

Related Materiality
<ul style="list-style-type: none"> Enhance and strengthen corporate governance

Basic approach

By means of our original portfolio and environmentally friendly manufacturing with a focus on specialty products, the Hodogaya Chemical Group aims to be a company that contributes to achieving a sustainable society and remains cognizant of value creation for a wide range of stakeholders — including shareholders, customers, partner companies, local communities, and personnel. At the same time, we consider top priority management objectives to include: developing economies and industries at home and abroad, contributing to the prosperity of society, ensuring the soundness and legality of business management, and achieving gains in efficiency. In the process, we strive to enhance and strengthen our corporate governance system.

List of Corporate Governance Systems*1



Organizational Design	Company with an Audit & Supervisory Committee
Chairperson of the Board of Directors*2	President
Number of Directors	7
Number of Outside Directors	3 (42.9%)
Number of female Directors	1
Number of Directors who are Audit & Supervisory Committee Members	4
Chairperson of the Audit & Supervisory Committee	Internal Directors
Number of Audit & Supervisory Committee Members	4
Number of Outside Directors	3
Voluntary Committee	Nominating and Compensation Committee
Chairperson of the Nominating and Compensation Committee	Outside Director
Number of Nominating and Compensation Committee Members	5
Number of Outside Directors	3
Directors' Term of Office	1 year (2 years for Directors who are Audit & Supervisory Committee Members)
Adoption of an executive officer system	Adopted
Introduction of a performance-linked compensation system	Compensation linked to short-term performance and compensation linked to mid- to long-term performance
Financial Auditor	Grant Thornton Taiyo LLC

*1 As of June 27, 2023

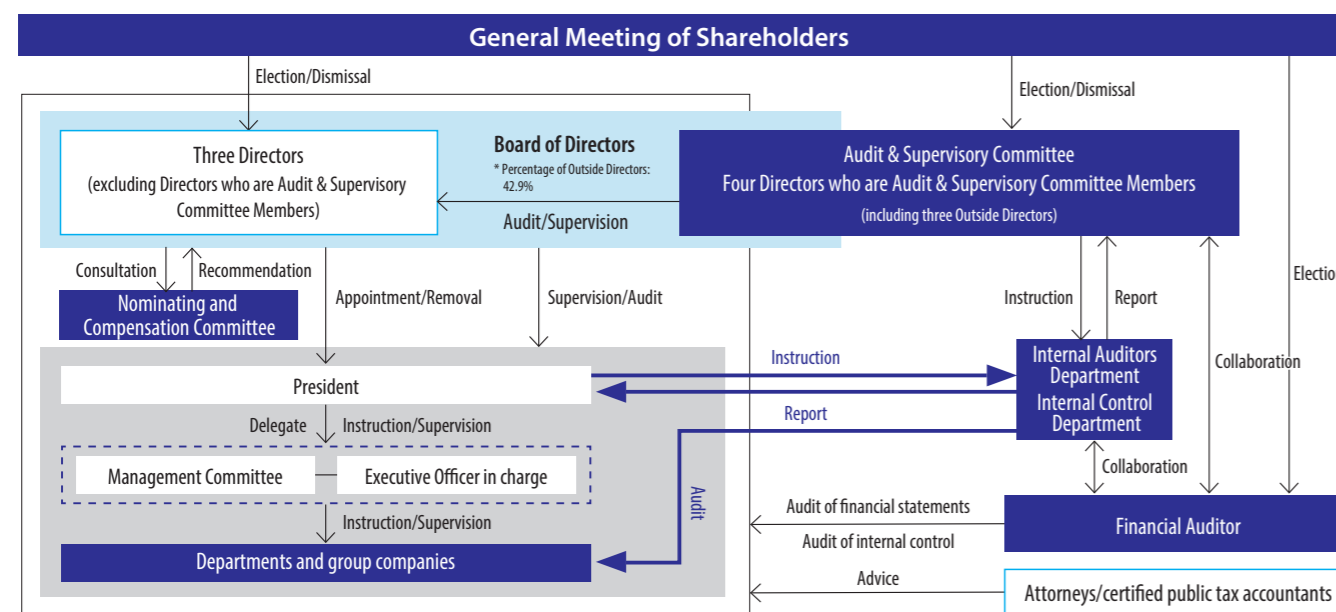
*2 To increase the speed and agility of corporate management, the Board of Directors entrusts the decision-making on important business operations to the Representative Director and President, excluding matters statutorily prescribed to be exclusively deliberated by the Board of Directors.

Initiatives to strengthen corporate governance

June 2003	Introduction of executive officer system
March 2004	Abolishment of directors' retirement benefits program
May 2006	Formulation of Basic Policy on Internal Control
November 2006	Establishment of Internal Control Department
June 2013	Start of appointment of Outside Directors
June 2015	Transition to a Company with an Audit & Supervisory Committee
July 2016	Introduction of stock-based compensation plan
January 2018	Shift into new management structure
June 2019	Establishment of a Nominating and Compensation Committee
March 2021	Respond to the revised Companies Act
May 2021	Release the Board of Directors skills matrix
May 2023	Review of the Board of Directors skills matrix


[Link to the Corporate Governance Report \(In Japanese only\)](https://www.hodogaya.co.jp/wp/wp-content/uploads/2023/06/corporate_governance_20230628.pdf)
https://www.hodogaya.co.jp/wp/wp-content/uploads/2023/06/corporate_governance_20230628.pdf


Structure of corporate governance system



General Meeting of Shareholders

In addition to the appropriate statutory disclosure and timely disclosure, Hodogaya Chemical strives to proactively provide shareholders and investors with relevant information, such as its management strategies, in order to gain understanding of its business activities. It engages in constructive bilateral dialogue with shareholders in an effort to achieve effective corporate governance that can contribute to sustainable growth and increase its corporate value.

Hodogaya Chemical also establishes measures to ensure shareholders can more easily attend the General Meeting of Shareholders, such as avoiding dates on which many companies hold meetings, early mailing of the Notice of Annual General Meeting of Shareholders in English, and use of electronic voting (smart voting) and an electronic voting platform.

Board of Directors Held 12 times in FY2022

As a general rule, the Board of Directors is held regularly once per month, and on an ad hoc basis as necessary. To enable thorough discussions based on diverse opinions and prompt, rational decision-making, the Board of Directors consists of members that satisfy the extensive level of experience and education required by Hodogaya Chemical.

In FY2022, the Board of Directors deliberated on authorizing the establishment of a system for electronically providing materials for the General Meeting of Shareholders (presented as an agenda item at the 164th Annual General Meeting of Shareholders) and on authorizing quarterly financial results, financial summaries, and year-end reports.

Moreover, the Board received regular reports on monitoring outcomes regarding the progress status of the Mid-term Management Plan SPEED 25/30 from the executive departments, as well as reports on the status of progress regarding sustainability, reports summarizing large-scale capital investments, and reports on financing and investment in affiliated companies.

The Outside Directors also expressed useful comments and opinions from an objective and expert standpoint based on their extensive experience, while the Board of Directors as a whole appropriately shared information in a timely manner and discussed such information from various perspectives.



Audit & Supervisory Committee Held 11 times in FY2022

The Audit & Supervisory Committee audits the legality of business execution by Directors and Officers, appropriateness of the Company's business operations, internal control, and financial status, etc., through attendance at important meetings and through timely and appropriate reporting.

The Audit & Supervisory Committee also maintains close relations with the Financial Auditor to take necessary measures in relation to the audit work.

In FY2022, the Audit & Supervisory Committee discussed audit plans, the division of duties among the Audit & Supervisory Committee members, approval for audit compensation for the Financial Auditor, and audit reports from the Financial Auditor.

Moreover, the Committee also reported on the status of internal


 Details can be found on our website.
<https://www.hodogaya.co.jp/english/company/governance/>


control and internal audits, the Risk Management Committee, and the audit status of affiliated companies.

Nominating and Compensation Committee Held 14 times in FY2022

In order to strengthen the independence, objectivity, and accountability of the Board of Directors' functions on matters of nomination and compensation, the Nominating and Compensation Committee serves as an advisory body to the Board of Directors and deliberates and submits reports to the Board of Directors on the election and dismissal of Directors and compensation of Directors. The Board of Directors respects the content of such reports. An Outside Director serves as chairperson.

In FY2022, the Nominating and Compensation Committee primarily reported and expressed opinions on the following matters.

The Committee confirmed the backgrounds and skills of each candidate in regard to the Director appointment proposals made at the General Meeting of Shareholders, and found that the proposal details were reasonable. Upon making a comparative investigation of major companies in Japan, the Committee found that the compensation of Directors who are not Audit & Supervisory Committee members was in line with the detailed policy and reasonable.

When appointing Executive Officers, General Managers of departments, and Presidents of affiliated companies, the Committee confirmed the detailed background of each candidate and conducted interviews, leading the Committee to express the opinion that the proposal details were reasonable.

Executive Officers

The executive officer system was introduced to

- (1) promote management efficiency
- (2) enable quicker decision-making
- (3) specialize functions
- (4) strengthen supervisory and monitoring functions
- (5) strengthen our business management

Executive Officers who can fulfill these goals have been elected by President to execute the business of our core departments.

Outside Director Activity Status

In FY2022, the Outside Directors attended every Board of Directors, Audit & Supervisory Committee, and Nominating and Compensation Committee meeting. The Outside Directors also engaged in other activities, including:

- Attendance at management and executive meetings (October 2022 and March 2023)
- Attendance at executive compliance training (February 2023)
- Communication with the Financial Auditor (August 2022)
- Support for business activities (ongoing)

Appointment of Directors

Hodogaya Chemical positions the appointment of Directors as one of the most important matters for the company, where the Board of Directors determines the selection criteria for candidates for Internal and Outside directors, and determines the selection of candidates for directors, including the next CEO, based on deliberations by the Nominating and Compensation Committee.

Training Plan for Successors

Hodogaya Chemical has established a policy on the election and dismissal of Directors and the election and dismissal of a Representative Director and of Directors with special titles. In regard to the selection of the Representative Director, the Company emphasizes specific facts, including the qualities required of Director candidates and that the candidates possess a dignified presence as part of upper management. In addition, the Company requires candidates to possess the ability to engage in management from a commanding perspective and management that captures the trends and changes of the times, where the Board of Directors makes a final decision following deliberations by the Nominating and Compensation Committee.

Training for Directors

Upon assuming office, the Internal Directors of Hodogaya Chemical are provided with training to acquire knowledge of the roles and responsibilities expected of directors, laws and regulations, as well as compliance.

Independent Outside Directors are also provided explanations of Hodogaya Chemical's business, finances, organization, and other aspects, so that they can fulfill the roles and responsibilities expected of them when they assume office. Thereafter, they deepen their understanding of the company by visiting offices in Japan and overseas to check on the situation.

Additionally, training sessions for directors by outside attorneys are held on a regular basis.

Evaluation of Effectiveness of Board of Directors

Hodogaya Chemical has transitioned to a company with an Audit & Supervisory Committee in June 2015 and delegates decisions on matters other than those specified in the Companies Act to the President. In other words, the Hodogaya Chemical Board of Directors

focuses on a monitoring model that emphasizes supervision.

In order to verify whether the Board of Directors is fulfilling this monitoring function, the Audit & Supervisory Committee and the Board of Directors conduct evaluations every year based on the following nine evaluation criteria.

Evaluation Process



Evaluation Results for FY2022

Evaluation Standards	Status of Initiatives
1. Appointment of multiple independent Outside Directors	• Implemented. 3 out of 7 directors are independent Outside Directors (42.9%)
2. Narrowing down matters for resolution	• Deliberated on authorizing the establishment of a system for electronically providing materials for the General Meeting of Shareholders (presented as an agenda item at the 164th Annual General Meeting of Shareholders) and on authorizing quarterly financial results, financial summaries, and year-end reports
3. Establishment of appropriate reporting matters	• Received regular reports on monitoring results regarding the progress status of the Mid-term Management Plan SPEED 25/30 from the executive departments, as well as reports on the status of progress regarding sustainability, reports summarizing large-scale capital investments, and reports on financing and investment in affiliated companies • Summarized reports on the execution of duties as the Mid-term Management Plan Progress Report on Execution of Duties based on the individual reports
4. Deliberation on agenda items related to personnel affairs and remuneration of Directors	• Based on the reports of the Nominating and Compensation Committee, deliberated proposals for the appointment of Directors to be submitted to the Annual General Meeting of Shareholders
5. Provision of proper explanations beforehand to independent Outside Directors	• Mailed agenda materials several days prior to the Board of Director meetings and offered preliminary explanations prior to the meetings
6. Preparation of informative and easy-to-understand materials	• Efforts are currently being made to create materials with attention to the comprehensiveness and ease of understanding of the information so that Outside Directors can make accurate management decisions.
7. Appropriate time management (meeting frequency, time for deliberations, etc.)	• Held 12 times in FY2022, with approximately 2.5 hours for each meeting
8. Implementation of effective and efficient organizational audits	• Implemented an organizational audit as a Company with an Audit & Supervisory Committee • The Audit & Supervisory Committee Secretariat was established as a system to assist the Audit & Supervisory Committee. • The Audit & Supervisory Committee was held 11 times in FY2022, with approximately 1 hour for each meeting
9. Follow up and respond to new trends in corporate governance and the best way to operate the Board of Directors	• Considered the appointment of a female Outside Director (appointed at the June 2023 Annual General Meeting of Shareholders) • Reviewed and considered the Board of Directors skills matrix (added Human Resource Strategy in May 2023) • Conducted a Board of Directors report regarding sustainability promotion in order to strengthen the involvement of management
Overall Evaluation for FY2022	As outlined in the table above, the Board of Directors satisfies the evaluation standards and achieves the following two items, allowing for the conclusion that the Board of Directors functions as intended (1) Expedited managerial decision-making and business execution (2) Enhanced the Board of Directors' monitoring function
Future Initiatives	• Make a thorough investigation of monitoring activities intended to achieve the Mid-term Management Plan SPEED 25/30 • Provide more accurate, concise, and understandable Board of Directors' meeting materials

Director Compensation Plan

Hodogaya Chemical positions its Directors' compensation plan as a priority item for corporate governance. The basic requirements in determining the compensation of Directors include: 1. Compensation linked to performance; 2. Incentives to improve corporate value; 3. Linkage to shareholder interests; and 4. Securing and retaining talented personnel.

In consideration of the above, individual director compensation is paid to directors within the range approved at the General Meeting of Shareholders.

Determinations on the individual compensation of directors (excluding directors who are Audit & Supervisory Committee members) are made by resolution of the Board of Directors at the discretion of representative directors; however, bylaws stipulate that representative directors shall determine compensation amounts after deliberations by the Nominating and Compensation Committee.

Specifically, in order to appropriately incentivize contributions to the Company's sustainable growth, since FY2016, the Company has adopted a stock-based compensation plan for directors that, in addition to the existing compensation linked to short-term

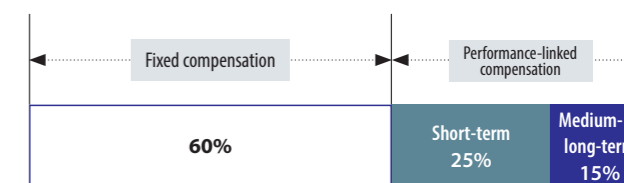
performance, adds compensation linked to mid-to long-term performance.

As a result, the ratio of performance-linked compensation to overall director compensation has been approximately 40%, while, within this 40%, the ratio of compensation linked to short-term performance versus compensation linked to mid- to long-term performance has been approximately 25% vs. 15%.

Compensation linked to medium- and long-term performance will transition to a Board Benefit Trust system starting in October 2023.

Directors who are Audit & Supervisory Committee members receive only a fixed-amount base compensation in consideration of the fact that they are not involved with executive functions.

Composition of Director Compensation



Total Director Compensation, etc. (FY2022)

Type of Director	Total compensation (millions of yen)	Totals of different types of compensation (millions of yen)			No. of applicable Directors
		Base compensation (cash)	Performance-linked compensation (cash)	Non-monetary compensation (Company stock)	
Directors (excluding Audit & Supervisory Committee Members) (excluding Outside Directors)	74	64	20	(10)	4
Directors who are Audit & Supervisory Committee Members (excluding Outside Directors)	15	15	—	—	1
Outside Directors	22	22	—	—	3
Total	112	102	20	(10)	8

Stakeholder Communications

Hodogaya Chemical distributes the BUSINESS REPORT annually to our shareholders as a means of communicating with them, and of explaining the progress of Hodogaya Chemical's Mid-term Management Plan SPEED 25/30 to our shareholders.

Hodogaya Chemical streams videos on the website to explain the Company's financial results (first-half and year-end) and progress of the Mid-term Management Plan to our shareholders and investors. In addition, the Company makes individual visits to institutional investors.

Hodogaya Chemical has also established and disclosed our policy for the return of profit to stakeholders.

Regarding profits earned, the Policy aims to maintain an appropriate balance between allocating profits to internal reserves for investment and other activities that will lead to the growth of the Hodogaya Chemical Group, and returning profits to shareholders.

For the year ended March 31, 2022, the Company raised the annual



dividend per share from the existing 50 JPY to 60 JPY, and will further increase the dividend to 65 JPY for the year ended March 31, 2023. Moreover, in aims of increasing the dividend for three consecutive fiscal periods, the Company plans to raise the dividend to 75 JPY for the year ending March 31, 2024 (as disclosed in the financial summary for the year ended March 31, 2023).

Cross-shareholdings

When maintaining and strengthening stable transactional relationships with suppliers and partners has been deemed to contribute to greater corporate value for the Hodogaya Chemical Group, the Company will in some cases hold shares of the associated company for the purpose of maintaining and strengthening the transactional relationship.

The Board of Directors carefully examines and verifies the purpose of each holding, as well as the relative standing between benefits/risks and capital costs coinciding with the holding.

As a result of making a careful examination and verification from this perspective, the Board has determined that current holdings are appropriate.

Outside Director Dialogue



Bringing new perspectives
to the table and contributing
to lively discussions as
Outside Directors

Shuji Kato Outside Director (Audit & Supervisory Committee Member)

Masaki Sakai Outside Director (Audit & Supervisory Committee Member)

How would you evaluate efforts by the Company to strengthen the governance function?

● **Kato:** I was appointed as Hodogaya Chemical's first Outside Director in 2013. The number of Outside Directors was subsequently increased, and Hodogaya Chemical transitioned to a Company with an Audit and Supervisory Committee. Currently, the percentage of Outside Directors is 42.9% (see P. 51). Looking only at the current status of the Board of Directors, I believe that the Company's governance has been steadily strengthened.

● **Sakai:** I believe that the ideal form of governance is one in which a company's personnel, who are its stakeholders' representatives, can be brought up correctly and kept happy. To do so, it is essential that a company ensures a sense of awareness that fraud will not be tolerated and also ensures psychological safety that enables personnel to express their opinions in the case of questionable incidents from the viewpoint of company's governance, while bringing about improvements in the compliance awareness of each and every member of personnel. The Company is repeatedly conducting compliance training for all officers and personnel, and suggestions for improvements and feedback regarding the training content are being provided. I believe that persistently continuing these kinds of two-way initiatives will lead to the strengthening of governance.

What is the state of discussions at Board of Directors' meetings?

● **Sakai:** I recognize that the revitalization of Board of Directors' meetings is an important role for Outside Directors. As much as possible, I review the materials to be submitted at Board of Directors' meetings and try to ask questions from new perspectives while making specific suggestions and proposals.

● **Kato:** The matters discussed at Board of Directors' meetings are thoroughly discussed internally by the

Management Committee. Outside Directors have a responsibility to bring up issues, ask questions, and to lead the discussions. As the number of Outside Directors has increased, we have reached the point at which opinions from different standpoints emerge, and thus discussions at Board of Directors' meetings have become extremely lively. Previously, a lot of time would be spent reporting, but now most of the 2.5-3 hours of a Board meeting is devoted to discussion. Remarks from different points of view help broaden and deepen discussions, while also uncovering new directions as well as pitfalls that would not have been thought of within the Company alone.

What do you regard as the challenges facing the Hodogaya Chemical Group's Board of Directors?

● **Kato:** One Outside Director was replaced in June 2023. As chairman of the Nominating and Compensation Committee, I was given the opportunity to exchange opinions with the newly appointed replacement. Impressed by this person's career, experience, and knowledge in new fields, I was pleased to make the nomination as an Outside Director. The nominee on this occasion happened to be a woman who offers new perspectives, and thus in line with the global trend of promoting the appointment of female Directors, the diversity of the Board of Directors has been further expanded.

● **Sakai:** Ms. Fujino, who was newly appointed as Outside Director in this instance, also has experience as an Outside Director at other companies. I would like to see her make use of that experience to add new perspectives, such as proposing improvements to the method of operating the Board of Directors. In terms of diversity, I think there is still a long way to go when it comes to racial diversity, but we need to firmly promote the active participation of women, not only as Outside Directors but also in officer and management positions.

Scandals such as cases of fraudulent inspections continue to occur in Japanese companies. Based on the recognition that

fraud can occur in any organization at any time, I believe it is important to thoroughly check whether a company's systems for strengthening governance are constructed as they should be, and whether internal controls and internal audits are functioning properly through questions and discussions at Board of Directors' meetings.

● **Kato:** To find new directions and have discussions, an attitude that emphasizes constant study is required. It is also important to broadly monitor and learn about changes in society, the economy, international affairs and other subject areas on a daily basis and to reflect the findings of these studies in discussions at Board of Director's meetings.

Please tell us the expectations you have for the Sustainability Development Committee.

● **Kato:** At Hodogaya Chemical, we are disseminating information on global, sustainability-related trends and the Company's efforts to all personnel in the form of "SUSTAINA NEWS." It is important for everyone—officer, including the President, department general managers, and all personnel—to work with an awareness of sustainability issues. I would like the Sustainability Development Committee to promote activities that each and every member of our personnel can readily understand.

● **Sakai:** Including the manufacture of OLED materials and intermediate products for smartphones and the development of materials for solar cells, the Company's businesses are in fields in which they can contribute to the sustainability of society through energy and resource savings. Meanwhile, as far as CO₂ emissions are concerned, there will be demand for measures that include Scope 3, which covers the entire supply chain, and there are some issues that are incomprehensible by numbers alone. The most important thing is to raise the awareness of each and every member of our personnel, based on the discussions of the Sustainability Development Committee.

What do you consider will be necessary to achieve sustainable growth over the next 100 years?

● **Sakai:** The future of a company is shaped by the creativity of each and every member of its personnel. We cannot hope for the growth of a company without the creativity that stems from personnel working in pleasant environments and demonstrating their abilities. To enhance the creativity of its personnel, Hodogaya Chemical needs to advance more detailed human development programs, including examining a development policy for each and every member of its personnel, and create an environment that facilitates personnel self-improvement. It is important to make the Company a place where personnel can acquire skills and grow, a place where they can achieve self-fulfillment, and a place where they can gain a real sense of growth.

To promote personnel development, it is also necessary to enable managers to focus more on developing their subordinates by emphasizing human development skills in training sessions for managers and by utilizing the results of engagement surveys.

Furthermore, to respond to the labor shortage, I believe it is necessary to expand and upgrade training sessions for senior personnel and reskilling training, and to promote the utilization and activation of senior personnel.

● **Kato:** When formulating the Mid-term Management Plan SPEED 25/30, we analyzed environmental changes up to 2050, considered where the Company wants to be in 2030, and established numerical targets for 2025 through backcasting. Since looking 100 years hence would involve a repetition of this, we are constantly thinking about what we should do to adapt to changes in the world and develop the Company's business. Personnel are the basis for this, and I am looking forward to seeing how Hodogaya Chemical's personnel perceive the future and what they think the Company will continue to grow sustainably for the next 100 years.

Message from the Newly Appointed Outside Director

Drawing on the experience I have gained, I will devote my efforts to improving the Hodogaya Chemical Group's corporate value.

Up to now, corporate value tended to be biased toward financial information represented by numbers, so I think it was difficult to ascertain the overall picture of a company. Recently, however, it has been said that non-financial information has a significant impact on corporate value, and as someone who has been involved in personnel development for many years, I feel pleased about that.

The two Es in SPEED 25/30 stand for engagement and ESG. I have heard that Hodogaya Chemical has begun to check engagement scores almost every month and to work to improve the percentage of female managers, and the results are already beginning to appear. Going forward, I will continue to create an environment in which each and every officer and member of personnel can fully demonstrate their abilities through their efforts toward SPEED 25/30. At the same time, I would like to draw on the experience I have gained and do my best so that both financial and non-financial aspects grow even more in value.



Shinobu Fujino
Outside Director (Audit & Supervisory Committee Member)

Board of Directors



Yuto Matsumoto
Representative Director, President and CEO

Number of Company shares held 8,400 shares
Number of Board of Directors meetings attended in FY2022 12/12

Brief personal record
Mr. Matsumoto joined the Company in April 1983 and worked in the R&D department, followed by the sales department, which included overseas. He was appointed as the Company's Representative Director, President and CEO in November 2016.



Kaoru Kasahara
Director and Senior Managing Executive Officer

Number of Company shares held 5,500 shares
Number of Board of Directors meetings attended in FY2022 12/12

Brief personal record
Mr. Kasahara joined the Company in April 1981 and worked in the R&D and production department operations. He was appointed as Director and Senior Managing Executive Officer of the Company in June 2020, overseeing the Group's R&D and Production Departments.



Kenji Tsujitsugu
Director and Managing Executive Officer

Number of Company shares held 1,000 shares
Number of Board of Directors meetings attended in FY2022 (after appointed as a Director) 9/9

Brief personal record
Mr. Tsujitsugu joined the Company in April 2021. Mr. Tsujitsugu utilized his extensive experience and knowledge gained from his previous experience in banking and securities and worked in the Group's corporate planning and accounting operations. He was appointed as Director in June 2022.



Satoshi Ebisui
Director (Audit & Supervisory Committee Member)

Number of Company shares held 8,600 shares
Number of Board of Directors meetings attended in FY2022 12/12

Number of Audit & Supervisory Committee meetings attended in FY2022 11/11

Brief personal record
Mr. Ebisui joined the Company in April 1973 and worked in the Corporate Planning and Sales Departments. He served as a Director and Senior Managing Executive Officer since June 2010 and was appointed as a Director (Audit & Supervisory Committee Member) in June 2015.



Shuji Kato
Outside Director (Audit & Supervisory Committee Member)

Number of Company shares held 1,900 shares
Number of Board of Directors meetings attended in FY2022 12/12

Number of Audit & Supervisory Committee meetings attended in FY2022 11/11

Brief personal record
Mr. Kato joined the Ministry of International Trade and Industry (now Ministry of Economy, Trade and Industry) in April 1975. He was extensively involved in the administration of trade and industry and international affairs in the same ministry and served on the board of directors of a private company before he was appointed as a Director (Audit & Supervisory Committee Member) of our Company in June 2015.



Masaki Sakai
Outside Director (Audit & Supervisory Committee Member)

Number of Company shares held 500 shares
Number of Board of Directors meetings attended in FY2022 12/12

Number of Audit & Supervisory Committee meetings attended in FY2022 11/11

Brief personal record
Mr. Sakai joined the Ministry of Agriculture, Forestry and Fisheries in 1981. He was extensively involved in the administration of agriculture, forestry and fisheries, and international affairs in the same ministry. He was appointed as a Director (Audit & Supervisory Committee Member) of our Company in June 2019.



Shinobu Fujino
Outside Director (Audit & Supervisory Committee Member)

Number of Company shares held -
Number of Board of Directors meetings attended in FY2022 -

Number of Audit & Supervisory Committee meetings attended in FY2022 -

Brief personal record
Ms. Fujino began career counseling business (private practice) in January 2002. She has extensive experience in personnel and organizational development and diversity promotion and was appointed as a Director (Audit & Supervisory Committee Member) of our Company in June 2023.

Board of Directors Skills Matrix

The following seven skills were selected for the Board of Directors Skill Matrix for achieving the SPEED 25/30 Mid-term Management Plan.

- Four skills to perform the basic functions as a Company: "Corporate management", "Law & risk management", "Finance & accounting" and "Human resources strategy"
- Two skills to support the three pillars (Research and Development, Production and Sales) of our Company: "Business strategy" and "R&D, technology and production"
- One skill to support the Company's business field that extends beyond borders: "International business"

Name	Corporate management	Law & risk management	Finance & accounting	Human resources strategy	Business strategy	R&D, technology and production	International business
Yuto Matsumoto	○			○	○	○	○
Kaoru Kasahara	○				○	○	
Kenji Tsujitsugu	○	○	○				
Satoshi Ebisui	○				○	○	○
Shuji Kato (Outside)	○			○	○		○
Masaki Sakai (Outside)				○	○	○	○
Shinobu Fujino (Outside)	○	○		○			

* The skill matrix includes the areas expected for each individual. It is not meant to be a comprehensive list of all forms of expertise and experience they may possess.

Compliance

Related Materiality

- Spreading compliance

Basic approach

In addition to fully recognizing and consistently applying compliance's basic meaning of adhering to laws and regulations, the Hodogaya Chemical Group conducts corporate activities keeping in mind its meaning of ensuring behavior in line with what society demands of the Group.

As a result of earnestly implementing compliance and conducting fair, non-discriminatory business activities, there have been no personnel who have been fired and the Group has not had to pay fines or other penalties due to behavior that goes against the legitimate interests of the Group or behavior that undermines trust in and the reputation of the Group.

The Group will also meet the social demands and expectations by fulfilling its responsibility to properly pay taxes in countries and regions throughout the world.

Promotion Structure

The Hodogaya Chemical Group formulates various rules and regulations based on the Basic Policy on Internal Control, and strives to achieve compliance through organized and cross-sectional initiatives led by the Internal Control Department.

The Internal Auditors Department audits the status of compliance and provides advice and guidance for improvements as required.

Over and above these activities, we have published the Hodogaya Chemical Group Compliance Handbook, which contains data that is closely aligned to the Group's operations. This Handbook is distributed to all officers and personnel in a bid to raise awareness toward compliance.

Internal Reporting System

As for the internal reporting system, the Hodogaya Chemical Group has not only designated an outside attorney and the Internal Control Department as contact points but also created a system that clearly stipulates whistleblower protection and other elements so as to prevent and quickly detect violations of laws, regulations, rules, and corporate ethics, based on the Internal Reporting Rules.

In addition, the status of internal reporting, and other matters are reported to the Audit & Supervisory Committee.

Compliance Education

In terms of cultivating and improving compliance awareness, the Hodogaya Chemical Group continuously offers all Group officers and personnel training and independent education using e-Learning as means to thoroughly ensure compliance.

In addition, officers and management personnel (including personnel one step prior to their appointment to management) of the Group are required to take the Examination of Compliance Proficiency for Practical Business (Primary Level) to gain knowledge and increase understanding of compliance. The percentage of qualified management personnel currently stands at 99.2% (as of March 31, 2023).



Efforts Aimed at Eliminating Antisocial Forces

The Hodogaya Chemical Group has put in place specific guidelines to ensure that it avoids forming any kind of relationship with antisocial forces. The Group's approach toward antisocial forces is centralized in and managed by the General Affairs Department.

In addition, we have established a structure and systems to address the issue of antisocial forces. This includes closely collaborating and exchanging information with such outside professionals as the police and lawyers and to disseminate relevant information to each Group office and company.

Training	Compliance Training Calendar (FY2022)					
	July	August	December		February	
Training	General training (1)	Issue-based training (1)	General training (2)	Group company officer training	Issue-based training (2)	Officer training
Eligible participants	All officers and personnel	All officers and personnel	All officers and personnel	Group company officers	All officers and personnel	Directors (including Outside Directors) Executive officers
Content	<ul style="list-style-type: none"> • Compliance basics • Familiarization with rules and regulations • J-SOX • Information security • Respect for human rights • Quality-related scandals • Contract examination and review 	<ul style="list-style-type: none"> • Questions from the assigned materials and the Compliance Handbook 	<ul style="list-style-type: none"> • Compliance basics • Familiarization with rules and regulations • J-SOX • Personal information management • Harassment education • Antisocial forces education • Contract examination and review 	<ul style="list-style-type: none"> • CGS Guidelines (Published by Japan's Ministry of Economy, Trade and Industry) 	<ul style="list-style-type: none"> • Questions from assigned materials 	<ul style="list-style-type: none"> • Revision of Disclosure Office ordinances • General Meeting of Shareholders-related training, etc.

* Compliance basics and J-SOX training include information on the prevention of insider trading and whistleblowing.



Details can be found on our website.
<https://www.hodogaya.co.jp/english/company/governance/compliance/>



Risk Management

Related Materiality

- Thoroughly spreading risk management

Details can be found on our website.
<https://www.hodogaya.co.jp/english/company/governance/management/>



Basic approach

As for risks that harm the Hodogaya Chemical Group, including illegal conduct, poor quality, natural disasters, infectious diseases, and information leaks, the Group has created its own risk management system to minimize damages.

In order to maintain and increase corporate value, fulfill its social responsibilities as a company, and generate sustainable growth for the Group, efforts are made to raise the risk awareness of all officers and personnel and promote risk management by all personnel.

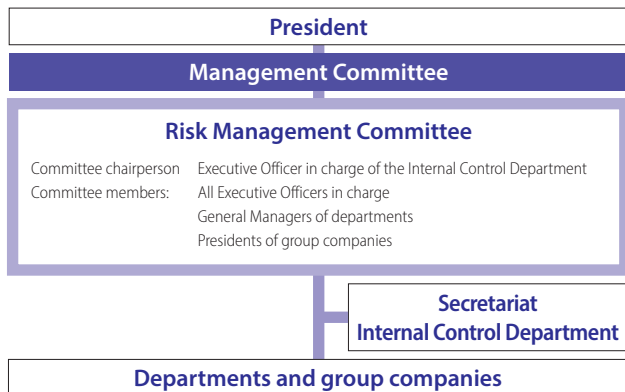
Risk Management Committee

The Hodogaya Chemical Group has a Risk Management Committee in place, in accordance with the Risk Management Committee Rules.

The Committee holds regular meetings to share risk awareness, develop measures to reduce risks, review the progress of such measures, and take initiatives to minimize damages based on the Crisis Management Regulations, across the Hodogaya Chemical Group as a whole.

The Committee provides and reports on the details of their discussions to the Board of Directors and the Management Committee.

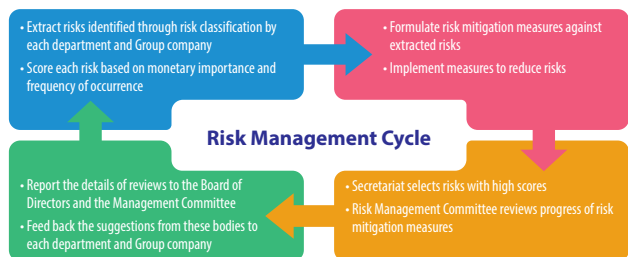
Risk management structure



Risk Classification

No.	Classification	No.	Classification
1	Sales risk	8	Compliance risk
2	Purchasing and procurement risk	9	Legal, regulatory, and system revision risk
3	Manufacturing risk	10	Operational risk
4	Research & Development and intellectual property risk	11	Information system and information leak risk
5	Environmental risk	12	Human risk
6	Strategic risk	13	Tangible asset risk
7	Financial risk	-	

Risk Evaluation Procedures



* In particular, risks that impede KGI/KPI are recognized as Key Risk Factors (KRFs)

Overall Risk Awareness for FY2023

For the current fiscal year, the Risk Management Committee recognizes the following as overall risks.

- Concern over an economic slowdown under an inflationary environment
- Financial tightening and interest rate hikes by national central banks, financial instability
- Conflict between democracies and autocracies, economic decoupling
- Changes in behavior due to COVID-19 (consumer, labor, and corporate)
- Action on the global environment

Information Security

The Hodogaya Chemical Group recognizes that keeping company information classified and ensuring information security are the basics in business and one of our social responsibilities.

We have established Information Security Policy in which the appropriate acquisition, use, disclosure, and management of information, information protection activities, security measures, and compliance with applicable laws and regulations, including Unfair Competition Prevention Act and regulations on insider trading, are specified.

Also, we conduct training for all personnel to increase their awareness of information security.

VOICE Toward Greater Legal Awareness at the Hodogaya Chemical Group

As a member of the Legal Department, I conduct internal awareness-raising activities regarding laws and other rules through internal training and publishing pamphlets. Yet I do not believe it is easy to attain a concrete image of the meaning and purpose of these rules. I therefore strive to convey the meaning and purpose of these rules to everyone in each department and Group company in an easy-to-understand manner. Specifically, as part of my awareness-raising activities, I use everyday examples as the subject matter, as well as suitable figures and tables, to minimize the volume of materials and to maintain simplicity. Moreover, I make improvements to ensure that everyone understands the importance of these rules as part of their regular business activities in a concrete manner, for example by encouraging personnel to go back to the basic meaning and purpose as they think about these rules when considering contracts and engaging in everyday work.

I will continue to promote these efforts with the goal of raising legal awareness at the Hodogaya Chemical Group.

