


Corporate Governance

Basic Policies

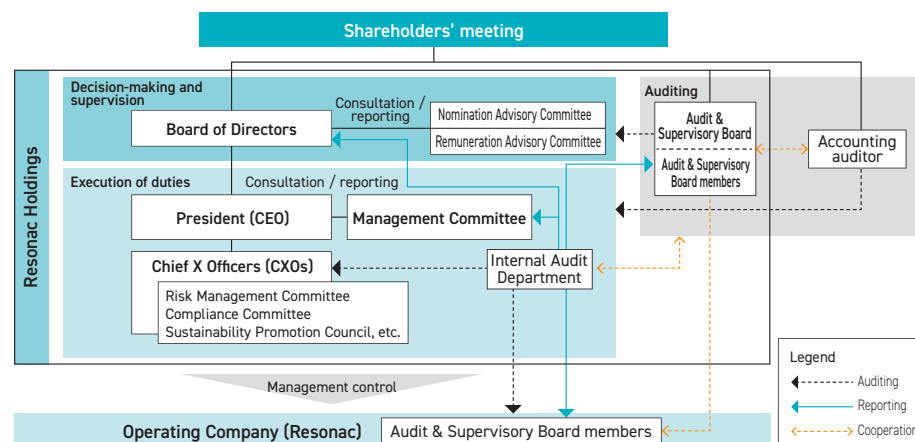
The Company works to increase its corporate value and expand profit for both the company and its shareholders by collaborating appropriately with stakeholders, including shareholders in line with its Corporate Governance Basic Policies.

We are committed to promoting our corporate governance to ensure the soundness, effectiveness, and transparency of management and to continue enhancing our corporate value, thereby earning more trust and receiving a higher rating from society. We describe our efforts made to this end in our Corporate Governance Report, while fostering constructive dialogue with investors and shareholders.

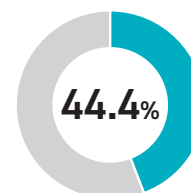
Review of 2022

- We revised the remuneration system for directors and corporate officers. The revised system increases the degree to which remuneration is linked to the management indicators and initiatives defined in the Long-term Vision. 
- We established a framework to audit and oversee the entire group through collaboration between the Audit & Supervisory Board members of both the holding and operating companies.
- The Board of Directors of the holding company has assumed the responsibility of overseeing the entire group by exercising its supervisory role over the Chief X Officers (CXOs) and the business unit (BU) heads.

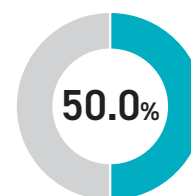
Corporate governance structure (As of June 30, 2023)



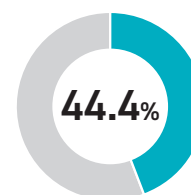
Ratio of Outside Directors



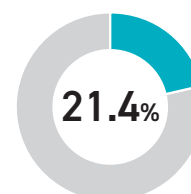
Ratio of Outside Officers (Directors, Audit & Supervisory Board members)



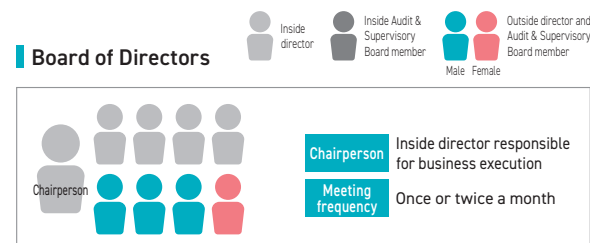
Ratio of Directors Not in Charge of Business Execution



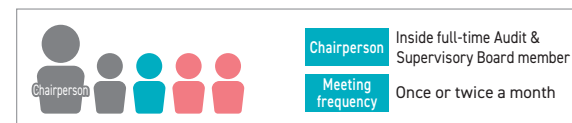
Ratio of Female Officers (Directors, Audit & Supervisory Board members)



Board of Directors



Audit & Supervisory Board

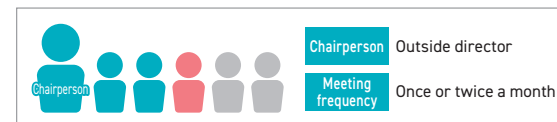


Nomination Advisory Committee

Priority discussion topics in fiscal 2022: Nomination of candidates for chief executive officer and other management positions



Remuneration Advisory Committee



Management Committee



Corporate Governance

Evaluation of the Board of Directors' Effectiveness

Evaluation method

Regarding the effectiveness of the Board of Directors in 2022, we conducted a survey in December 2022 in which the directors and Audit & Supervisory Board members answered questions and made free comments. Then, in March 2023, the Board of Directors held a meeting for all directors and Audit & Supervisory Board members to discuss the collected self-evaluation results and the board reform deliberated upon during the opinion exchange meetings among directors and corporate officers held in June and September 2022, create a summary of the evaluation results for fiscal 2022, and formulate an action plan for fiscal 2023. To ensure the objectivity of the survey and further boost the effectiveness of the Board of Directors, the survey is conducted, and the results are tabulated by an external organization.

Evaluation process of the Board of Directors' effectiveness

1. Self-evaluation	Those subject to assessment	Directors, Audit & Supervisory Board members
	Method	An anonymous questionnaire survey conducted by an external organization
2. Board-level evaluation	Method	Discussions within the Board of Directors based on views shared during opinion exchange meetings and other interactions among directors and corporate officers
3. Disclosure of summarized evaluation results	Details	Evaluation methodologies, evaluation results, and overview of action plan
	Method	Corporate Governance Report

Evaluation results

The evaluation results have determined that, in Board of Directors' meetings, highly effective Board members with a broad perspective and values reflecting a variety of experiences and expertise are engaged in discussions that help to increase corporate value. Handouts and explanations about agendas are standardized and provided beforehand to encourage the members to take part in vigorous and constructive discussions and allow sufficient time for discussions. With regard to the action plan for 2022, which was made based on the results of evaluation of overall effectiveness of the Board of Directors for 2021, members of the Board of Directors and Audit & Supervisory Board have confirmed facts and issues as follows.

- Concrete efforts were launched to increase efficiency of the Board of Directors by aiming to secure enough time and opportunities for discussion.
- Discussions began concerning the ideal state of the Board of Directors, and a common understanding was reached as to necessary steps.

Our execution plan for fiscal 2023 will focus on the following:

- Take specific measures to accelerate separation of execution and supervision
- Set agenda for the Board of Directors in the future based on its objectives and roles
- Secure additional communication opportunities and improve the current method
- Make a new system for sharing information and improve the current method

Initiatives to harness the insights of outside officers

During the period, we held opinion exchange meetings for outside officers (remuneration for directors and corporate officers was discussed at the meeting in May 2022), distinct from the activities of the Remuneration Advisory Committee. We are dedicated to sharing and discussing the latest trends concerning other companies, which includes integrating recent executive remuneration regulations, compensation governance, and sustainability indicators into compensation considerations.

Nomination Process

Approach to nomination

The Company selects candidates for positions as director based on the criteria for knowledge, insight, fair judgment, ability to take actions, practical experience, and other requirements for directors. For the selection of management, individual performance as well as corporate performance are also taken into consideration. Candidate Audit & Supervisory Board members must possess sufficient knowledge, experience, and capabilities to fulfill their obligations, including an appropriate level of expertise in the areas of finance and accounting.

The Nomination Advisory Committee deliberates on the nomination of candidates for the aforementioned positions and submits recommendations to the Board of Directors. The committee is an advisory board to the Board of Directors, and more than half of its members are outside directors designated as independent directors.

● Dismissal of the chief executive officer and other members of management

In the event it is revealed that any of the directors, including the chief executive officer, has substantially damaged the corporate value of the Company or does not meet the selection criteria for directors, the Nomination Advisory Committee will discuss whether the person is still suitable for the position and report the results to the Board of Directors, which will make the final decision.

Implementing a succession plan

The Company is taking Groupwide and global steps to cultivate the future leaders who will be necessary to advancing its growth strategies.

Corporate officers are responsible for selecting potential successors, with due consideration paid to diversity, and for formulating development plans. These plans are discussed and confirmed by the Nomination Advisory Committee based on the Corporate Governance Basic Policies. The Board of Directors monitors all succession planning initiatives based on reports from the Nomination Advisory Committee.

Composition of the Nomination Advisory Committee

Chairman: Tetsuo Tsuneishi (Outside Director) Members: Kiyoshi Nishioka, Kozo Isshiki and Noriko Morikawa (Outside Directors) Kohei Morikawa and Hidehito Takahashi (Inside Directors)

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Matters discussed, etc.

Time of meeting and matters discussed	Participants
September 2022 Discussed the Nomination Advisory Committee's structure and direction, and received an update on the implementation status on the company-wide talent review	All members
October 2022 Discussed the structure of corporate officers and the Board of Directors for fiscal 2023	All members
November 2022 Discussed the structure of Board of Directors for fiscal 2023	All members

With the exception of Mr. Tsuneishi, who assumed office in March 2023, all the aforementioned members, along with Mr. Oshima, a former outside director and Chairman of the Committee, were present at every meeting.

Remuneration

Basic policies on remuneration

The policy for determining the remuneration for respective directors of the Company is established by the Board of Directors after the Remuneration Advisory Committee, comprising a majority of outside and independent officers, deliberates on the appropriateness of the policy each fiscal year. While deliberating, the Remuneration Advisory Committee considers the evolving business environment, along with feedback from shareholders and investors. Additionally, it sources essential information for its discussions from third-party organizations with extensive global experience and knowledge.

[Directors (excluding Outside Directors)] <ul style="list-style-type: none">● Establish a remuneration scheme appropriate for recruiting and retaining talented human resources from inside and outside Japan suited to a global top-level functional chemical manufacturer.● Incentivize them to achieve performance targets and increase medium- to long-term corporate value, thereby driving the sustainable growth of the Group● Maintain a transparent, fair, and rational process for deciding remuneration from the viewpoint of accountability to shareholders and all other stakeholders [Outside Directors] <ul style="list-style-type: none">● Establish a remuneration scheme appropriate for the role and responsibility of supervising management from an independent and objective standpoint

In determining the remuneration for respective directors for fiscal 2022, the Remuneration Advisory Committee, comprising a majority of outside and independent officers as outlined in the adjoining section, conducted a multifaceted assessment utilizing objective and specialized information necessary for deliberation, ensuring alignment with the Policy for Determining Remuneration for Directors and Corporate Officers. The Board of Directors generally acknowledges decisions made by the Committee and deems the content to be appropriate and in line with the aforementioned determination policy.

Composition of the Remuneration Advisory Committee

Chairman: Kiyoshi Nishioka (Outside Director) Members: Kozo Isshiki, Noriko Morikawa and Tetsuo Tsuneishi (Outside Directors) Hidehito Takahashi and Hideki Somemiya (Inside Directors)

Primary roles and authority of the Remuneration Advisory Committee

Matters to be resolved	Matters to be deliberated or confirmed
<ul style="list-style-type: none">● Basic compensation for individual directors● Targets and evaluation of performance indicators associated with short-term incentives (STIs) for directors, and amounts paid to individual directors● Position-based standard points, TSR evaluation, and the number of earned points and shares to be delivered to individuals associated with long-term incentives (LTIs) for directors	<ul style="list-style-type: none">● Policy for determining the remuneration for directors and corporate officers● Details of remuneration for respective corporate officers (excluding those concurrently serving as directors), executive officers, and directors● Formulation, amendment, or revocation of significant company rules and procedures related to remuneration for directors and corporate officers, along with descriptions presented in important public announcements and other relevant communications

In order to appropriately fulfill its roles and exercise authority in deliberating on matters entrusted or consulted by the Board of Directors, the Remuneration Advisory Committee carefully considers consistency with the Policy for Determining Remuneration for Directors and Corporate Officers, while also accounting for the evolving business environment and feedback from shareholders and investors. Furthermore, the Committee obtains information, advice, and other insights necessary for its deliberations from Willis Towers Watson (WTW), a third-party organization with a wealth of international experience and knowledge.

Compensation consultants from WTW were present at all meetings of the Remuneration Advisory Committee throughout the period. In addition, the Remuneration Advisory Committee reported the matters deliberated upon or resolved to the Board of Directors in a timely and appropriate manner during the period. Accordingly, the Board of Directors confirmed the reasonableness and appropriateness of the reported matters.

Matters discussed, etc.

Time of meeting and matters discussed	Participants
December 2022 <ul style="list-style-type: none">● Collected and analyzed up-to-date information on domestic and international executive compensation practices to identify prevailing trends● Confirmed that the current remuneration aligns appropriately in level and composition with the Policy for Determining Remuneration for Directors and Corporate Officers after verifying the appropriateness of the composition and levels of remuneration for directors and corporate officers through a comparison with global chemical or other material companies of a similar scale (No revision would be made in fiscal 2023.)	All members (excluding a newly appointed director)
January and March 2023 <ul style="list-style-type: none">● Determined the individual standard compensation amounts and the number of LTI standard points to be granted to each director for fiscal 2023● Discussed the evaluation of performance indicators (consolidated financial results and personal performance) for the fiscal 2022 STI to determine the individual amounts to be paid to each director. The process of personal performance evaluations for each evaluated director (President and CEO, CTO, CFO, CSO) began with an initial assessment by the President and CEO (including a self-evaluation for the President and CEO). The final evaluations were then conducted through deliberation and confirmation of their appropriateness.● Opted not to grant shares for the fiscal 2022 LTI to a director (who is not an outside director) who resigned in March 2023, based on the TSR evaluation through the end of the fiscal year immediately preceding his resignation● Discussed the targets of performance indicators for the fiscal 2023 STI, deliberated and confirmed the appropriateness of personal performance targets after receiving explanations from each director and candidate for reappointment as a director (President and CEO, CTO, CFO, CSO) who were under evaluation● Confirmed the details of remuneration for directors and corporate officers that were to be disclosed in the Business Report and Securities Report for fiscal 2022	All members (excluding a newly appointed director)

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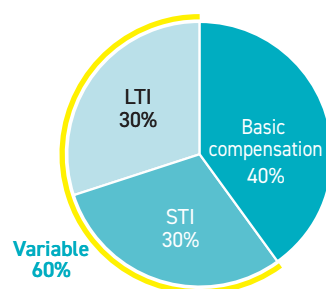
Composition and levels of remuneration

Directors (excluding Outside Directors)

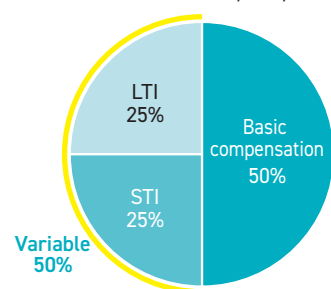
- The remuneration of directors (excluding outside directors) consists of basic compensation (fixed compensation) based on the position, a short-term incentive (STI) tied to annual performance, and a long-term incentive (LTI) contingent upon medium- to long-term performance and corporate value.
- The ratio of variable compensation (STI and LTI) to total compensation is set at 50% or higher, with the intention to reinforce management's commitment to improving business performance and other results, as well as corporate value. Given the substantial responsibility for business performance and stock price, the Chairman of the Board and the President receive a greater portion of variable compensation in comparison to other directors.
- The levels of remuneration are established at appropriate amounts, aligning with benchmarks from other companies (comparison with global chemical or other material companies of a similar scale to the Company) based on surveys conducted by external specialized organizations.

Composition of remuneration for directors (standard amount) for fiscal 2023

Chairman of the Board and President, CEO



Directors and CRO/CFD/CSO



Outside Directors

- Outside directors are paid basic compensation (fixed compensation) only.
- The members and chairman of the Remuneration Advisory Committee or the Nominating Advisory Committee receive additional allowances corresponding to their designated duties.
- The levels of remuneration are established at appropriate amounts, considering the time and efforts spent by each outside director to fulfill their expected roles and functions, as well as benchmarks from other companies (comparison with global companies of a similar scale to the Company) based on surveys conducted by external specialized organizations.

Composition of remuneration for directors (standard amount) for fiscal 2023

Types of remuneration			Recipients			
Fixed / variable	Monetary / non-monetary	Composition	Executive directors, corporate officers	Director and chairman of the Board (without right of representation)	Outside director	Audit & Supervisory Board members
Fixed	Monetary	Basic compensation	○	○	○	○
		Short-term incentive (bonuses)	○	—	—	—
Variable	Non-monetary	Long-term incentive (stock-based compensation)	○	○	—	—

Short-term Incentive (STI)

The amounts to be paid to individuals as STI are calculated by multiplying the position-based standard amount by two factors: (1) companywide performance evaluation coefficient (evaluation ratio of 70%); and (2) personal performance evaluation coefficient (evaluation ratio of 30%). This approach aims to enhance incentives for achieving companywide performance targets. The performance evaluation coefficient ranges from 0% to 200%, based on performance results and other factors.

$$\text{Individual amount granted as STI} = \text{Position-based standard amount} \times ((1) \text{ Companywide performance evaluation coefficient} + (2) \text{ Personal performance evaluation coefficient})$$

Key performance indicators (KPIs) used to calculate the companywide performance evaluation coefficient and the personal performance evaluation coefficient are selected from the financial and strategic indicators prioritized by the Company to achieve its Long-term Vision.

Key Performance Indicators (KPIs) for the fiscal 2023 STI

	KPIs	Evaluation weight	Reasons for selection
Company-wide performance evaluation	EBITDA	20%	Driver for enhancing medium- to long-term profitability in the newly integrated company
	EBITDA margin (%)	30%	Strive for growth and innovation with a focus on electronics and mobility businesses, while also implementing structural reforms and addressing the recovery from the impact of COVID-19, among other objectives.
	ROIC	20%	Indicator of profit distribution to shareholders and investors
Personal performance evaluation	Endeavors aligned with the long-term vision, actions to resolve sustainability issues, and more.	30%	Strive to optimize the business portfolio and the net debt-to-equity ratio of the newly integrated company, aiming to enhance ROE over the medium to long term.
			Strongly encourage management from a long-term perspective to attain sustainable growth of the Company

EBITDA = Consolidated operating income + Depreciation and amortization + Amortization of goodwill, etc.

EBITDA margin (%) = EBITDA ÷ Consolidated net sales

ROIC = (Operating income + Equity in earnings of unconsolidated subsidiaries and affiliates - Income taxes) ÷ (Interest-bearing debt + Total net assets)

Sustainability issues are discussed at the Sustainability Promotion Council

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The performance evaluation coefficient is determined through an evaluation of financial indicators and measures. The primary financial indicators include consolidated net sales and consolidated EBITDA, which are management indicators the Company focuses on and suitable for objective and clear evaluation based on business results.

Regarding the consolidated operating results for fiscal 2021, net sales amounted to ¥1,419,635 million, exceeding the target of ¥1,280,000 million. EBITDA stood at ¥202,644 million, exceeding the target of ¥165,100 million. In light of the evaluation results and other factors, the STI payment to each director for fiscal 2022 was 160% of the standard amount.

Long-term incentive (LTI)

The LTI system is designed to deliver a certain number of shares calculated by multiplying the standard points based on the position-based standard amount by a coefficient corresponding to the Company's TSR (Total Shareholder Return) over a three-year period, with the aim of enhancing corporate value in the medium to long term. To further enhance value sharing with shareholders, the actual delivery of shares is deferred to the time of resignation of each director.

$$\text{Number of shares delivered to individuals as LTI} = \text{Position-based standard points} \times \text{TSR evaluation coefficient}$$

The TSR evaluation coefficient is decided based on a rank order of three-year TSR evaluation by comparison with companies (in the chemical and material industries with similar business models and of the same size or larger). The target for TSR ranking is set at mid-range or higher to realize the long-term vision of "TSR: Aiming to be in the top 25% in the chemical industry in the medium to long term."

This system has been operational since 2022, and the first TSR evaluation period (linked with the fiscal 2022 LTI) spanned three years from 2022 to 2024. Subsequently, the TSR evaluation period rolls over every year to maintain a three-year evaluation period.

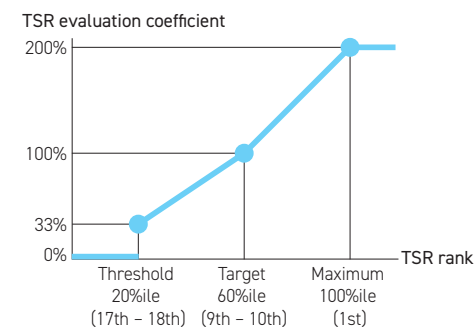
Once the number of shares (points) to be delivered is determined through the TSR evaluation, the equivalent amount of dividends during the interval until the shares are physically delivered (until the time of resignation) is deemed to be reinvested, thereby adding the count of shares (points) slated for delivery.

TSR evaluation period and timeline for determining the number of shares (points) to be delivered under the LTI plan per fiscal year

Plan	2022	2023	2024	2025	2026	• • •	Resignation
2022 LTI	←TSR evaluation period→			Fixing of points→ → →			Share issuance
2023 LTI		←TSR evaluation period→			Fixing of points→		Share issuance

As this system was implemented in fiscal 2022 and the first TSR evaluation spanned three years from 2022 to 2024, no LTIs were subject to final evaluation in fiscal 2022. Yet, for a director (who is not an outside director) who is slated to resign in March 2023, the shares of the Company's stock will be delivered as LTI based on the TSR evaluation performed up to the fiscal year immediately prior to his resignation. The Company will not grant its shares to resigning directors as the fiscal 2022 LTI due to the Company's TSR of 89.4% for the period from January to December 2022. The Company's ranking was at the 18.9%ile among the 22 entities in the chemical and textile industries, namely between the 18th and 19th spots out of the 22 companies.

Calculation method for the TSR evaluation coefficient for the fiscal 2023 LTI



Adjustment of compensation, request for return of compensation, etc.

In case of deterioration in the Company's business performance, or such problems that could damage its corporate or brand value as quality issues, serious accidents, or scandals, the Company reserves the right to temporarily decrease or withhold remuneration and other benefits for directors.

Regarding the short-term incentive (STI), if temporary special factors emerge, which was not anticipated when the targets were set at the beginning of the period, individual bonus amounts may be recalculated based on reassessed performance and other elements with the exclusion of the impact of such factors.

Regarding the short-term incentive (STI) and long-term incentive (LTI), if a director or corporate officer is involved in misconduct or if payment was made based on incorrect financial statements, the Company may nullify the right to receive associated benefits on account of such fact or demand return of compensation already paid to the individual concerned.

Corporate Governance

Remuneration of Directors and Audit & Supervisory Board members

Category	Total amount paid (Millions of yen)	Total amount paid by remuneration type (Millions of yen)			Number of recipients
		Basic compensation	Short-term incentive (STI)	Long-term incentive (LTI)	
Directors	557	340	106	109	12
Outside directors	65	65	—	—	4
Audit & Supervisory Board members	104	104	—	—	6
Outside Audit & Supervisory Board members	38	38	—	—	4

Notes:

- The amounts of basic compensation and short-term incentive above are the total amount of compensation paid in fiscal 2022 (all monetary compensation).
- The amount of STI above is the total amount of compensation paid in March 2022 (all monetary compensation), based on the performance and other results achieved during fiscal 2021. The amount of STI for fiscal 2021 for five directors excluding outside directors was resolved at the 113th Ordinary General Meeting of Shareholders held on March 30, 2022 to be no more than ¥119 million in total.
- The amount of LTI above is the total amount expended in fiscal 2022. The Company's LTI represents the number of shares of the Company's stock determined based on the results of the three-year TSR (Total Shareholder Return) evaluation, to be deferred and delivered upon resignation. For the LTI management, we utilize the Stock Benefit Trust of Mizuho Trust & Banking Co.
- The amount of remuneration for directors from fiscal 2022 onward was resolved at the 113th Ordinary General Meeting of Shareholders held on March 30, 2022, and the details are as presented below. The STI and LTI amounts are paid to directors, excluding outside directors.

Category	Date of resolution of the General Meeting of Shareholders	Monetary remuneration (Basic Compensation + STI)	Stock-based compensation (LTI) (Amount of BBT contribution / Points granted)	Number of applicable persons
Directors	The 113th Ordinary General Meeting of Shareholders held on March 30, 2022	Up to ¥850 million per year (Of which, outside directors: ¥100 million)	Up to ¥1.35 billion for 3 fiscal years (Up to 410,000 points per fiscal year)	10 (Of which, 4 outside directors)

5 The amount of remuneration for Audit & Supervisory Board members was resolved at the 96th Ordinary General Meeting of Shareholders held on March 30, 2005 to be no more than ¥12 million per month. The number of Audit & Supervisory Board Members as of the close of the said General Meeting of Shareholders was four, including three outside Audit & Supervisory Board members.

Individual remuneration amounts (limited to the President and CEO or those with a total amount of remuneration paid by the Group of ¥100 million yen or more)

Principal position and name during fiscal 2022	Total amount paid (Millions of yen)	Total amount paid by remuneration type (Millions of yen)			Company category
		Basic compensation	Short-term incentive (STI)	Long-term incentive (LTI)	
Representative Director and Chairman of the Board Kohei Morikawa	135	66	46	22	Resonac Holdings
Representative Director, President and CEO Hidehito Takahashi	117	75	17	24	Resonac Holdings

Cross-Shareholdings

Policy on reduction of cross-shareholdings

In principle, the Company adheres to a policy of not engaging in cross-shareholdings, and steps are currently underway to reduce existing cross-shareholdings.

Review on the appropriateness of cross-shareholdings

The Board of Directors verifies each year whether the profitability and business feasibility of holdings are rational given the associated capital costs.

Voting right exercise standard

When the Company exercises its voting rights of cross-shareholdings, the company shall decide approval or disapproval of each item on the agenda by examining whether the item contributes to increasing corporate value and maintaining/increasing shareholders' returns or not.

Numbers of cross-shareholdings and amount on the balance sheet*

	Holdings	Amount on the balance sheet (Millions of yen)
Unlisted stocks	52	1,924
Other stocks	4	763

Holdings for which numbers of shares held increased in fiscal 2022*

	Holdings	Acquisition costs of additional shares (Millions of yen)	Reason for increase
Unlisted stocks	3	56	Due to investments in decarbonization-related businesses and organization restructuring
Other stocks	—	—	

Holdings for which numbers of shares held decreased in fiscal 2022*

	Holdings	Sales proceeds associated with reduction in the number of shares (Millions of yen)
Unlisted stocks	10	2,462
Other stocks	18	15,875

* Cross-shareholdings held by Resonac Corporation