

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/>



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.

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

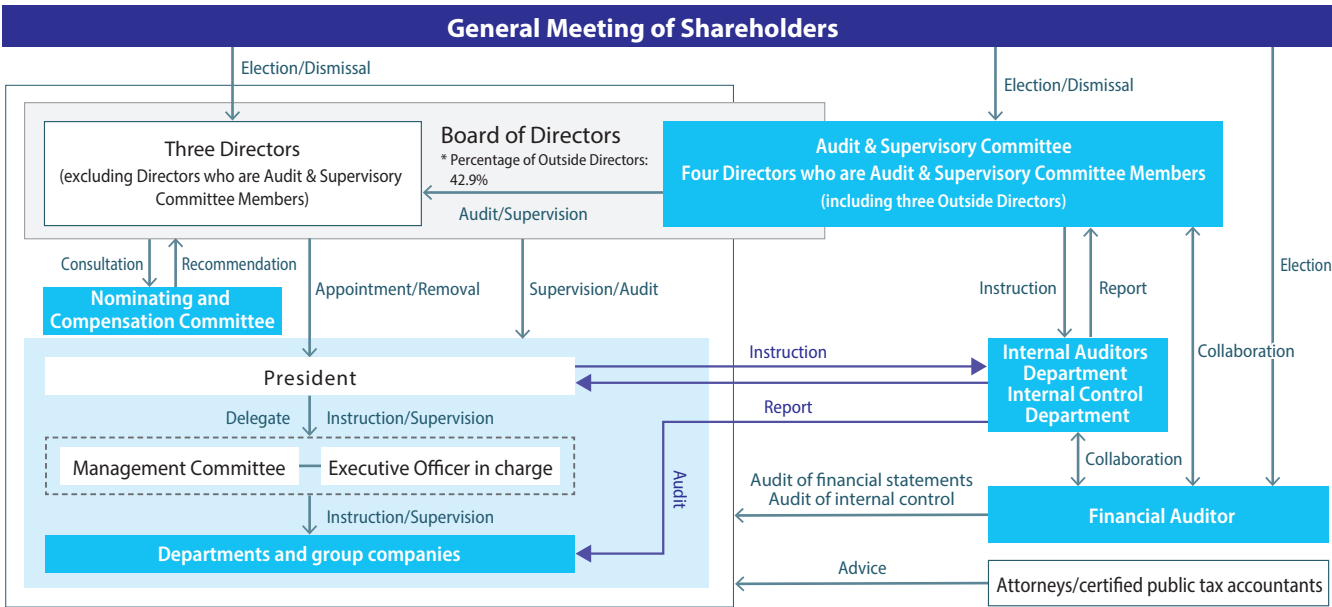
The executive officer system was introduced to achieve several objectives, including promoting management efficiency and enabling quicker decision-making, and the President elects executive officers who can fulfill these goals and puts them in charge of execution of operations in key departments.

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



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

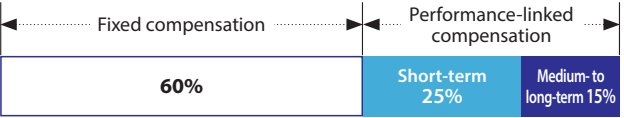
compensation plan for directors that, in addition to the existing compensation linked to short-term performance, adds compensation linked to mid- to long-term performance.

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