

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)