

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.

Hodogaya Chemical 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 25, 2024
^{*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 |
| June 2023 | Election of female outside director |
| June 2024 | Election of female executive officer |



Link to the Corporate Governance Report
(In Japanese only)

https://www.hodogaya.co.jp/wp/wp-content/uploads/2024/06/corporate_governance_20240626.pdf



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 management strategies, in order to gain understanding of 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 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, provision 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 13 times in FY2023

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 the Company.


In FY2023, the Board of Directors deliberated on authorizing the maintenance of takeover defense measures and introduction of a Board Benefit Trust system (presented as agenda items at the 165th Annual General Meeting of Shareholders) and authorizing quarterly financial results, financial summaries, and year-end reports.


Moreover, the Board received regular reports on the results of monitoring progress in implementing the Mid-term Management Plan SPEED 25/30 from executive departments, as well as reports on the status of progress regarding sustainability, and investment in affiliated companies.



See website for reason director was elected


<https://www.hodogaya.co.jp/english/company/governance/director/>





Details can be found on our website.

<https://www.hodogaya.co.jp/english/company/governance/>



Nominating & Compensation Committee
Held 14 times in FY2023

In order to strengthen the independence, objectivity, and accountability of the Board of Directors' functions on matters of nomination and compensation, the Nominating & 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 FY2023, the Nominating & Compensation Committee reported on and gave their opinions regarding primarily the following issues.

In regard to Director election proposals made at the General Meeting of Shareholders, the Committee confirmed the backgrounds and skills of each candidate and found that the proposal was reasonable.

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

Management Committee

The Management Committee is composed of Executive Officers, General Managers of departments, and similar parties.

The committee deliberates and reports on such items as material items that require the President's approval.

In FY2023, the committee's main topics of deliberation were investments in affiliated companies, capital expenditures in factories, and similar items.

Executive Officers

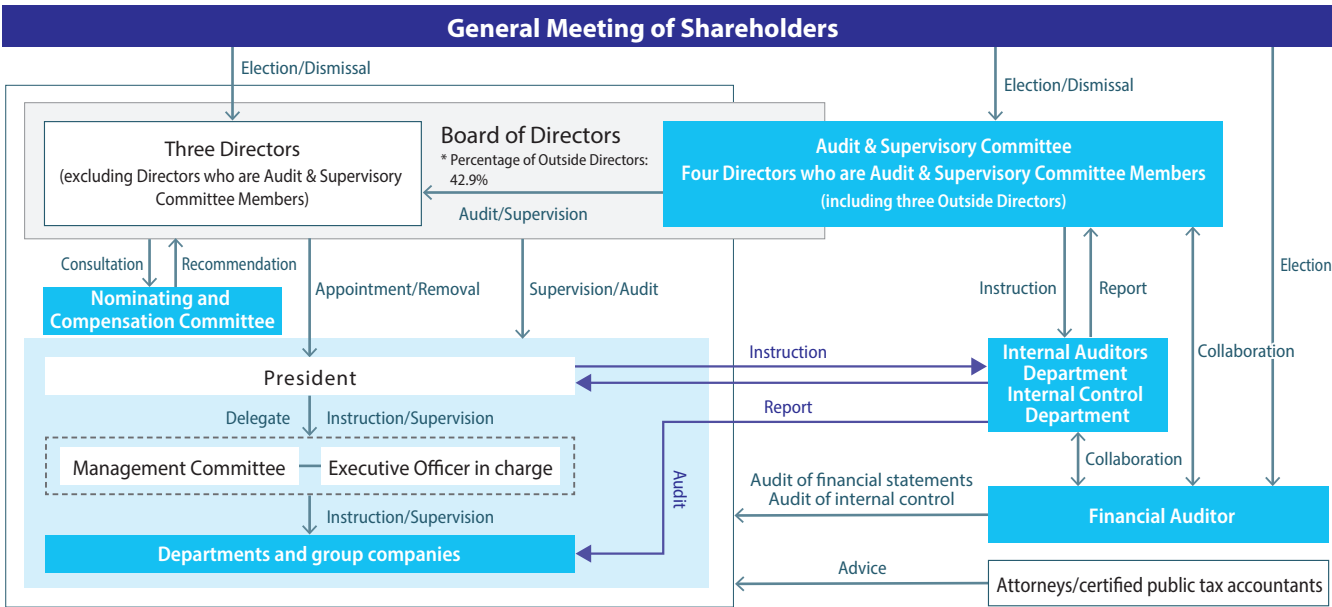
The executive officer system was introduced to achieve several objectives, including promoting management efficiency and enabling quicker decision-making, and the President elects executive officers who can fulfill these goals and puts them in charge of execution of operations in key departments.

Outside Director Activity Status

In FY2023, Outside Directors not only attended Board of Directors meetings, Audit & Supervisory Committee meetings, and Nominating & Compensation Committee meetings, but also did the following.

- Attended management and executive meetings (September 2023 and March 2024)
- Attended executive compliance training (March 2024)
- Communicated with the Financial Auditor (July 2023, March 2024)
- Inspected business sites (plants, research laboratory) (November 2023)

Structure of corporate governance system



Audit & Supervisory Committee Held 14 times in FY2023

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 FY2023, the Audit & Supervisory Committee discussed audit plans, the division of duties among the Audit & Supervisory Committee members, approval of audit compensation for the Financial Auditor, and audit reports from the Financial Auditor.

The Committee also reported on the status of internal controls and internal audits, the Risk Management Committee, and the audit status of affiliated companies.

Corporate Governance

Successor training plan and officer training
Election of Directors

Hodogaya Chemical positions the election 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 senior 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 FY2023

| Evaluation Standards | Status of Initiatives |
|---|--|
| 1. Election of multiple independent Outside Directors | • Implemented. 3 out of 7 directors are independent Outside Directors (42.9%) |
| 2. Narrowing down matters for resolution | • Delegated decisions regarding execution of operations other than those that legally require Board of Directors approval to the President based on the General Meeting of Shareholders and Board of Directors resolution • Voted on FY2023 General Meeting of Shareholders meeting resolutions |
| 3. Establishment of appropriate reporting matters | • Set annual report schedule and submitted reports after expanding items to be reported as stipulated in Board of Directors Rules • Increased efficiency of operation execution reports by compiling individual ones into a Mid-term Promotion Execution Report • Received individual reports and questions and requests from independent Outside Directors, which are separate from resolution and report items |
| 4. Deliberation on agenda items related to personnel affairs and remuneration of Directors | • Deliberated on director nomination proposals tabled at the General Meeting of Shareholders meeting held in June 2024 based on the Nominating & Compensation Committee report |
| 5. Provision of proper explanations beforehand to independent Outside Directors | • Mailed agenda materials several days prior to the Board of Directors' meetings and offered preliminary explanations prior to the meetings |
| 6. Preparation of informative and easy-to-understand materials | • Continued efforts 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.) | • Met 13 times in FY2023, with slightly less than 2 hours for each meeting |
| 8. Implementation of effective and efficient organizational audits | • Implemented an organizational audit as a Company with an Audit & Supervisory Committee • Established the Audit & Supervisory Committee Secretariat as a system to assist the Audit & Supervisory Committee • Audit & Supervisory Committee met 14 times in FY2023, 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 | • Elected female Outside Director in June 2023 and then female executive officer in June 2024 • Reported on state of sustainability promotion in August and December 2023 and March 2024 |
| Overall Evaluation for FY2023 | 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 • Continued to follow new trends, such as Financial Services Agency and advisory board trends and social trends |

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

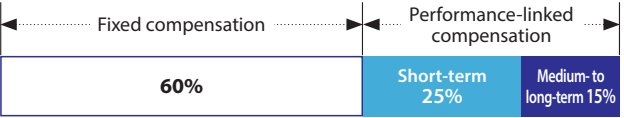
compensation plan for directors that, in addition to the existing compensation linked to short-term performance, adds compensation linked to mid- to long-term performance.

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. (FY2023)

| 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) | 99 | 63 | 15 | 19 | 3 |
| Directors who are Audit & Supervisory Committee Members (excluding Outside Directors) | 15 | 15 | — | — | 1 |
| Outside Directors | 23 | 23 | — | — | 4 |
| Total | 138 | 102 | 15 | 19 | 8 |

* Amounts are rounded down to the nearest million yen.

Dialogue with investors

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.

Furthermore, we have formulated and disclosed 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.

Considering earnings trends, future business expansion, unforeseen risks, and other factors, we will provide a stable, continuous, and appropriate return to shareholders while being particularly conscious of the divided-on-equity (DOE) ratio. Through FY2020 we paid a dividend of 50 JPY, but based on the above policy, we raised the dividend to 60 JPY for FY2021, to 65 JPY for FY2022, and to 75 JPY for FY2023. In addition, we aim to increase the dividend for the fourth consecutive year and plan to raise the dividend to 85 JPY for FY2024 (disclosed in financial summary for the fiscal year ended March 31, 2024).

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 said companies 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.

If the verification reveals that it is less important to hold particular shares and thus no longer rational to do so, we will examine disposing of those shares, taking into consideration such factors as the impact on the market.

Number of issues held as cross-shareholdings

| FY | 2021 | 2022 | 2023 |
|------------------------------|------|------|------|
| Number of issues (companies) | 36 | 35 | 34 |

Messages from Outside Directors



Shuji Kato

Outside Director
(Audit & Supervisory
Committee Member)

As an administrative official of the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry) and as a manager, he has extensive experience and broad knowledge in trade and industry administration, international affairs, and corporate management. He serves as the chairman of the Nominating & Compensation Committee at the Company.

I will deepen my involvement with next-generation management talent with an objective perspective

It has been over 10 years since I was appointed as the Company's first Outside Director in 2013. At the time of my appointment, the Company's performance was challenging, and businesses like SFC's OLED business in South Korea, which now supports the Company's development, were still in their infancy. It was also the final stage of formulating the previous Mid-term Management Plan "HONKI2020" for the 2015-2020 FY period. In the previous plan, I believe the discussions centered on how to nurture new business pillars while firmly protecting the foundation businesses that had already entered maturity.

The current Mid-term Management Plan SPEED 25/30 is

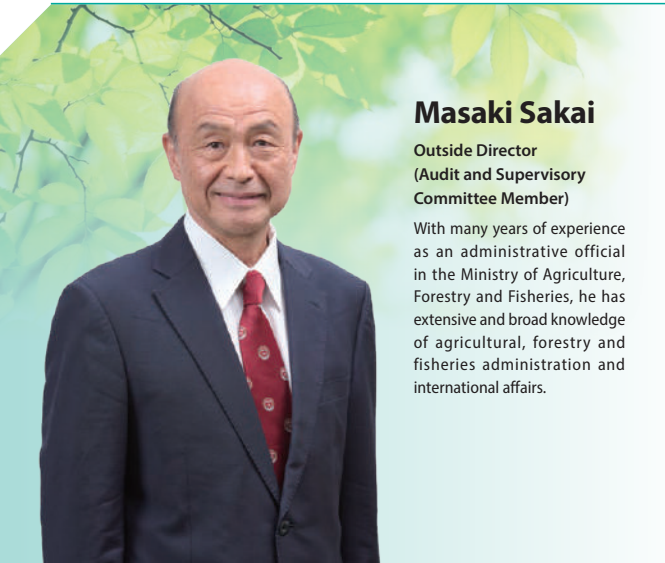
approaching its midpoint year. The shape and results of new businesses that were not clearly visible in the previous Mid-term Plan have come into view, and the need to further develop these while also creating pillars for next-generation businesses is being emphasized. Efforts toward sustainability have also been strengthened. From the perspective of improving Hodogaya Chemical's standalone performance, how to revitalize existing mature businesses is also an important issue.

The Company's governance structure has also made significant progress. In 2015, we transitioned to a company with an Audit and Supervisory Committee, and in 2018, we established the current structure of four full-time Directors and three Outside Directors. Diversity has also progressed, with an increase in female executives, including the appointment of Ms.

Shinobu Fujino as an Outside Director in 2023 and Ms. Miki Tsukui as an executive officer in 2024.

I am speaking slightly out of chronological order, but in 2019, the Nomination and Remuneration Committee was established, and I was selected as the first chairman. I feel an important responsibility to add an objective perspective from an outside standpoint to the selection and remuneration of Officers and department general managers. With the Company's cooperation, I, along with other Outside Directors, have opportunities to exchange opinions with executives, playing a part in selecting next-generation management talent. In the more than ten years since my appointment as an Outside Director, the Hodogaya Chemical Group has transformed significantly into a global, research and development-oriented company.

I expect this trend to continue developing in the future.



Masaki Sakai

Outside Director
(Audit and Supervisory
Committee Member)

With many years of experience as an administrative official in the Ministry of Agriculture, Forestry and Fisheries, he has extensive and broad knowledge of agricultural, forestry and fisheries administration and international affairs.

As diversity in human resources progresses, we aim to realize a creative workplace by building face-to-face relationships

According to a survey by the Ministry of Health, Labour and Welfare, more than 30% of new high school and university graduates leave their jobs within three years. The practice of hiring new graduates en masse is unique to Japan and not seen in Europe or America, and there was an inherent difficulty for students with no social experience to choose the company they would work for until retirement under the lifetime employment system. Around 1980 when I was job hunting, banks and non-life insurance companies were popular among law and economics students, most of whom were not able to determine their own interests and aptitudes, and attracted by

good salaries offered and opportunities provided to be involved in various industries.

It is inevitable that the irrational system of mass hiring of new graduates will collapse, and future workplaces will be composed of diverse human resources in various aspects, including new graduate hires, people from other companies, alumni hires who once left the Company and returned, and in terms of employment periods, those who work until retirement age and those who move to other companies after a certain period. To carry out highly creative work such as developing new customers, developing new products, and launching new businesses in a workplace with increased diversity, an environment where people can freely express their opinions and provide proposals and discuss them is necessary.

To approach this ideal workplace, it is important to promote face-to-face relationships by advancing direct interaction

between people, and exchanging opinions while seeing each other's faces at the same place. Although it takes efforts, subsequent communication via tools like email and chat should become more effective.

Our Company has established spaces for employee interactions following the relocation of our Head Office. Also, executives, including the President, frequently visit domestic and overseas subsidiaries, factories, and research facilities to exchange opinions with employees. I want to further advance these efforts and realize a workplace rich in creativity by building face-to-face relationships that transcend the barriers of age, position, and affiliated sections.



Shinobu Fujino

Outside Director
(Audit and Supervisory
Committee Member)

In addition to many years of business experience in operating companies, she has extensive knowledge and experience in human resource development, organizational development, and diversity promotion as a career counselor and Outside Director.

I will engage in mid- to long-term discussions to continue creating change toward 2030

The operation of the Board of Directors is very well-devised. Although the materials sent in advance are quite voluminous, some agenda items are explained in advance the day before, and on the day, explanations are focused on key points, allowing sufficient time for questions and answers. With a compact meeting body of only seven Directors in total, there is an atmosphere of close discussion, making it a place where questions and opinions can be freely expressed. Regular reports are also made on the progress of the Mid-term Management Plan SPEED 25/30, allowing for timely understanding of the current management situation and future outlook. While there were many short-term perspective

topics this year aimed at the FY2025 targets, I expect that mid- to long-term topics will increase in the future, such as the re-examination of goals toward 2030.

One of the themes of SPEED 25/30 is promoting diversity. I believe that the positive aspects brought by diversity in human resources are essential for future corporate management that constantly demands change. Within the Group, gaining diversity perspectives through exchanges with Korean companies is also a strength. Also, this year saw the emergence of a female executive officer from within the Company. Japanese universities have finally begun initiatives to increase female STEM talent, and I hope that Hodogaya Chemical will also actively work on recruiting women and promoting them to leadership positions, steadily creating organizational change.

In terms of change, strengthening the management foundation through DX promotion is also one of the themes of SPEED 25/30. At the Board of Directors meetings, we also receive regular reports on the progress of the core system SAP renewal project. The project is reportedly progressing according to the initial plan, suggesting that costs and risks have been sufficiently considered in advance before implementation. I expect that the new system will contribute to management with more accurate and rapid data collection and analysis.

Board of Directors



Yuto Matsumoto
Representative Director, President and CEO
Number of Company shares held 8,900 shares
Number of Board of Directors meetings attended in FY2023 13/13
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 6,100 shares
Number of Board of Directors meetings attended in FY2023 13/13
Brief personal record
Mr. Kasahara joined the Company in April 1981 and worked in the R&D and production department operations. He was appointed a Director and Senior Managing Executive Officer of the Company in June 2020, overseeing the Group's Production Department.



Shinichi Sato
Director and Managing Executive Officer
Number of Company shares held 3,200 shares
Number of Board of Directors meetings attended in FY2023 (after appointed as a Director) -
Brief personal record
Mr. Sato joined the Company in March 2014, and has been engaged in operations of the Internal Control Department and Legal Department of the Group while utilizing his extensive experience and knowledge gained during his time in the banking field. He was appointed Managing Executive Office in June 2024, overseeing promotion of sustainability, accounting, human resources, internal controls, internal audits, and the Secretary Department.



Shinichi Matsuno
Director (Audit & Supervisory Committee Member)
Number of Company shares held 6,200 shares
Number of Board of Directors meetings attended in FY2023 -
Number of Audit & Supervisory Committee meetings attended in FY2023 -
Brief personal record
Mr. Matsuno joined the Company in April 1981 and has been widely involved in the Research & Development, Purchasing, Sales and Corporate Planning Departments. After serving as a Director and Managing Executive Officer since May 2015, he was elected Director in June 2024.



Shuji Kato
Outside Director (Audit & Supervisory Committee Member)
Number of Company shares held 2,000 shares
Number of Board of Directors meetings attended in FY2023 13/13
Number of Audit & Supervisory Committee meetings attended in FY2023 13/14
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 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 700 shares
Number of Board of Directors meetings attended in FY2023 13/13
Number of Audit & Supervisory Committee meetings attended in FY2023 14/14
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 100 shares
Number of Board of Directors meetings attended in FY2023 10/10*
Number of Audit & Supervisory Committee meetings attended in FY2023 10/10*
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.

*She has attended all meetings since taking up position as Director 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 | ○ | | | | ○ | ○ | |
| Shinichi Sato | | ○ | ○ | ○ | | | |
| Shinichi Matsuno | ○ | | | ○ | ○ | ○ | |
| 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



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

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. No internal reports were submitted in FY2023.

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 100% (as of March 31, 2024).



Tax Compliance

The Hodogaya Chemical Group meets the demands and expectation of society by properly fulfilling its obligation to pay taxes in all countries and regions in line with the Corporate Action Guidelines and Compliance Action Policy.

We are working to maintain and improve tax compliance.

| Compliance Training Calendar (FY2023) | | | | | | | |
|---------------------------------------|---|---|---|--|--------------------------------|-------------------------------------|--|
| Training | July | August | | December | | February | March |
| | General training (1) | Issue-based training (1) | Insider trading prevention training | General training (2) | Group company officer training | Issue-based training (2) | Officer training |
| Eligible participants | All officers and personnel | All officers and personnel | Designated department | All officers and personnel | Group company officers | All officers and personnel | Directors (including Outside Directors) and executive officers |
| Content | • Compliance basics • Familiarization with rules and regulations • J-SOX • Information security • Respect for human rights • Quality-related scandals • Contract examination and review | • Questions from the assigned materials and the Compliance Handbook | • “Mr. Compla’s Insider Trading Regulations Q&A (Japan Exchange Regulations)” was used. | • Compliance basics • Familiarization with rules and regulations • Personal information management • Harassment education • Antisocial forces education • Insider trading | • Scandals at other companies | • Questions from assigned materials | • Recent manufacturing scandals • Revisions to the Financial Instruments and Exchange Act • Proxy advisory firm 2024 policy • General meeting of shareholders related |

* For all training, the participation rate was 100%.
* Compliance basics and J-SOX training include information on the prevention of insider trading and whistleblowing.

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.



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.

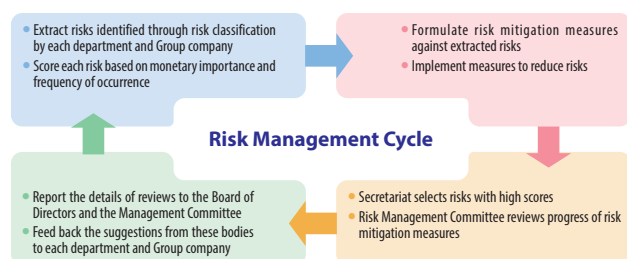
The Committee holds regular meetings to share risk awareness, develop measures to reduce risks, review the progress of such measures, and take initiatives to minimize damages based on the Crisis Management Regulations, across the Hodogaya Chemical Group as a whole.

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

Risk management structure



Risk Evaluation Procedures



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

Overall Risk Awareness for FY2024

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

- (1) Continuing high inflation
- (2) Extended period of tight monetary policy (for Japan, maintaining loose monetary policy → continuing yen weakness)
- (3) Less financial support as public debt grows
- (4) Clash between democracy and authoritarianism, movement toward a multi-polar world, and political divisions due to collapse of the middle class in Europe and the U.S.
- (5) Decoupling of global economy, stagnant Chinese economy, rekindled material inflation

Details of FY2023 Deliberations

Deliberations by the Risk Management Committee in FY2023 were primarily regarding such issues as sales risk, manufacturing risk, purchasing and procurement risk, which are based on the risk management cycle depicted in the figure to the left.

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 the 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



To protect what is common sense at Hodogaya Chemical Group

As a member of the IT Planning and Administration Department, I am involved in not only maintaining and operating systems but also raising employees' awareness of information security. Not simply relying on systems countermeasures, we regularly provide information and work to maintain and raise awareness by conducting annual practical training using simulated phishing emails so that each person views information security as something that involves them. In addition, we try to create an environment that makes it possible to promptly respond to events, including emergencies, by making it easy for people to consult and seek advice even regarding minor points during routine operations. We will implement various initiatives with the goal of further improving information security, which supports the Hodogaya Chemical Group's business activities.

(T.M., IT Planning & Administration Department)