris Accord by COP21</p>	<ul style="list-style-type: none"> • Major impact on production activities due to severe natural disasters (human and facilities) • Increase in conservation costs • Supply chain having less trust in the Group due to lack of consideration for the environment • Economic losses due to violations of regulations in Japan and abroad • Less trust in the company • Loss of social trust or interruption in business due to decline in quality/safety, etc. • Major impact of the spread of infectious diseases on the economy and business activities • Loss of ability to continue business activities due to less trust from regions in which business is conducted 	<ul style="list-style-type: none"> • Conduct inspections of facilities and equipment and make repairs • Provide education related to operation standards, etc. • Conduct various types of training and make use of safety confirmation system • Achieve environmental targets for energy savings and reducing environmentally hazardous substances • Promote environment management, such as obtaining ISO 14001 certification throughout the company • Create a regulation compliance system • Regularly check revisions to overseas regulations • Strengthen functions related to educating, thoroughly informing people of, and checking rules related to quality and safety performance • Establish relationships with multiple suppliers • Thoroughly implement measures to prevent infectious diseases • Continue and strengthen activities that contribute to the sustainable development of regions where business is conducted
 <p>Society</p> <ul style="list-style-type: none"> • We recognize that responding to the advent of social value is an important issue for corporate management. <p>▶ SDGs adopted by UN</p> <p>▶ PRI signed by GPIF</p> <p>▶ Japan Business Federation's Charter of Corporate Behavior revised</p>	<ul style="list-style-type: none"> • Undermining of organizational performance due to a decline in the feeling of motivation by and ease of work for officers and personnel • Not promoting diversity management resulting in the stagnation of organizational capabilities and corporate value • Not promoting health and productivity management and workplace safety and health resulting in the stagnation of organizational capabilities and corporate value • Greater concern that a lack of interest in issues related to business and human rights will result in lawsuits, administrative disciplinary actions, deterioration in reputation, loss of personnel, and other problems 	<ul style="list-style-type: none"> • Develop and implement measures to increase engagement through engagement pulse surveys • Make use of personnel in a manner that stresses capabilities and skills • Create an environment in which it is possible for officers and personnel to contribute in a healthy and safe manner • Ascertain issues related to business and human rights and appropriately respond
 <p>People (society and organization)</p> <ul style="list-style-type: none"> • We recognize that appropriately responding to the massive changes in the environment that companies and personnel operate in and continually working to increase organization capabilities are important issues. <p>▶ Falling birth rates, graying of society, and shrinking working-age population in advanced countries</p> <p>▶ Women playing a more active role in society and greater diversity</p> <p>▶ Greater interest in health, such as recent measures to combat COVID-19</p> <p>▶ Continuing demands of workplace safety and health management system</p> <p>▶ More diverse lifestyles</p> <p>▶ Greater respect for human rights and fairer labor practices</p>	<ul style="list-style-type: none"> • Not being able to quickly and flexibly respond to more sophisticated corporate governance and thus harming corporate value in the medium term • Sustaining major losses or undermining the survival of the Company as a result of legal violations, scandals, etc. • Sustaining major losses or undermining the survival of the Company as a result of not implementing measures to properly reduce risks due to insufficient risk awareness and evaluation 	<ul style="list-style-type: none"> • Improve and expand governance as a company listed in the Tokyo Stock Exchange's Prime Market • Thoroughly implement compliance to prevent legal violations, scandals, defects, etc. • Implement appropriate measures to reduce risks through extensive but detailed risk awareness/evaluations
 <p>Governance</p> <ul style="list-style-type: none"> • We recognize that continually working to reinforce the corporate governance, compliance, and risk management functions within the corporation is an important issue. <p>▶ 2021 revisions to Corporate Governance Code</p> <p>▶ Continuing quality-related scandals and serious defects in internal controls at listed companies</p> <p>▶ Risks of pandemic and disasters</p>		

Opportunities	Response to opportunities	Materiality
<ul style="list-style-type: none"> • Expanding demand for climate change mitigation/adaptation products • Expanding demand for products that contribute to lighter environmental impact • Expanding demand for products that conform to regulations in various countries • Expanding demand for products that offer the value of quality and safety performance • Expanding demand for products that help maintain health • Increase corporate value by winning the trust of communities in which business is conducted and stabilizing business 	<ul style="list-style-type: none"> • Develop and sell climate change mitigation/adaptation products • Expand businesses related to purifying water, etc. • Promoting green chemistry • Develop and sell products that are compliant with regulations in various countries • Develop and sell products that offer the value of quality and safety performance • Develop and sell products that help maintain health • Actively undertake exchanges with and contribute to communities in which business is conducted • Continually implement measures to increase engagement and verify effectiveness through pulse survey • Actively recruit and promote people with capabilities and skills regardless of sex, where they are from, or other attributes, and create an environment in which people can demonstrate their capabilities and skills to the greatest extent possible • Implement a wide range of measures to improve the health and vitality of officers and personnel, raise productivity, and invigorate the organization • Ascertain and evaluate human rights violation risks and establish processes for making improvements. Keep in mind the risk of human rights violations in the supply chain. • Further increase effectiveness through the appropriate division of duties related to supervision responsibilities of directors and the decision, implementation, and accountabilities of executive officers • Continue to provide education to spread compliance and impose disciplinary measures in the case of compliance violations • Discover business and profit opportunities through extensive but detailed risk awareness/evaluations and risk reduction measures 	<ul style="list-style-type: none"> • Responding to climate change • Maintaining air, water, soil environments • Ensuring the safety of products and chemical substances • Improving value and reliability of products • Helping maintain health • Contributing to communities • Improving feeling of motivation to work • Promoting diversity • Promoting health and productivity management and workplace safety and health • Respecting human rights • Expanding corporate governance • Spreading compliance • Thoroughly spreading risk manage
<ul style="list-style-type: none"> • Increase the feeling of motivation and ease of work of officers and personnel as well as increase organizational performance • Improve organization capabilities and increase corporate value by appropriately conducting diversity management • Improve organization capabilities and increase corporate value by appropriately conducting health and productivity management and ensuring workplace safety and health • Increase corporate value by appropriately responding to issues related to business and human rights • Increase corporate value by continuing to promote corporate governance compatible with the monitoring model • Increase corporate value by thoroughly implementing compliance, preventing legal violations, scandals, and defects • Expand business and profit opportunities by uncovering opportunities from related risks while minimizing losses in that risk field 		