

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

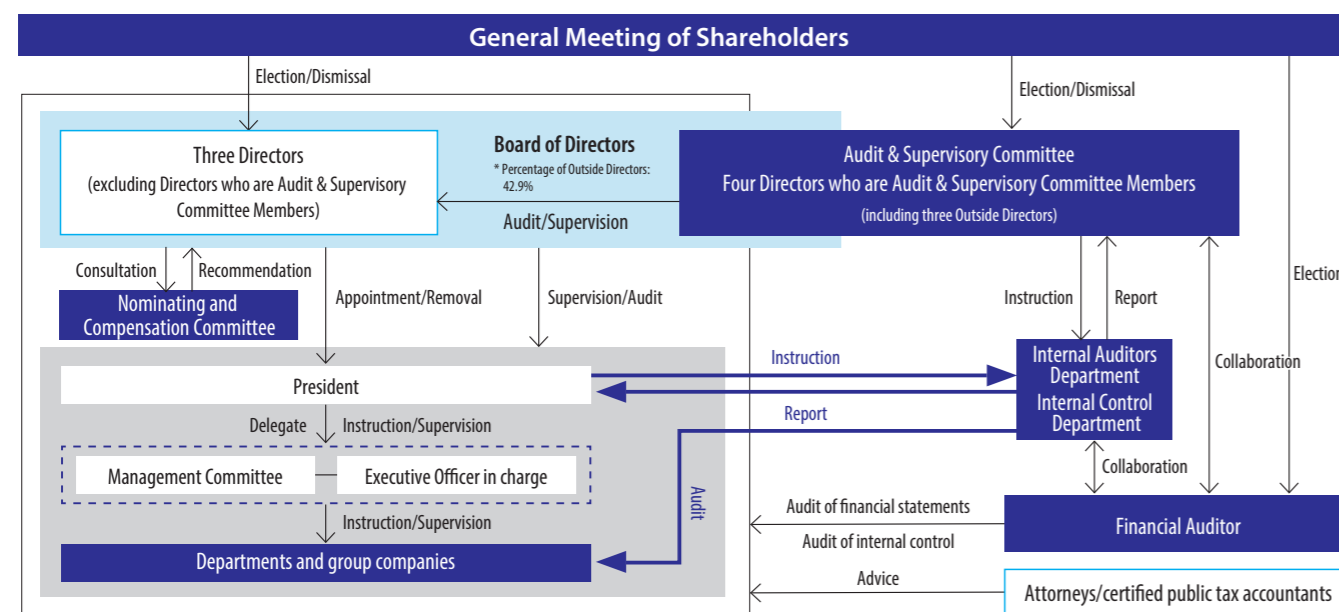
*2 To increase the speed and agility of corporate management, the Board of Directors entrusts the decision-making on important business operations to the Representative Director and President, excluding matters statutorily prescribed to be exclusively deliberated by the Board of Directors.

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)
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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

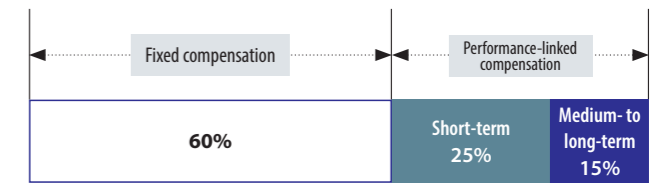
performance, adds compensation linked to mid-to long-term performance.

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.