

# Corporate Governance Report

July 5, 2024

AICA Kogyo Co., Ltd.

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Note: This is a translation of the Japanese language original for convenience purpose only, and in the event of any discrepancy, the Japanese language original shall prevail.

The corporate governance of AICA Kogyo Co., Ltd. (“AICA”) and / or AICA Group Companies (AICA and AICA Group Companies are jointly referred “AICA Group”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

AICA Group seeks to ensure and improve the value of AICA and the common interests of our shareholders through the enhancement of corporate governance at each of our Group companies, including our subsidiaries in Japan and overseas. In June 2020, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee. The Audit and Supervisory Committee, more than half of whose members are outside directors, is responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. AICA has also established a Governance Committee as an advisory committee to the Board of Directors. This committee is chaired by an outside director and a majority of the members are outside directors. The Governance Committee deliberates on key matters concerning governance, including the appointment and remuneration of management executives, with the aims of sustainable growth, medium to long-term improvement of corporate value, and further enhancement of governance functions.

### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

#### **Supplementary Principle 4.3.3 Dismissal of a CEO**

Although AICA has not established a specific process for dismissal of a CEO at this moment, should the CEO be deemed unable to fulfill his or her responsibilities, the Governance Committee and the Board of Directors will deliberate on and address the issue appropriately in a timely manner. The Governance Committee and the Board of Directors will deliberate and consider establishment of process, policies, requirement for dismissal of a CEO in the future.

### [Disclosure Based on the Principles of the Corporate Governance Code]

#### **Principle 1.4 Cross-Shareholdings**

AICA acquires and holds shares of companies such as business partners if AICA determines that it will contribute to the improvement of AICA’s corporate value from the perspectives of building and enhancing

relationships with business partners as well as forming business alliances. However, AICA's basic policy is to, in principle, reduce such cross-shareholdings. To this end, the Board of Directors regularly considers whether the benefits and risks of holding shares of each stock worth the cost of capital, and shares with little value are reduced or sold. Under this policy, the Board of Directors evaluates factors such as the details of transactions, the value of transactions, and the future transaction policy for each stock twice a year, and shares with little value are sold. Even if it is deemed reasonable to hold a stock, all or part of shares of the stock may be sold in consideration of factors such as the capital policy and the market environment, in accordance with the basic policy to reduce cross-shareholdings.

AICA exercises our voting rights for shares held as cross-shareholdings by comprehensively considering factors such as whether it contributes to the improvement of corporate value of both the issuing company and AICA, as well as whether there is a risk of impairing shareholder value. In addition, in the case of an event that requires attention, such as a long-term slump in business results or a serious violation of compliance, AICA will sufficiently investigate and collect information before determining whether to vote for or against a proposal.

<Overview of the review of cross-shareholdings>

AICA comprehensively reviewed the value of all shares it held as cross-shareholdings based on factors such as the status of shareholding, acquisition prices, transaction details, changes in transaction values, whether the return on required capital (e.g., revenue from transactions with and dividends received from each issuing company for a single fiscal year) exceeded the target cost of capital, and the future transaction policy. As a result of the quantitative assessment, the returns on required capital for listed shares of more than 90% of the companies were found to exceed the target costs of capital. Taking also into account the results of the qualitative assessment, AICA has determined a policy to sell shares of the stocks with little value in consideration of the market environment.

<Fiscal year 2023 results>

AICA has judged shares of a stock that the purpose of holding such shares to stabilize businesses and expand transactions with the issuing companies was weakened on the basis of quantitative and qualitative. Therefore, AICA transferred it from cross-shareholdings to net investments and will sell the shares.

AICA will also continue to sell them quickly if they are judged to be unnecessary.

#### **Principle 1.7 Related Party Transactions**

- AICA has designated transactions between AICA and our Directors or major shareholders with conflicts of interest as matters requiring resolution and reporting by the Board of Directors based on the importance of the transactions, in accordance with laws and regulations as well as the Rules of the Board of Directors.
- In addition, AICA has designated transactions between AICA and AICA Group Companies as well as other important matters as matters requiring approval of the Board of Directors of AICA in accordance with the Regulations on Management of Affiliated Companies and the Regulations on Approvals (*Ringi*).

#### **Supplementary Principle 2.4.1 Disclosure of Views on Ensuring Diversity in Core Human Resources, Such as the Promotion of Women, Foreign Nationals and Mid-career Hires to Managerial Positions**

##### 1. Views on ensuring diversity

AICA's Corporate Policy says, "viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development." AICA recognizes that while our employees comprise assets, they are also important stakeholders. Based on this understanding, AICA focuses on activities aimed at deepening mutual understanding as it strives to provide opportunities and an environment in which each and every employee can fully apply his or her abilities. By building a workplace where diverse human resources can recognize each other and play active roles, AICA aims to achieve mutual growth for both the company and our employees. AICA promotes diversity in response to the globalization of business and the diversification of market needs.

AICA's activity targets for promoting diversity are disclosed in the AICA Report (Integrated Report).

(URL: <https://www.aica.co.jp/english/company/sustainability/report/>)

AICA's human capital-related targets set forth in the current Medium-Term Business Plan are disclosed on our website.

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/#headline-1628144740>)

## 2. Voluntary and measurable goals for ensuring diversity

### (1) Promotion of women to managerial positions

As of March 31, 2024, women managers are nine and a ratio of women management positions is 4.48% (Non-consolidated). Business divisions where women can actively work are broadening, including sales, administration, and production. In addition, the ratio of women in the qualification grades that qualify as candidates for management positions increased from 8.96% in fiscal year 2023 to 12.3% at the beginning of fiscal year 2024. AICA will continue to increase the ratio of women managers and expand the scope of participation by providing equal opportunities through promotion and hiring, helping them network and be independent, aiming to optimize the management.

(Target) Ratio of women management positions (by fiscal year 2024): 5.80 % (Non-consolidated)

(Results) Ratio of women management positions (fiscal year 2023): 4.48% (Non-consolidated))

### (2) Promotion foreign nationals to managerial positions

As of April 1, 2024, AICA appointed two foreign nationals executive officers and will continue to proceed with appointment of the foreign director, executive officer, or other managerial positions. Overseas Group companies focus on actively utilizing local human resources and is promoting the appointment of talented locally employed staff to key positions. In fiscal year 2023, 79.5% of Overseas Group companies appointed foreign nationals to the presidential position.

AICA continuously practices equal opportunity hiring regardless of nationality and hired total of two foreign nationals (one new graduate and one mid-career) in fiscal year 2023. Currently eight foreign nationals are working for AICA, who joined as new graduates or mid-career hires. They play active roles in a wide range of fields, including overseas locations, sales, R&D, and administrative divisions. AICA is actively recruiting foreign nationals as it expands our business globally and will hire more foreign nationals than the present. In the mid to long term, AICA aims to grow into a corporation with culturally diverse teams ready to meet various needs in the organization.

### (3) Promotion mid-career hires to managerial positions

AICA recruits a certain number of mid-career professionals every year to have experienced personnel with minimum training. AICA hired 22 people in fiscal year 2023 as mid-career hires, for a wider range of positions, including sales, R&D, administrative divisions and production technology. AICA currently has 303 mid-career hires, and 48 of them are serving as director, executive officer, or other managerial positions. The ratio of mid-career hires in the senior management (director and executive officer) is 23% to the total number of executive officers. The ratio is 23% for management positions. AICA will continue to maintain more than 20% the ratio of mid-career hires to management positions.

AICA encourage mid-career hiring and their recruitment to management positions as part of our management strategy.

## 3. Human resource development policy and internal environment development policy to ensure diversity and their implementation status

Under the Corporate Policy saying, “viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development,” AICA is working to cultivate diverse human resources who have a strong awareness of personal growth and their futures, and who strive forcefully toward the Corporate Principle of “Challenge and Creation,” while establishing human resource development policy and internal environment development policy. To this end, AICA has established generation-based, grade-based, and occupation-based training programs, the overseas trainee system, the correspondence education system, the support system for obtaining official qualifications, and the environment for e-learning. Responsible departments, committees, and project teams (the Sustainability Development Committee, the C&C Promotion Committee and the Overseas Governance Committee) work with an aim of creating a work environment where diverse individuals respect and encourage each other. Our work environment is undergoing a transition, such as a workforce shortage, facing diversified needs and changes in work styles, but AICA will continue to work to cultivate diverse human resources and develop an internal environment that are capable of adapting to such changes flexibly and promptly following our Corporate Principle “Challenge and Creation.”

The details of human resource development policy and internal environment development policy are as follows.

◆ Human resources development policy

We aim to achieve the Corporate Policy saying, “viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development.” We cultivate people who have a strong awareness of personal growth and their futures, and who strive forcefully toward the Corporate Principle of “Challenge & Creation.”

◆ Internal environment development policy

By building a workplace where diverse human resources can recognize each other and everyone can play active roles, we aim to achieve mutual growth for both the company and our employees. Based on the recognition that while our employees comprise assets, they are also important stakeholders, we focus on activities aimed at deepening mutual understanding as we strive to provide opportunities and an environment in which each and every employee can fully apply his or her abilities.

**Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

AICA has adopted both a contract-type defined benefit pension plan and a corporate-type defined contribution pension plan. The Human Resources Department, which is the division in charge of managing the contract-type defined benefit pension fund, appropriately manages it such as by obtaining information on the status of management from asset managers including life insurance companies and trust banks through a report or in writing. In addition, AICA appropriately invests and manages pension assets by establishing the “Basic Policy for Pension Asset Management” while checking an assurance report on the effectiveness of internal controls and their operation status of each asset manager when necessary.

For the corporate-type defined contribution pension plan, AICA has introduced a matching contribution scheme in 2019 to provide support for self-help efforts of employees. AICA has also been striving to create an environment by opening a dedicated website for employees to provide them with monthly performance reports for each product and allow them to access to educational materials on the plan in the forms of video and text as needed.

**Principle 3.1 Full Disclosure**

As a company that is widely trusted by society, AICA has a basic policy of disclosing information about AICA to all stakeholders at the right time and in the most fair and appropriate manner. AICA strives to engage in constructive dialogue with shareholders by actively disseminating information through various means, including holding Financial Results Briefings, disclosing information through AICA’s website, issuing press releases and Integrated Reports. Please refer to the following URL for details of AICA’s “Disclosure Policy” (available in Japanese only).

(URL: <https://www.aica.co.jp/company/ir/management/disclosure/>)

( i ) AICA objectives (e.g., corporate philosophy), management strategies, and business plans

AICA’s Corporate Principle, Corporate Philosophy, Corporate Policy, Sustainability Policy, Code of Conduct, long-term and medium-term business plans are disclosed on the following URL on AICA’s website.

(URL: <https://www.aica.co.jp/english/company/philosophy/principle/>)

<Corporate Principle>

Challenge and Creation

<Corporate Philosophy>

The AICA Group creates new value and contributes to society through continuous innovation in the spirit of our philosophy of *Kyosei*\*.

\* Japanese word *Kyosei* stands for active engagement with the AICA Group's stakeholders (customers, employees, shareholders, suppliers, business partners, and local communities, etc.) and the global environment. *Kyosei* represents our approach to minimize the adverse effects of the AICA Group's business activities and products, and to contribute to society through the value we create and build better relationships with surroundings , with aiming for a sustainable existence together with the stakeholders mentioned above.

<Corporate Policy>

1. Chemistry and Design

We create uniquely original products through the power of chemistry and design, to contribute to the achievement of a prosperous society.

2. Group Synergies

We create group synergy through collaboration in technologies and market network.

3. Leading Products

Throughout the specific domains and regions of our business, we enhance and expand our market-leading products.

4. Global Presence

We strive to achieve sustainable growth in global markets by enhancing the capabilities of our overseas operations and participating in the higher growth sectors.

5. Human Resources and Organizations

Viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development.

6. Compliance Management

We practice fair and transparent management in accordance with all relevant laws, regulations, and social order.

7. Commitment to Safety and Security

We ensure trusted quality and engage in environmentally considerate business activities by focusing on our communication with stakeholders.

< Sustainability Policy >

1. We address social issues through our business activities to contribute to the creation of a better society.
2. We have established “Compliance with laws and regulations,” “Respect for human rights,” “Harmony with society,” “Fair business practice,” “Customer’s security and trust,” “Proper information disclosure,” “Protection of company information and property,” and “Environment and safety” as the basic principles of the Code of Conduct, and we base our actions on these principles as shared values for all employees.
3. We emphasize dialog with stakeholders, including customers, employees, shareholders, suppliers, business partners, local communities, and local governments, and respond promptly to social needs and changes.
4. We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them.

< Aica’s 10 years vision > (FY2017-FY2026)

[Financial targets]	Consolidated net sales:	300.0 billion yen
	Consolidated ordinary profit:	30.0 billion yen
	ROE:	10% or more
	Overseas sales ratio:	45% or more

Please refer to AICA’s website for details.

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/>)

<Medium-Term Business Plan “Value Creation 3000 & 300”> (FY2023–FY2026)

[Financial targets]	Consolidated net sales:	300.0 billion yen
	Consolidated ordinary profit:	30.0 billion yen
	ROE:	Approx. 10%
	ROIC:	Approx. 8%
	Overseas sales ratio:	50% or more
	AS products sales:	28.0 billion yen
[Non-financial targets]	GHG emissions reduction:	14% reduction vs. FY2022
	Environmental investment:	2.0 billion yen (cumulative over four years)
	Human capital investment:	4.0 billion yen (cumulative over four years)
	Engagement score:	4.0 point or more

Please refer to AICA’s website for details.

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/#headline-1628144740>)

( ii ) Basic views and guidelines on corporate governance

Basic views on corporate governance are disclosed on AICA’s website and I-1 in this report.

(URL: [https://www.aica.co.jp/english/company/ir/library/corporate\\_library/index.html](https://www.aica.co.jp/english/company/ir/library/corporate_library/index.html))

( iii ) Board policies and procedures in determining the remuneration of the senior management and directors

- The details of decision-making policies regarding the contents of individual remuneration for directors are as follows.

1. Composition of remuneration

Remuneration of directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors) consists of fixed monthly basic remuneration, variable performance-based

remuneration, and stock remuneration. The stock remuneration was approved and passed at the 121st Ordinary General Meeting of Shareholders held on June 24, 2021, under Proposal 4: Determination of Remuneration for Granting Restricted Shares to Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee and outside Directors). Meanwhile, remuneration of directors who are members of the Audit and Supervisory Committee and outside directors consists solely of monthly basic remuneration from the perspectives of their roles and independence.

#### (1) Basic remuneration

Basic remuneration of directors is fixed remuneration, paid monthly. Its amount is determined by considering factors such as levels at other companies that have been publicly disclosed and AICA's business results, based on a standard amount set for each position.

#### (2) Performance-based remuneration

Performance-based remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors) is provided once a year. When the business results for each fiscal year have been finalized, each director is individually evaluated on a five-tier scale of S, A, B, C and D to determine the amount of individual remuneration based on a standard amount set for each position. Individual evaluation is determined by considering factors such as the growth rates of consolidated and non-consolidated net sales and profits (e.g. operating profit), the attainment of budgets formulated at the beginning of the fiscal year, evaluation on duties each director is in charge of, and the progress of the Medium-Term Business Plan.

The reason for selecting these indicators is that AICA has determined that they are the most appropriate indicators to raise the awareness of improving business results for each fiscal year. The actual results of the key indicators, consolidated net sales and consolidated operating profit, for the fiscal year under review were 236,625 million yen (target attainment: 99.8%; down 2.2% YoY) and 25,286 million yen (target attainment: 103.2%; up 23.0% YoY), respectively.

The ratio of performance-based remuneration to the total amount of remuneration is determined according to each director's role, targeting a range from 15% to 20%. Upon comprehensively taking into account the attainment of the above indicators, the ratio of performance-based remuneration to total amount of remuneration for the fiscal year under review was 26.9%.

#### (3) Stock remuneration

Stock remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors) is planned to be granted once a year for the purpose of providing an incentive to aim for sustainable improvement of AICA's corporate value and facilitating further sharing of value with shareholders. Stock remuneration is granted in the form of restricted stock, and the amount is determined by considering factors such as AICA's business results based on a standard amount set for each position.

### 2. Evaluation of directors

(1) Individual evaluation of directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors) is conducted by Representative Director and Chairman Yuji Ono and Representative Director and President Kenji Ebihara. The Governance Committee reviews the appropriateness of the level of remuneration amounts, including individual evaluation.

(2) Evaluation of the Representative Director and Chairman and, Representative Director and President is reported to the Governance Committee, which reviews the evaluation process and the views on evaluation to ensure objectivity and fairness.

### 3. Method of determining directors' remuneration

Remuneration of directors is determined in accordance with the above calculation method by Representative Director and Chairman Yuji Ono and Representative Director and President Kenji Ebihara, who has been authorized by the Board of Directors. They take within the maximum amount of total remuneration determined by a resolution of the General Meeting of Shareholders and the report of the governance committee which is the chairperson and a majority of the members are outside directors into consideration. The reason for the authorization is that it is considered reasonable to authorize the Representative Director and Chairman, who understands AICA's overall business, to make the decision.

#### 4. Activities conducted during the process of determining the amount of directors' remuneration

During the process of determining directors' remuneration, members of the Governance Committee, mainly comprised of outside directors, exchange their opinions and report on matters such as the ratio between AICA's business results and the business results of the duties each director is in charge of, as well as the relationship between the evaluation grade and the rate of change, in order to enhance results and responsibilities, objectivity, and transparency.

#### 5. Dates of General Meetings of Shareholders at which the amounts of directors' remuneration were resolved and the details of the resolutions

At the 120th Ordinary General Meeting of Shareholders held on June 23, 2020, the maximum amount of remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) was approved to be 370 million yen or less per year (including 20 million yen or less per year for outside directors). Meanwhile, the maximum amount of remuneration for directors who are members of the Audit and Supervisory Committee was approved to be 70 million yen or less per year (including 20 million yen or less per year for outside directors who are members of the Audit and Supervisory Committee). As of the conclusion of the said General Meeting of Shareholders, the number of directors (excluding directors who are members of the Audit and Supervisory Committee) was eight (including two outside directors), whereas the number of directors who are members of the Audit and Supervisory Committee was three (including two outside directors who are members of the Audit and Supervisory Committee).

In the meantime, at the 121st Ordinary General Meeting of Shareholders held on June 24, 2021, a proposal "Determination of Remuneration for Granting Restricted Shares to Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee and Outside directors)," which proposed to pay 60 million yen or less per year separately from the above remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and outside directors) as remuneration for granting restricted shares, was approved. As of the conclusion of the said General Meeting of Shareholders, the number of directors (excluding directors who are members of the Audit and Supervisory Committee) was six (including two outside directors), whereas the number of directors who are members of the Audit and Supervisory Committee was three (including two outside directors who are members of the Audit and Supervisory Committee).

#### (4) Board policies and procedures for the appointment/dismissal of the senior management and the nomination of candidates for director and member of the Audit and Supervisory Committee

From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, the Board of Directors nominates persons who are suited to become AICA's directors upon comprehensively considering their experience, capabilities and achievements, regardless of their nationality, age or gender, and candidates are elected by a resolution of the General Meeting of Shareholders. During the process of nominating candidates for director, the Governance Committee, mainly comprised of outside directors, conducts deliberation.

Although AICA has not established a specific process for the dismissal of senior management at this moment, AICA will consider a specific process including criteria for dismissal in the future.

#### (5) Explanations with respect to individual appointments/dismissals and nominations when the Board of Directors appoints/dismisses the senior management and nominates candidates for director and member of the Audit and Supervisory Committee

When the Board of Directors determines the appointment/dismissal of the senior management and the nomination of candidates for director and member of the Audit and Supervisory Committee, AICA immediately discloses such information as a news release. In addition, with respect to all candidates for director, AICA provides individual reasons for their nominations in our Shareholders Meeting Convocation Notice.

AICA has had no record of dismissing a member of senior management so far.

Shareholders Meeting Convocation Notice (URL:<https://www.aica.co.jp/english/news/2023/>)

### **Supplementary Principle 3.1.3 Disclosing Business Strategies including Addressing Sustainability Initiatives, Investments in Human Capital and Intellectual Properties**

#### (1) Initiatives on Sustainability

Our initiatives on sustainability issues are disclosed in AICA Reports (integrated reports) as well as on our website. Since the Medium-Term Business Plan includes materialities centered on non-financial issues, AICA discloses the targets and results of sustainability initiatives in IR documents. In May 2020, AICA declared our

endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), recognizing that responding to climate change would be an especially important issue among other materialities, and has been striving to disclose more information. AICA identified risks and opportunities and evaluated their importance and financial impacts from fiscal year 2020 to fiscal year 2022. Such details have been published in series in this report, AICA Report, and AICA's website. For more information, refer to the Response to the TCFD Recommendations (Reference) explained at the end of this report.

### (2) Investments in Human Capital

AICA's Corporate Policy says, "viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development." AICA recognizes that while our employees comprise assets, they are also important stakeholders. Based on this understanding, AICA focuses on activities aimed at deepening mutual understanding as it strives to provide opportunities and an environment in which each and every employee can fully apply his or her abilities. By building a workplace where diverse human resources can recognize each other and play active roles, AICA aims to achieve mutual growth for both the company and our employees, while developing human resources to enhance corporate sustainability.

The Medium-Term Business Plan sets "building a human capital foundation" as the particularly important items, and forth three priority measures, human resources development, diversity and inclusion, and engagement. Based on this, AICA will invest a cumulative total of 4.0 billion yen over four years from fiscal year 2023 for developing "leaders", "globally competent human resources" and "professional human resources" who will address business challenges which AICA is currently facing and drive our growth. AICA started career interview last year with an emphasis on further strengthening the bond with employees.

We will strive to create an environment in which employees can work with a high level of motivation and improve their engagement by building a system that promotes mid- to long-term career development and autonomous growth, and by utilizing this system in personnel allocation, training, and other areas.

With an expectation that these investments will eventually lead to an improvement in labor productivity, AICA will closely monitor such improvements. AICA aims to create a virtuous cycle in which improved employee satisfaction will lead to AICA Group's sustainable growth and further development as a result of these efforts. These policies, plans and KPIs are formulated after much deliberation at Management Meetings and Board of Directors meetings, and the status of measures taken is reported to the Management Meeting and the Board of Directors on a regular basis.

### (3) Investments in Intellectual Properties

AICA will actively invest in intellectual properties with using the R&D budget of 12.0 billion yen under the current Medium-Term Business Plan. We will use these investments to further strengthen our Chemistry and Design capabilities, which are the source of AICA's value creation, and to develop next-generation core products.

The strong pricing power of the Japanese Laminates & Building Materials market, which is currently enjoying high profitability, is largely attributable to our intellectual properties, such as design, trademarks and trade secrets, as well as our technologies. AICA believes that modifying these properties to suit local needs and deploying them appropriately in overseas markets can improve the profitability of our overseas business and grow them into our core business. Based on this belief, AICA has been actively investing in these intellectual properties. Meanwhile, the Chemical Products Business has strength in multi-product production in various lot sizes according to customers' requests based on our capabilities to develop wide-ranging resin recipes. Having the Laminates & Building Materials Business within AICA Group, AICA has a strong customer base in the building construction sector and in the wood furniture and plywood laminated timber markets. This strength enables tie-in sales of chemical products and building material products. The rollout of resin synthesis technology it cultivated in the Chemical Products Business to the Laminates & Building Materials Business and synergies between these businesses serve as sources of AICA's value creation. Therefore, AICA values collaboration between these businesses.

Important decisions related to intellectual properties are deliberated and approved by a Three divisions meeting, AICA's decision-making body in which sales, production and R&D division participate, and resolved by the Management Meeting and the Board of Directors according to their importance.

#### **Supplementary Principle 4.1.1 Scope and Content of the Matters Delegated to the Management**

The Board of Directors makes decisions on important managerial matters and supervises business execution in accordance with laws and regulations, the Articles of Incorporation, and the Rules of the Board of Directors.



In order to fully discuss the direction and the medium- to long-term perspective of AICA's corporate strategies, the Board of Directors has clearly defined matters to be discussed at and the decision authority of the Board of Directors and its subordinate meeting bodies in the Regulations on Meeting Bodies, the Regulations on Approvals (*Ringi*) and the Regulations on Management of Affiliated Companies to engage in swift decision-making. At the same time, the Board of Directors has introduced an executive officer system to establish the separation of business execution and delegate its authority. Furthermore, since the transition to a Company with Audit and Supervisory Committee, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA is striving to further expedite managerial decision-making and execution.

#### **Supplementary Principle 4.1.3 Succession Plan for the CEO and Other Top Executives**

With regard to the succession plan for the President and Executive Officer, we regard succession planning as an important matter that will support the sustainable growth of AICA Group, and have clarified the requirements and evaluation criteria for management qualities and the character required of an executive. Through personnel assignments, work experience, and outside training opportunities, we are striving to develop successors with the abilities and qualities appropriate for the position of President and Executive Officer of AICA.

[Appointment Process]

1. Develop a roadmap for succession planning  
↓
2. Develop ideal the President and Executive Officer image and evaluation criteria  
↓
3. Selection of successor candidates  
↓
4. Development and implementation of training plan  
↓
5. Evaluation and narrowing down of successor candidates  
↓
6. Evaluation of final candidates and nomination of successors

[The conference body and its role].

Conference body	Member	Role
Board of Directors	Directors (internal/outside)	<ul style="list-style-type: none"> <li>• Election and dismissal of executive divisions, nomination of candidates for directors</li> <li>• Supervision of succession planning for the President and Executive Officer</li> </ul>
Governance Committee	Directors (outside), Chairman. President, Director (internal, full-time member of Audit and Supervisory Committee)	<ul style="list-style-type: none"> <li>• Consideration on the proposed election and dismissal of senior management* and executive officers</li> <li>• Management of the President and Executive Officer succession plan</li> </ul>

\*The term "senior management" means the Directors (excluding Outside Directors), the Director/Member of Audit and Supervisory Committee (excluding Outside Director /Member of Audit and Supervisory Committee).

[Succession Planning]

A certain number of successor candidates are selected, and their performance and human resources are evaluated on a termly basis from multiple perspectives, including their conformity to the President and Executive Officer's requirements/evaluation criteria. Through staffing, work experience, and outside training according to the development status of each potential successor, the Governance Committee receives information on the results of personnel and performance evaluations, and monitors the adequacy of the succession candidates and development plan. In addition, every term (once a year), all directors are asked to complete a questionnaire on potential successors, and the results are reflected in the review of potential successors.

**Principle 4.9 Independence Standards and Qualification for Independent Directors**

The Board of Directors has established its own independence standards in order to select candidates for independent outside director who can contribute to the Board of Directors, and the details of the standards are disclosed in the Reference Materials for the General Meeting of Shareholders.

**Supplementary Principle 4.10.1 Appropriate involvement and advice from the Independent Outside Directors through the establishment of the Independent Nominating and Compensation Committees.**

AICA has established the Governance Committee, a voluntary body chaired by an outside director, which is composed of seven members, including four outside directors (some of them are members of the Audit and Supervisory Committee), two Representative Directors, and a full-time member of the Audit and Supervisory Committee. As of March 31, 2024, independent outside directors accounted for 57% of the members of the Governance Committee. The Governance Committee discusses key matters concerning governance, including the nomination and remuneration of directors and senior management, and reports them to the Board of Directors. The status of activities of the Governance Committee is stated in II-1 "Voluntary Establishment of Committee(s)" and II-2 "Governance Committee"

### **Supplementary Principle 4.11.1 Balance, Diversity, and Number of the Members of the Board of Directors**

From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, AICA believes that our Board of Directors should be comprised of members who as a whole can attain an appropriate balance between knowledge, experience and skills, and who can think from a managerial perspective, regardless of their nationality, age or gender. AICA has also set the size of the Board of Directors so that it can manage and supervise executive duties in light of AICA's organizational makeup. The policies regarding the appointment of directors and its procedures are as stipulated in Principle 3.1.

Based on the business activities of AICA Group and the issues in the Medium-Term Business Plan, AICA identifies the skills required for the management of AICA and selects candidates for the Directors and Directors (Member of Audit and Supervisory Committee) through deliberations by the Governance Committee, taking into consideration the balance between diversity and the appropriate number of the Directors on the Board.

For the skill matrix of directors, refer to Skill Matrix (Reference) in this report. AICA's Board of Directors currently comprises nine directors including four independent outside directors. Among the four independent outside directors, two are women and two have corporate management experience at other companies.

### **Supplementary Principle 4.11.2 Concurrent Positions of Directors**

Concurrent positions of directors, including outside directors, as officer of other listed companies are limited to a reasonable extent, and the status is disclosed annually in the Shareholders Meeting Convocation Notice and the Annual Securities Report.

(URL: <https://www.aica.co.jp/english/news/2023/>)

### **Supplementary Principle 4.11.3 Analysis and Evaluation on the Effectiveness of the Board of Directors**

In order to verify the effectiveness of the Board of Directors, AICA conducts a survey of all directors and members of the Audit and Supervisory Committee regarding the structure, operation, and agenda of the Board of Directors and the Board of Directors' support structure. The survey has been conducted since January 2017. The results of the survey conducted in February 2024, as in the previous year, showed that there were no items that were judged as issues (criteria: three or more directors answered "Insufficient/ Inappropriate ") in all items, and almost all were answered as "appropriate or reasonably appropriate". We confirmed that our Board of Directors is functioning properly and that the effectiveness of the Board of Directors has been ensured.

The following is a summary of the initiatives taken in the previous fiscal year (124th fiscal year) and the initiatives to be taken in the current fiscal year (125th fiscal year) to further improve the effectiveness of our Board of Directors.

[Items to be addressed in the 124th fiscal year]

No.	Items to be addressed	Status
①	Explanation of terminology used in board meeting materials, historical background, details of past proposals, and prior explanation of important items.	Generally, explanations of terms, background, and preliminary explanations have been provided for important or complex agenda items.
②	Explanation of reasons and deliberation for proposed election or dismissal of the senior management and executive officers at the Governance Committee meetings and Board of Directors meetings.	The level of content of deliberations has been improved compared to previous years through the use of the Talent Management System, the enhancement of deliberation materials, and the presentation by candidates at the important meetings.

[Items to be addressed in the 125th term]

- (1) Earlier notice of agenda items (from 4 days to 5 days prior to the meeting) to ensure that the agenda items are well known.
- (2) Distribute materials strictly 3 days prior to the meeting (except for personnel changes, timely disclosure matters, etc.)

(3) Consideration of specific processes, including proposed criteria for dismissal of the senior management.

#### **Supplementary Principle 4.14.2 Training Policy for Directors**

For newly appointed outside directors, AICA provides explanations on our Corporate Policy and arranges site visits to branch offices, showrooms and plants at the time of their appointment, enabling them to deepen their understanding of AICA and our business. AICA provides them opportunities for audits and plant tours of domestic and international locations to deepen the understanding of the business are provided after appointment as necessary.

For all directors, AICA provides opportunities to fully understand the roles and responsibilities required of a director. In addition, after their appointment, AICA strives to update their required knowledge such as by regularly holding seminar "Directors' Seminar" with outside lecturers. The "Directors' Seminar" in the 124th fiscal year was held under the theme of "Corporate Governance (Risk Management) and Latest Trends in Corporate Scandals" with Ms. Yoko Noguchi, Lawyer (and LEGAL LPC) as the invited lecturer.

The details of training that have been conducted are reported to the Governance Committee, which verifies whether these measures have been appropriately taken by referring to advice from its members.

#### **Principle 5.1 Policy for Constructive Dialogue with Shareholders**

AICA believes that engaging in constructive dialogue with shareholders and investors will contribute to the medium- to long-term improvement of AICA's corporate value and our sustainable growth. Based on this belief, AICA takes positive approach to requests for dialogue (interview) from shareholders to a reasonable extent.

The Board of Directors has established the Basic Policy for Constructive Dialogue with Shareholders and Investors and discloses its content on our corporate website. Visit the following URL for more information (available in Japanese only).

(URL: <https://www.aica.co.jp/company/ir/management/disclosure/#headline-1633590934>)

#### **[Action to Implement Management that is Conscious of Cost of Capital and Stock Price] [Disclosed in English]**

With importance placed on cashflow management to maintain a robust financial position AICA strives to make active investments in growth areas and enhance shareholder returns, while maintaining financial soundness based on liquidity and capital adequacy ratio. AICA has defined generating ROE and ROIC exceeding cost of capital as our target and aims for highly efficient management that leads to improving shareholder value. AICA strives to make disciplined investments exceeding cost of capital, optimize our portfolio using ROIC, and actively engage in dialogue with shareholders so that these efforts will contribute to improving AICA's corporate value.

Under the current Medium-Term Business Plan "Value Creation 3000 & 300" (FY2023–FY2026), AICA has been implementing a capital policy with an emphasis on the balance of "maintain financial soundness," "improvement capital efficiency," and "focus on shareholder returns." To maintain financial soundness, AICA has set a policy to secure liquidity that is approximately equivalent to sales for two to three months, retain an appropriate rating, and maintain equity ratio of 50% or higher so as to prepare for various risks. On the other hand, with a belief of regarding the improvement of capital efficiency as the most important factor for the sustainable improvement of corporate value, AICA has set targets for capital efficiency of achieving ROIC exceeding WACC and ROE exceeding cost of equity and is working to further instill management utilizing cost of capital that AICA has practiced on for a quite some time. AICA recognizes that our current cost of equity and WACC are around 6.2% and 5.6%, respectively. With targets of achieving ROE of around 10% and ROIC of around 8% in the medium term, AICA will create a spread to improve shareholder value. AICA will also place importance on and make efforts the generation of free cash flows that support active investments in growth areas, disciplined strategic investment that is conscious of cost of capital, and the portfolio optimization using ROIC. As for shareholder returns, under "Value Creation 3000 & 300," our current Medium-term Business Plan, AICA continues our basic policy of a progressive dividend in order to meet the expectations of shareholders and investors. On this basis, AICA will consider flexible share buybacks to further enhance shareholder returns. Based on this capital policy, AICA plans to spend a cumulative total of 60.0 billion yen over four years for investments in both equipment and businesses, 17.5 billion yen for research and development investment, 4.0 billion yen for human capital investment, and 2.0 billion yen for

environmental investment. For details of the current state analysis of the current situation at the time of formulation in the Medium-Term Business Plan and targets, please refer to the Medium-Term Business Plan “Value Creation 3000 & 300”. For an analysis of the current situation and progress on targets, please refer to the financial results presentation materials at the end of each fiscal year.

The Medium-Term Business Plan:

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/#headline-1628144740>)

The financial results presentation materials at the end of each fiscal year :

(URL: <https://www.aica.co.jp/english/company/ir/library/f-statements/>)

### **[Dialogue with Shareholders]**

AICA considers that it is important to conduct constructive dialogue with shareholders. AICA responds proactively to shareholders’ requests for dialogue within a reasonable extent. Any opinions or other information obtained through such dialogue are reported to the Board of Directors, and AICA strives to reflect it in future direction of management and IR activities. To obtain stakeholders with a better understanding and appropriate evaluation, in addition to the General Meeting of Shareholders, AICA holds Financial Results Briefings for analysts and institutional investors twice a year, at which Representative Directors provide explanations. Please refer to AICA’s corporate website for the briefing content and questions. General dialogue with shareholders and investors, including individual interviews and applications for telephone interviews, is handled by the Public Relations and IR Unit and overseen by the President and Executive Officer and the officer responsible for IR. Any information to be disclosed in such cases is approved by a Representative Director and the officer responsible for the matter at hand. Based on the requests from shareholders and investors and the subject matter of the dialogue, the director in charge or senior management, etc., attend the meeting to a reasonable extent. The implementation status of dialogue between the officer responsible for the matter at hand and senior management and shareholders and investors is disclosed in the Integrated Report.

Visit the following URL for more information.

(<https://www.aica.co.jp/english/company/sustainability/report/>)

AICA has established the Basic Policy for Constructive Dialogue with Shareholders and Investors and discloses its content on our corporate website. Visit the following URL for more information (available in Japanese only).

(URL: <https://www.aica.co.jp/company/ir/management/disclosure/#headline-1633590934>)

## **2. Capital Structure**

Foreign Shareholding Ratio	20% or more but less than 30%
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### **[Status of Major Shareholders]**

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,634,100	16.61
Custody Bank of Japan, Ltd (Trust Account)	4,501,100	7.03
Business Connections Shareholding Association of Aica Kogyo Company, Ltd.	2,407,033	3.75
Employee Shareholding Association of Aica Kogyo Company, Ltd.	1,581,220	2.46
Custody Bank of Japan, Ltd. (Trust Account No.4)	1,364,200	2.13
SUMITOMO LIFE INSURANCE COMPANY	1,318,000	2.05
MUFG Bank, Ltd.	1,300,016	2.03
Dai Nippon Printing Co., Ltd.	1,293,743	2.02
The BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,223,600	1.91
JP MORGAN CHASEBANK 380634	1,089,500	1.70

Controlling Shareholder (except for Parent Company)	—
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Parent Company	None
Listed Stock Market of Parent Company	

Supplementary Explanation	
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### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, Prime Market Nagoya Stock Exchange, Premier Market
Fiscal Year-End	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	100 billion yen or more but less than 1 trillion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	50 or more but fewer than 100

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

[Status of Major Shareholders] AICA holds 3,572,553 shares of treasury stock.
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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit and Supervisory Committee
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 12 Directors who are members of the Audit and Supervisory Committee: 5
Term of Office Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 1 year Directors who are members of the Audit and Supervisory Committee: 2 years
Chairperson of the Board	Chairman
Number of Directors	Directors who are not members of the Audit and Supervisory Committee: 6 Directors who are members of the Audit and Supervisory Committee: 3
Appointment of Outside directors	Appointed
Number of Outside directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2
Number of Independent Directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2

#### Outside directors' Relationship with AICA (1)

Name	Attribute	Relationship with AICA*											
		a	b	c	d	e	f	g	h	i	j	k	
Hiroshi Kanie	From another company												
Ayako Shimizu	Lawyer												
Shoji Miyamoto	CPA												
Mitsuko Yamamoto	From another company												

\* Categories for "Relationship with AICA"

- Executive of the company or its subsidiaries
- Non-executive director or executive of a parent company of AICA
- Executive of a fellow subsidiary company of AICA
- A party whose major client or supplier is AICA or an executive thereof
- Major client or supplier of AICA or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from AICA besides compensation as a director
- Major shareholder of AICA (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of AICA (which does not correspond to any of d, e, or f) (the director himself/herself only)
- Executive of a company, between which and AICA outside directors are mutually appointed (the director himself/herself only)

- j. Executive of a company or organization that receives a donation from AICA (the director himself/herself only)  
k. Others

Outside directors' Relationship with AICA (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reason for Appointment
Hiroshi Kanie	○	Designated as Independent Director.	<p>[Reason for appointment as outside director] Mr. Hiroshi Kanie has extensive experience and knowledge as a corporate executive. AICA believes that he will be able to enhance the corporate value and contribute to sustainable growth of AICA Group.</p> <p>[Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.</p>
Ayako Shimizu	○	Designated as Independent Director.	<p>[Reason for appointment as outside director] Ms. Ayako Shimizu will be able to leverage her extensive expert knowledge and experience as an attorney in the supervision of AICA's management. AICA also believes that, as an outside director, she will be able to offer advice based on diversity perspectives.</p> <p>[Reason for designation as Independent Director] Because she has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, she has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, she has been designated as an Independent Director.</p>
Shoji Miyamoto	○	Designated as Independent Director.	<p>[Reason for appointment as outside director who is a member of the Audit and Supervisory Committee] Mr. Shoji Miyamoto has extensive expert knowledge and experience as a certified public accountant. AICA believes that he will be able to offer advice and oversight as an outside director and member of the Audit and Supervisory Committee.</p> <p>[Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA</p>



			believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.
Mitsuko Yamamoto	○	Designated as Independent Director.	[Reason for appointment as outside director who is a member of the Audit and Supervisory Committee] Ms. Mitsuko Yamamoto has abundant experience as a corporate manager and extensive knowledge, especially in terms of labor management and diversity. AICA believes that she will be able to offer advice and oversight as an outside director and member of the Audit and Supervisory Committee. [Reason for designation as Independent Director] Because she has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, she has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, she has been designated as an Independent Director.

#### [Audit and Supervisory Committee]

##### Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Internal Directors	Outside directors	Chairperson
Audit and Supervisory Committee	3	1	1	2	Internal Director

Appointment of Directors and/or Staff to Support the Audit and Supervisory Committee	Appointed
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##### Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

AICA has assigned dedicated staff to the Audit and Supervisory Committee Secretariat for supporting the Audit and Supervisory Committee and assisting the execution of its duties. In selecting, transferring, or changing the treatment of such dedicated staff, prior consent of the Audit and Supervisory Committee is required and the Audit and Supervisory Committee has the authority to give instructions.

##### Cooperation among Audit and Supervisory Committee, Accounting Auditor, and Internal Audit Unit

The Accounting Auditor regularly reports on its audits, and meetings to exchange opinions are held regularly. The Internal Audit Unit, an organization dedicated to internal audits, audits business execution divisions. The five staff members in the Internal Audit Unit report on the details of audits and the status of their execution on an ongoing basis, working closely with Audit and Supervisory Committee.

**[Voluntary Establishment of Committee(s)]**

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee’s Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee’s Name	Governance Committee	Governance Committee
All Committee Members	7	7
Full-time Members	0	0
Internal Directors	3	3
Outside directors	4	4
Internal Experts	0	0
Other	0	0
Chairperson	Outside director	Outside director

Supplementary Explanation

The Governance Committee, chaired by an outside director, was established in April 2016 as an advisory committee to the Board of Directors. This Committee comprises outside directors, outside directors who are members of the Audit and Supervisory Committee, Representative Director and a full-time member of the Audit and Supervisory Committee. The Governance Committee after the 123rd Ordinary General Meeting of Shareholders to be held in June 2023 will be chaired by Shoji Miyamoto, an outside director (a Member of the Audit and Supervisory Committee), and a majority of the members are outside directors. The status of activities is stated in II-2 in this report.

**[Independent Directors]**

Number of Independent Directors	4
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Matters relating to Independent Directors

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**[Incentives]**

Incentive Policies for Directors	Performance-linked Remuneration and Other
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Supplementary Explanation

Although AICA had granted stock options until May 2013, AICA has not granted them since 2014. Since fiscal year 2021, AICA has introduced a restricted stock remuneration system for the purpose of sustainable enhancement of AICA’s corporate value and facilitating further sharing of value with shareholders. Policies on the remuneration of directors are as stated in I-1. “Basic Views,” “Disclosure Based on the Principles of the Corporate Governance Code,” “Principle 3.1 Full Disclosure,” (iii) “Board policies and procedures in determining the remuneration of the senior management and directors” of this report.

Recipients of Stock Options	Internal Directors
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Supplementary Explanation

Recipients are those who have unexpired rights to exercise the stock options granted by May 2013.

**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The total annual amount of remuneration paid to directors (excluding directors who are members of the Audit and Supervisory Committee) was 299 million yen. The maximum amount of remuneration is 370 million yen per year, which does not include the employee salary portion of remuneration for directors who concurrently serve as employees.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

AICA determines directors' remuneration amounts by taking into account factors such as their position, responsibilities, and tenure upon considering AICA Group's business results, within the scope approved by the General Meeting of Shareholders.

**[Supporting System for Outside directors]**

For outside directors, the secretariat provides agenda items for meetings of the Board of Directors and sends materials in advance prior to the date of a meeting. In addition, upon request from an outside director, advance explanations on agenda items for a meeting of the Board of Directors are provided.

**[Status of Former Representative Director and President, etc.]**

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Name of Advisor/Senior Advisor, etc. who previously served as Representative Director and President, etc.

Name	Position	Duties	Working pattern (full-time/part-time, paid/unpaid, etc.)	Retirement date	Term of office

Total number of Advisors/Senior Advisors, etc. who are former Representative Director and President, etc.	—
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Other

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

### [Directors and the Board of Directors]

The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors. The Board of Directors is comprised of nine directors (including directors who are members of the Audit and Supervisory Committee), including four outside directors (including two outside directors who are members of the Audit and Supervisory Committee) appointed to enhance the oversight function of the Board of Directors. In addition to holding one ordinary meeting of the Board of Directors every month in principle, extraordinary meetings of the Board of Directors are held as needed.

During the 124th fiscal year (April 2023 to March 2024), the Board of Directors held 14 meetings. The attendees, number of attendances, number of meetings held and attendance rate are as follows.

Attendee	Number of attendance/ Number of meetings held	Attendance rate
Yuji Ono (Representative Director and Chairman)	14/14	100%
Kenji Ebihara (Representative Director and President)	14/14	100%
Nobuyuki Omura (Director)	14/14	100%
Yuji Iwatsuka (Director) *1	10/10	100%
Hiroshi Kanie (Outside Director) *1	10/10	100%
Ayako Shimizu (Outside Director)	14/14	100%
Ryoji Mori (Director/ Full-time Member of Audit and Supervisory Committee)	13/14	92.9%
Shoji Miyamoto (Outside Director/Member of Audit and Supervisory Committee)	14/14	100%
Mitsuko Yamamoto (Outside Director/Member of Audit and Supervisory Committee)*1	14/14	100%

\*1 The predecessor Member of directors Mr. Toudou and outside directors Mr. Ogura attended the meetings held on and before June 2, 2023.

In addition to matters stipulated by laws and regulations, business plans, strategies, and investment projects, matters, including ESG-related issues such as internal controls under the Companies Act; reports on the activities of the Governance Committee, the Sustainability Development Committee, and other major committees; revisions to the Corporate Governance Report; and a report on cross-shareholdings, are discussed by the Board of Directors.

### [Governance Committee]

In April 2016, AICA established a Governance Committee, whose chairperson and a majority of the members are outside directors, as a voluntary advisory committee to the Board of Directors. The Governance Committee deliberates on matters such as governance-related policies, the Board of Directors and other organizations and their structures, the nomination, development and remuneration of candidates for director, and the nomination and development of executive officers, in an effort to achieve sustainable growth of AICA and further enhance our governance functions. During the 124th fiscal year (April 2023 to March 2024), the Governance Committee held five meetings. The attendees, number of attendances, number of meetings held, attendance rate, and matters discussed are as follows.

Attendee	Number of attendance/ Number of meetings held	Attendance rate
Shoji Miyamoto (Chairperson: Outside Director/Member of Audit and Supervisory Committee)	5/5	100%
Hiroshi Kanie (Outside Director) *1	2/2	100%
Ayako Shimizu (Outside Director)	5/5	100%
Mitsuko Yamamoto (Outside Director/Member of Audit and Supervisory Committee)	5/5	100%
Yuji Ono (Representative Director and Chairman)	5/5	100%
Kenji Ebihara (Representative Director and President)	5/5	100%
Ryoji Mori (Director/ Full-time Member of Audit and Supervisory Committee)	5/5	100%

\*1 The predecessor Member of outside directors Mr. Ogura attended the meetings held on and before June 2, 2023.

No. of meeting	Matters discussed
33th	<ul style="list-style-type: none"> <li>• Results of the evaluation on the effectiveness of the Board of Directors and considerations of improvements</li> <li>• Update of the Director Skill Matrix</li> </ul>
34th	Individual evaluation (remuneration) of directors
35th	Regular revisions to the Corporate Governance Report
36th	Survey result of the candidate for the next President and discussion about the process of appointment CEO
37th	<ul style="list-style-type: none"> <li>• Officer appointment</li> <li>• Activity report during the 124th fiscal year</li> </ul>

[Members of the Audit and Supervisory Committee and the Audit and Supervisory Committee]

AICA is a Company with Audit and Supervisory Committee, and its Audit and Supervisory Committee is comprised of three directors who are members of the Audit and Supervisory Committee, including two outside directors. AICA has appointed one full-time director who is a member of the Audit and Supervisory Committee. The Audit and Supervisory Committee meeting is held once a month in principle. The full-time directors who are members of the Audit and Supervisory Committee attended Management Meetings, Management Promotion Meetings, the Governance Committee, and other important meetings, and reviewed approval documents and other important documents. In addition, AICA has established a framework to maintain close coordination with the Internal Audit Unit and other departments in charge of the monitoring functions on the internal control system. In order to prepare for an event that the number of directors who are members of the Audit and Supervisory Committee falls below the number stipulated in laws and regulations, AICA has appointed one substitute director who is a member of the Audit and Supervisory Committee.

The attendance rates of meetings of the Board of Directors and the Audit and Supervisory Committee held during 124th fiscal year (April 2023 to March 2024) are as follows.

Attendee	Number of attendance/ Number of meetings held	Attendance rate
Ryoji Mori (Director/ Full-time Member of Audit and Supervisory Committee)	14/15	93.3%
Shoji Miyamoto (Outside Director/Member of Audit and Supervisory Committee)	15/15	100%
Mitsuko Yamamoto (Outside Director/Member of Audit and Supervisory Committee)	15/15	100%

[Executive officer system]

While AICA introduced an executive officer system in April 2002, AICA has had internal directors (excluding directors who are members of the Audit and Supervisory Committee), serve concurrently as executive officers since June 2018. Through this structure, AICA is working to further expedite business execution by clarifying the division of duties within executive functions.

[Management Meeting]

AICA has established a Management Meeting, whose participants are comprised of directors and managers in charge of business execution. Management Meetings are held once a month as a rule. It has a decision-making function based on prior deliberation of the agenda items submitted to the Board of Directors and AICA's regulations, and swiftly facilitates matters decided by the Board of Directors and deliberates and reports on business execution.

[Management Promotion Meeting]

Participants at Management Promotion Meetings are directors (excluding directors who are members of the Audit and Supervisory Committee), director (full-time member of Audit and Supervisory Committee), executive officers, and heads of business execution divisions. With participants reporting on business

execution and considering issues at Management Promotion Meetings held every six months in principle, AICA has established a framework that enables oversight of business activities and execution status.

### **3. Reasons for Adoption of Current Corporate Governance System**

Based on a resolution at the Ordinary General Meeting of Shareholders held on June 23, 2020 on amendments to the Articles of Incorporation for a transition to a Company with Audit and Supervisory Committee, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee effective on the same date. Since this transition, the Audit and Supervisory Committee, more than half of whose members are outside directors, has been responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. Furthermore, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA has been striving to further expedite managerial decision-making and execution.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Convocation Notice was sent on June 4 for the fiscal year under review.
Scheduling AGMs Avoiding the Peak Day	The Meeting was held on June 25 for the fiscal year under review.
Allowing Electronic Exercise of Voting Rights	Voting rights may be exercised via the Internet by accessing the website for exercise of voting rights designated by AICA using a computer, a smartphone, or a mobile phone.
Participation in Electronic Voting Platform	AICA participates in an electronic voting platform.
Providing Convocation Notice (Summary) in English	AICA creates an English version of the Convocation Notice and provides on our website.
Other	
Not Applicable	

#### 2. IR Activities

	Supplementary Explanations	Explanations by Representatives
Preparation and Publication of Disclosure Policy	In accordance with our basic policy on information disclosure, AICA has stipulated a Disclosure Policy on standards for information disclosure, establishment of internal systems, methods of information disclosure, a quiet period and notes regarding business results forecasts and the future outlook. Details are provided on AICA's website.	
Regular Investor Briefings for Individual Investors	AICA holds investor briefings irregularly. AICA uploads video and publishes questions and answers from investor briefings for analysts and institutional investors on our website so that individual investors can review the proceedings of the investor briefings as well.	Available
Regular Investor Briefings for Analysts and Institutional Investors	AICA holds Financial Results Briefings at the fiscal year ended and the end of second quarter.	Available
Regular Investor Briefings for Overseas Investors		Not available
Posting of IR Materials on Website	AICA has an IR section on our website, where materials such as Summary of Consolidated Financial Results, IR briefing materials, Securities Reports and business reports are provided.	
Establishment of Department and/or Manager in Charge of IR	Corporate Planning Department, Public Relations and IR Group	
Other		
Not Applicable		

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
<p>Implementation of Environmental Activities, CSR Activities etc.</p>	<p>&lt;Basic Policy&gt;  AICA conducts our corporate activities to achieve the business objectives under the AICA Policies consisting of the Corporate Principle, the Corporate Philosophy, the Corporate Policy, the Sustainability Policy, and the AICA Group Code of Conduct. The Sustainability Policy defines the principles concerning environmental conservation and CSR activities as follows:</p> <ol style="list-style-type: none"> <li>1. We address social issues through our business activities to contribute to the creation of a better society.</li> <li>2. We have established “Compliance with laws and regulations,” “Respect for human rights,” “Harmony with society,” “Fair business practice,” “Customer’s security and trust,” “Proper information disclosure,” “Protection of company information and property,” and “Environment and safety” as the basic principles of the Code of Conduct, and we base our actions on these principles as shared values for all employees.</li> <li>3. We emphasize dialogue with stakeholders, including customers, employees, shareholders, suppliers, local communities, and local governments, and respond promptly to social needs and changes.</li> <li>4. We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them.</li> </ol> <p>&lt;Initiatives&gt;  AICA is committed to resolving various social issues through corporate activities to fulfill our mission defined as the corporate philosophy, “AICA Group creates new value and contributes to society through continuous innovation in the spirit of our philosophy of <i>Kyosei</i>*.” AICA has identified the materialities (material issues) to be prioritized in terms of the degree of impact based on the risks and opportunities and included them in the Medium-Term Business Plan to pursue corporate activities harmonized with sustainability. AICA has established a cross-divisional organization called the Sustainability Development Committee chaired by the President and is working toward fulfilling the materiality targets by having the committee lead the sustainability initiatives. The committee’s initiatives are submitted to the Board of Directors for supervision and discussion on a regular basis. Beginning in FY2024, we have decided to hold a semi-annual Sustainability Development Meeting, attended by our directors, as a dedicated forum to supervise and discuss our progress on sustainability. In addition, subcommittees were established for priority themes that go beyond conventional initiatives, such as "responding to climate change issues" and "human capital" which have been raised as priority items in the mid-term management plan, in order to strengthen their promotion. The activities of the subcommittees will be reported to the aforementioned Sustainability Development Meeting.  These initiatives are designed to enhance the earth and society’s sustainability and help us achieve sustainable growth as a business entity.</p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>As stated above, AICA has established in our Sustainability Policy that “ We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them,” making efforts to disclose corporate information in a timely and appropriate manner.  Our initiatives on sustainability issues are available in AICA Reports (integrated reports) as well as on our website. Since the Medium-Term</p>



	Business Plan includes materialities centered on non-financial issues, AICA has disclosed our activity targets and results in IR documents.
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#### IV. Matters Related to the Internal Control System

##### 1. Basic Views on Internal Control System and the Progress of System Development

- (1) Systems to ensure that the execution of duties by directors and employees is in compliance with the laws and regulations as well as the Articles of Incorporation
  - 1) AICA is a Company with Audit and Supervisory Committee. Through appointment of multiple outside directors, AICA enhances the oversight function of the Board of Directors on management, ensuring the transparency and fairness of management judgements.
  - 2) AICA has developed regulations regarding our compliance system, formulated the AICA Group Code of Conduct, which is a code of conduct for directors and employees to comply with laws and regulations, the Articles of Incorporation, and AICA's Corporate Philosophy, and established the Action Guidelines for AICA Group Employees to set out specific standards for conduct based on the Code of Conduct. AICA disseminates them to directors and employees of AICA Group in an aim to ensure they are thoroughly understood.
  - 3) The Corporate Ethics Committee plans and develops legal compliance in corporate activities as well as necessary measures, and works to ensure they are thoroughly understood by directors and employees.
  - 4) AICA operates a management system that incorporates quality (ISO 9001), environment (ISO 14001), and occupational health and safety (ISO 45001) across AICA as integrated activities, and complies with requirements for each management system such as laws and regulations as well as statutory regulations.
  - 5) AICA Group facilitates the self-purifying function of an internal whistleblowing system in an aim to identify and solve issues at an early stage.
  - 6) The Internal Audit Unit, an organization dedicated to internal audits, and the Legal Division, an organization that promotes compliance activities, investigate and consider whether there are any issues with the internal control activities, compliance system, and compliance of AICA Group.
  - 7) AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.
- (2) Systems regarding the safekeeping and management of information on execution of duties by directors
  - 1) For information and documents on execution of duties by directors, AICA maintains an appropriate system for safekeeping and management of documents in accordance with internal regulations and related document management manuals.
  - 2) The General Affairs Department stores and manages minutes of the General Meetings of Shareholders, The Corporate Planning Department stores and manages minutes of meetings of the Board of Directors, Management Meetings, Management Promotion Meetings, and Group Representatives Meetings, and approval documents (*Ringi-sho*) as well as related materials. The Legal Division stores and manages important documents such as contracts and related materials.
  - 3) Directors and executive officers may review or copy these documents at any time.
- (3) Regulations on the management of risk of loss and other systems
  - 1) In order to mitigate losses due to unforeseen events, AICA Group has established a "Risk Assessment Council" attended by the President and the heads of organizations in charge of risk management. The Group conducts an annual company-wide risk survey, including group companies, to confirm the management status of risks reported by each company and division. Significant risks are deliberated by the Board of Directors and disclosed as "Business and Other Risks" in the annual securities report.
  - 2) The Board of Directors and the Audit and Supervisory Committee deliberate on each risk as necessary, and if a legal judgement is required, take measures such as by soliciting opinions of corporate lawyers or other experts.
  - 3) AICA Group has formulated rules on reporting in case of a crisis. AICA Group responds to a crisis swiftly and appropriately such as by establishing a central disaster prevention headquarters in an aim to minimize damages, while communicating information to outside AICA in a timely and appropriate manner.

- (4) Systems to ensure that the execution of duties by directors will be conducted efficiently
- 1) The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors.
  - 2) AICA has adopted an executive officer system, under which internal directors (excluding directors who are members of the Audit and Supervisory Committee) concurrently serve as executive officers. AICA works to expedite business execution by clarifying the division of duties of executive officers within executive functions.
  - 3) AICA formulates annual targets based on a Medium-Term Business Plan. Each division formulates targets and budgets for achieving the companywide targets, and develops and executes specific measures.
- (5) Systems to ensure proper business conduct in the corporate group comprised of AICA and our subsidiaries
- 1) AICA establishes corporate action guidelines for our corporate group and comprehensively manages our business upon designating those responsible for each subsidiary from among AICA's senior management such as directors and executive officers in an aim to unify compliance and philosophy across AICA Group.
  - 2) In order to understand the management conditions of our subsidiaries and to ensure proper business conduct, AICA requires subsidiaries to obtain approval of AICA (the Board of Directors or a Representative Director) or provide reports to AICA with respect to important matters in accordance with the Regulations on Management of Affiliated Companies.
  - 3) AICA holds Group Representatives Meetings, at which reports on the status of business execution in AICA Group and reports on important matters are made, and engages in swift decision-making and proper business execution across AICA Group.
- (6) Matters regarding employees who assist the duties of the Audit and Supervisory Committee, matters regarding the independence of such employees from directors other than members of the Audit and Supervisory Committee, and matters regarding the effectiveness of instructions to such employees
- 1) In order to assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA assigns dedicated staff in the Audit and Supervisory Committee Secretariat. When selecting, transferring, or changing the treatment of employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA obtains prior consent of the Audit and Supervisory Committee.
  - 2) The Audit and Supervisory Committee has the authority to give instructions to employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties.
- (7) Systems for directors (excluding directors who are members of the Audit and Supervisory Committee) and employees to provide reports to the Audit and Supervisory Committee and other systems on reporting to the Audit and Supervisory Committee
- 1) AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and our subsidiaries provide necessary reports and information upon request by the Audit and Supervisory Committee.
  - 2) When they discover facts that may cause significant damages to AICA, AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and our subsidiaries shall immediately report such facts to the Audit and Supervisory Committee within a scope that does not violate laws and regulations. In addition, matters stipulated by laws and regulations as well as the following matters determined by discussions with directors are reported.  
\* Matters concerning the development and operation of the internal control system, the status of audits by corporate auditors of subsidiaries, important accounting policies, accounting standards and changes thereto, the contents of announcements on business results and business results forecasts, the contents of important disclosure documents, approval documents (*Ringi-sho*), minutes of meetings requested by a member of the Audit and Supervisory Committee, etc.
  - 3) AICA ensures that those who make reports to the Audit and Supervisory Committee will not suffer disadvantages.

- (8) Matters regarding the policy on processing of expenses incurred for the execution of duties of the Audit and Supervisory Committee  
 Expenses necessary for the execution of duties of the Audit and Supervisory Committee are borne by AICA upon request.
- (9) Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively
- 1) The Audit and Supervisory Committee secures the exchange of opinions with the Accounting Auditor and a framework to obtain cooperation and assistance from the internal audit divisions and other divisions.
  - 2) Representative Director holds meetings to exchange opinions with the Audit and Supervisory Committee and the Accounting Auditor as needed.
  - 3) The Audit and Supervisory Committee, when it deems it necessary for conducting audits, utilizes corporate lawyers, certified public accountants, and other experts.
- (10) Systems to ensure the reliability of financial reporting  
 AICA has established an Internal Control Committee for AICA and AICA Group to appropriately address the internal control evaluation reporting system for financial reporting under the Financial Instruments and Exchange Act, and develops a system to ensure the reliability of financial reporting by evaluating that the mechanism is properly functioning on an ongoing basis.

## 2. Basic Views on Eliminating Anti-Social Forces

AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.

## V. Other

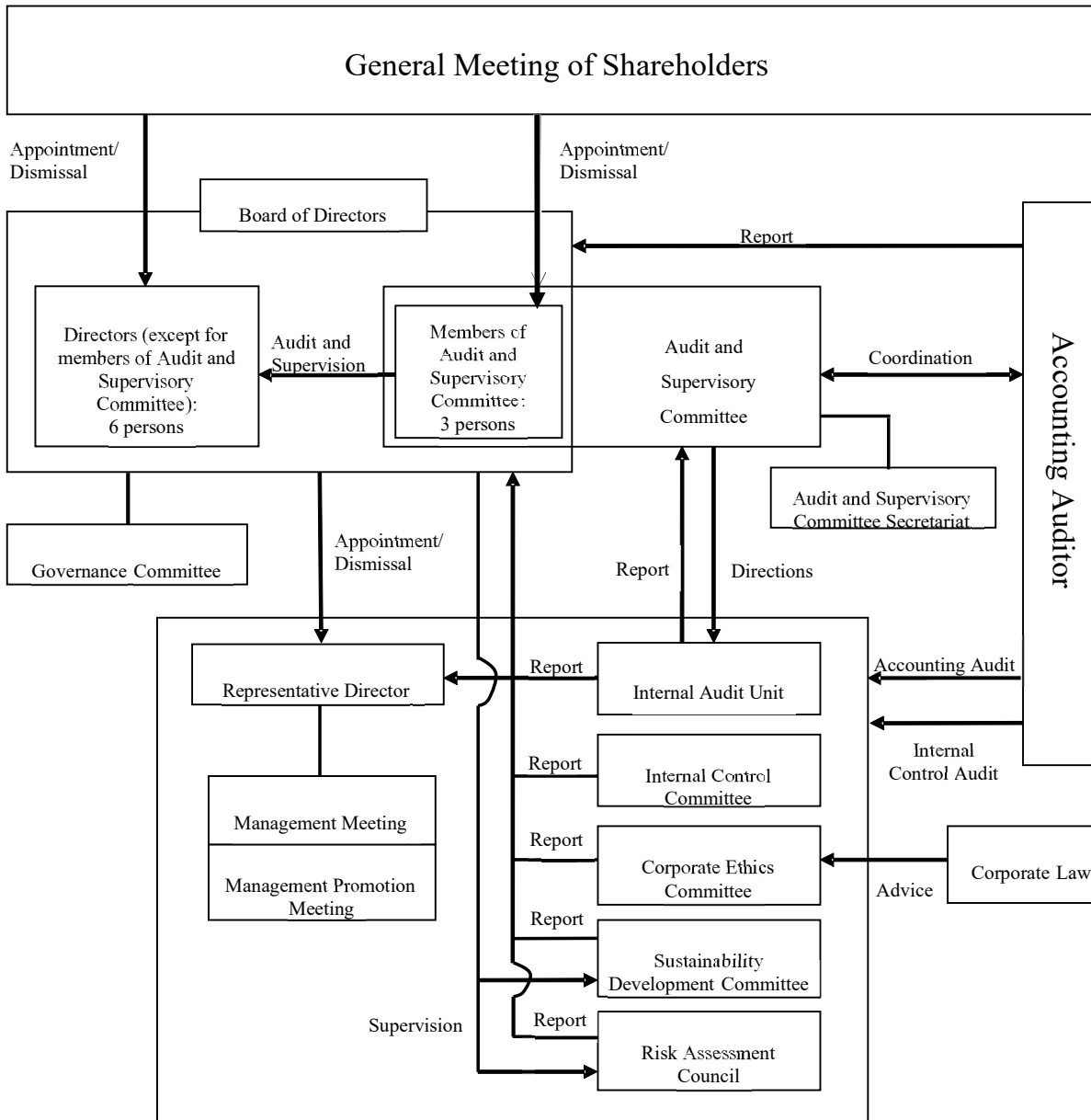
### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
Supplementary Explanation	
—	

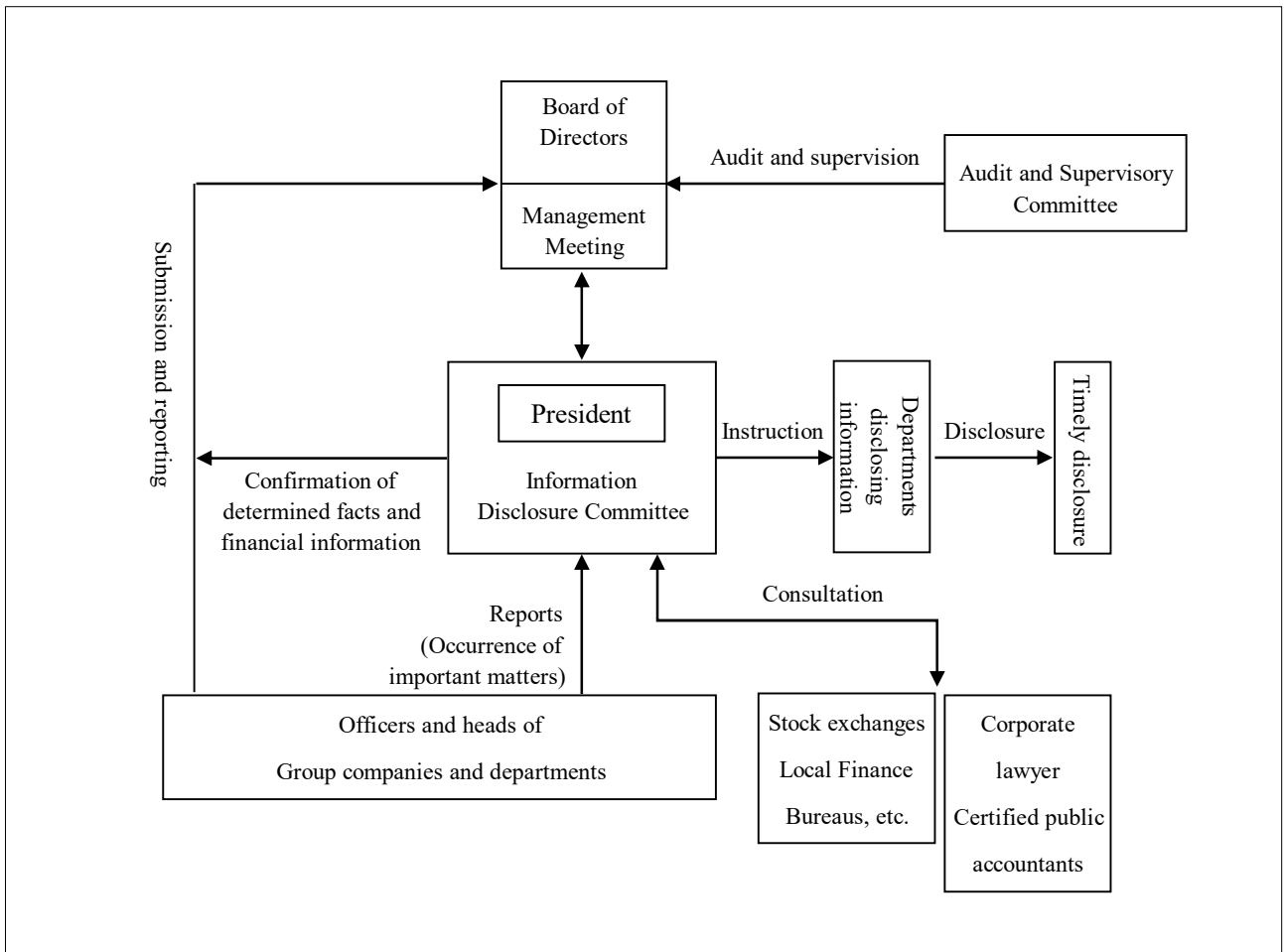
### 2. Other Matters Concerning Corporate Governance System

- (1) Standards for information disclosure  
 As a company that is widely trusted by society, AICA has a basic policy of disclosing information about AICA to all stakeholders at the right time and in the most fair and appropriate manner. AICA conducts information disclosure in compliance with related laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, and the rules for timely disclosure prescribed by the stock exchanges on which our shares are listed. Even for information that is not subject to the Companies Act and the timely disclosure rules, if AICA believes that the information is important for shareholders and investors to make investment decisions, AICA will disclose that information, giving consideration to fairness and timeliness.
- (2) Establishment of internal systems  
 AICA has established an Information Disclosure Committee that promotes and manages information disclosure activities to conduct information disclosure in accordance with AICA's Disclosure Policy. The Information Disclosure Committee discusses the formulation, revisions, and operation of the Disclosure Policy, as well as the appropriateness, fairness, transparency, and timeliness of information disclosure activities. The Information Disclosure Committee is chaired by the President and comprised of members from various divisions appointed by the President. In addition, to prevent insider trading, AICA has stipulated basic matters for compliance regarding appropriate management of internal information and purchases and sales of shares in our internal rules.

[Business execution and monitoring systems]



**[Diagram of Timely Disclosure System]**



## Reference: Skill Matrix of Directors

With regard to the composition of the Board of Directors, AICA aims to enhance diversity in terms of expertise, knowledge, and experience in various fields, and selects candidates for director after deliberations at the Governance Committee based on the lines of business of AICA Group and issues to be addressed under a medium-term business plan, identifying skills required for the management of AICA, and taking into consideration the balance between diversity and the appropriate number of the Board of Directors.

The skill matrix based on the knowledge, experience and capabilities of each director with respect to the identified skills is as follows.

No.	Name	Position in Company	Attribute	Expertise									
				Corporate Management	Global Experience	Sales & Marketing	Engineering, Production Technologies, and R&D	Sustainability/ Human capital*			Legal & Risk Management	Finance & Accounting	
								E	S	G			
1	Yuji Ono	Representative Director and Chairman	Internal	✓	✓	✓	✓			✓	✓	✓	
2	Kenji Ebihara	Representative Director and President	Internal	✓	✓	✓	✓	✓	✓	✓			
3	Nobuyuki Omura	Director and Managing Executive Officer	Internal	✓	✓	✓		✓					
4	Yuji Iwatsuka	Director and Managing Executive Officer	Internal	✓		✓	✓	✓					
5	Hiroshi Kanie	Director	Outside Independent	✓	✓	✓			✓	✓	✓		
6	Ayako Shimizu	Director	Outside Independent					✓	✓	✓	✓		
7	Ryoji Mori	Director Member of Audit and Supervisory Committee	Internal	✓	✓		✓			✓	✓	✓	
8	Shoji Miyamoto	Director Member of Audit and Supervisory Committee	Outside Independent							✓	✓	✓	
9	Mitsuko Yamamoto	Director Member of Audit and Supervisory Committee	Outside Independent	✓		✓			✓	✓			

\* E:Environment S:Social G:Governance

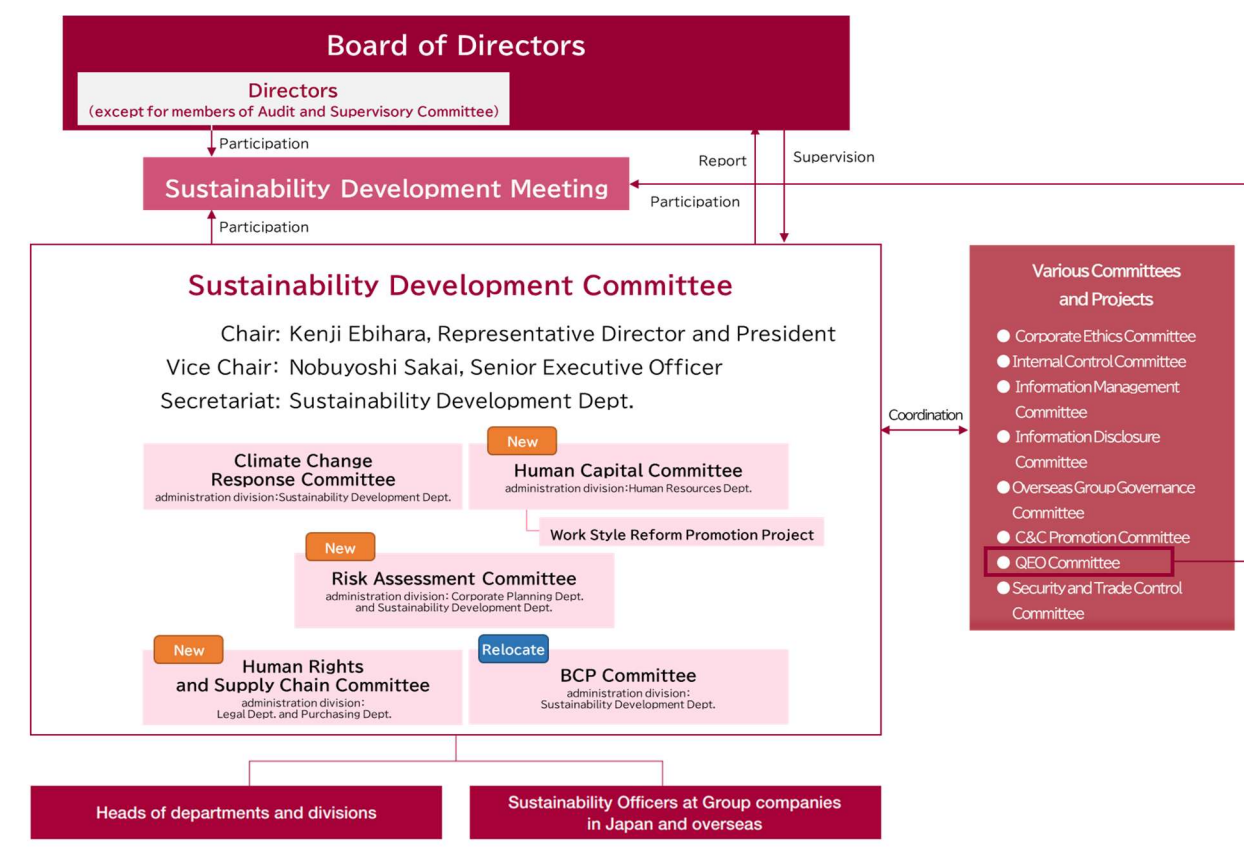
Notes: 1. "Social(S)" means human rights and employee development.

## Disclosures Under the TCFD Recommendations

### Governance Structure for Climate Change Response

In the management indicators in the Medium-Term Business Plan, AICA has incorporated targets related to response to climate change. AICA has also identified material issues centered on response to climate change and other non-financial issues as materialities. One of the basic policies set forth in the Medium-Term Business Plan is to work on such issues. AICA has established a Climate Change Response Committee within the Sustainability Development Committee, which is chaired by the President, as an organization to drive forward these initiatives. The progress of the Committee had been previously deliberated, approved, guided, and supervised on a regular basis by the Board of Directors. Beginning in FY2024, we have decided to hold a semi-annual Sustainability Development Meeting, attended by our directors, as a dedicated forum to supervise and discuss our progress on sustainability, including climate change response.

#### ■ Sustainability Development Framework (As of June 2024)

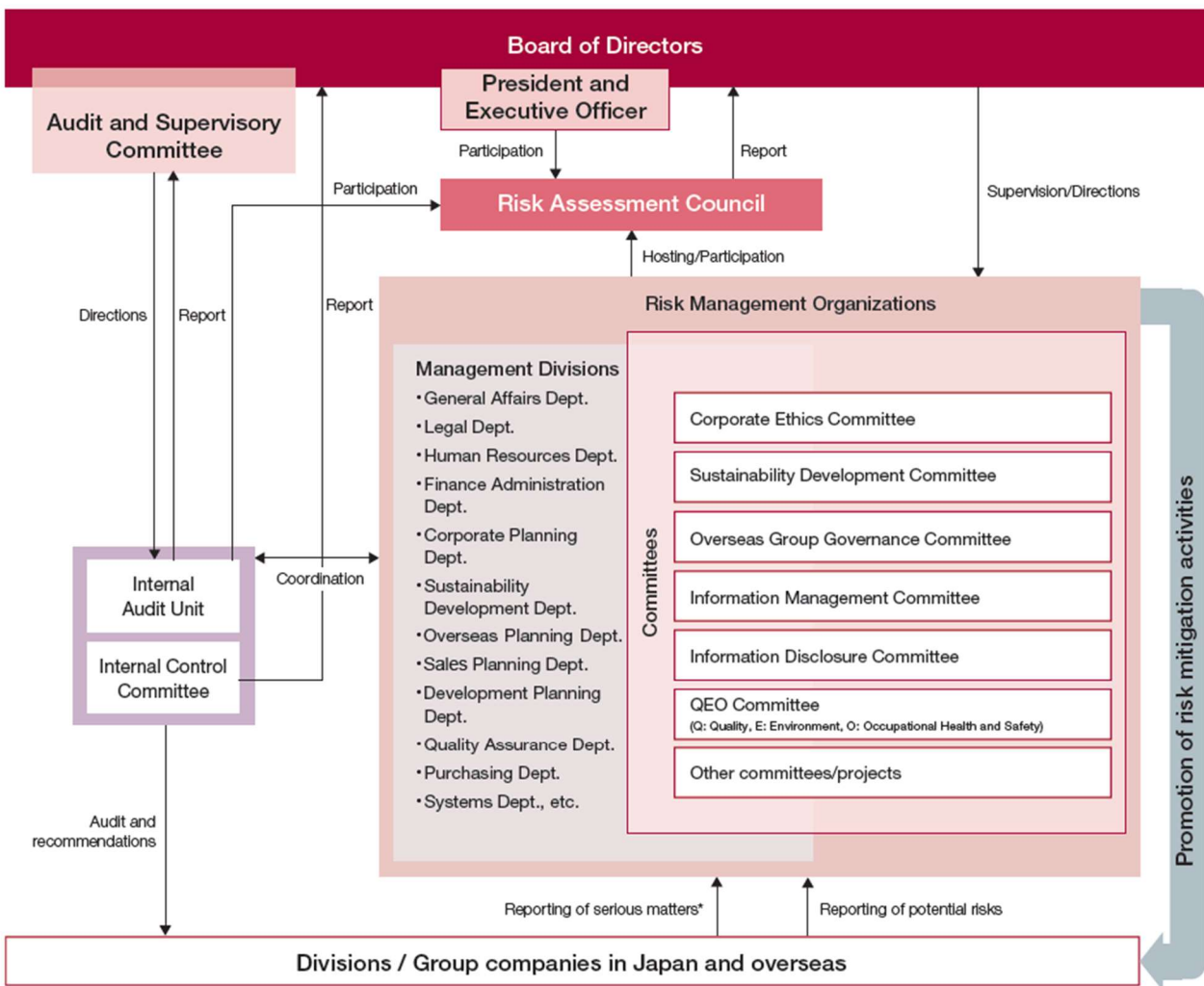


## Risk Management in Climate Change Response

To mitigate losses caused by unforeseen situations, AICA conducts a company-wide risk survey, including of AICA Group companies, once a year. In fiscal year 2022, AICA established a Risk Assessment Council, which is attended by the President and the officers in the organization responsible for risk management. This Council deliberates on the validity of the potential for occurrence and degree of impact of risks reported by individual companies and divisions, and reports on those risks to the Board of Directors on the basis of those deliberations. Serious risks identified in this process are compiled as “Business risks” and published in the Securities Report and on our website. AICA confirms the status of response to these risks specified by the Risk Assessment Council on a regular basis.

Through the above process, “climate change” was published as a serious risk and identified as one of our materialities. Climate change risks are verified periodically by the Climate Change Response Committee established within the Sustainability Development Committee and the Sustainability Development Department, which acts as the secretariat for both committees.

### ■ Risk Management Framework (As of June 2024)



\* As rules for the reporting of serious matters, we have two regulations—an internal whistleblowing system (to report compliance issues to the Corporate Ethics Committee Window) and the Company’s own reporting rules (urgent reporting of critical matters to the Chairman and President).



## **Recognition of Climate Change-related Risks and Our Response**

In the event of climate change related disasters such as typhoons, floods, and heatwaves that exceed expectations, the continuity of business activities as a result of damage such as temporary shutdown to the functions of business locations and damage to manufacturing equipment may be affected. Moreover, if the average temperature rises and impact on water resources due to changes in rainfall levels gradually progresses, it could affect our business environment and lead to an increase in operating costs.

On the other hand, depending on the situation in the transition to a low carbon society, stakeholders' demands for low-carbon products may increase, leading to increases in capital investment for the introduction of new technologies, and rising prices of raw materials. And if regulations for the mitigation of climate change are tightened and AICA is unable to respond appropriately, our operations would probably be restricted, which could lead to the imposition of new tax burdens and increases in costs accompanying the shift to renewable energies and the capital investment accompanying efficiency improvements in production capacities. These will affect our business performance.

In response to physical risks due to climate change, the BCP Committee analyzes and monitors the situation, pursues preventive measures, and reports to the Board of Directors. The Climate Change Response Committee, established as a subcommittee of the Sustainability Development Committee, examines and implements measures to reduce greenhouse gas emissions, and reports on the progress of these measures semiannually at the Sustainability Development Meeting attended by the directors. In addition, the President participates in the Product Development Meeting, which deals with themes related to climate change, and measures are being taken to address this risk from a medium- to long-term perspective by working to reduce the carbon footprint of products.

## **Scenario Analysis and Incorporation into Strategy**

In May 2020, AICA declared our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). For the expansion of disclosures under these recommendations, in fiscal year 2020, AICA conducted interviews with our stakeholders and organized the risks and opportunities due to the impact of climate change and the matters that AICA should address to respond to climate change.

This survey highlighted the recognition that the impact of climate change would continue to grow, and in addition to incorporating "responding to climate change" into the Medium-Term Business Plan, AICA set qualitative and quantitative goals.

In fiscal year 2022, AICA used external scenarios to conduct qualitative impact assessments for each of the identified risks and opportunities at 2030 and 2050 given 1.5°C and 4°C global scenarios. Further, AICA conducted a quantitative financial impact evaluation and compiled the results as follows, while considering countermeasures to be taken. Such details are reflected in the Medium-Term Business Plan.

## Implementation Overview and Results of Scenario Analysis

### ■ Scope of Scenario Analysis

- Transition risks and opportunities: domestic construction market
- Physical Risks: AICA Group production sites in Japan and overseas

### ■ Overview of Possible Scenarios

	1.5°C Scenario (Climate change action is progressing and regulations are being tightened)	4°C Scenario (Action is delayed, and temperatures rise as a result.)
Policy	● Introduction of carbon taxes and emissions trading schemes to curb GHG emissions under international coordination	● Continuation of policies at the level currently in force
Overseas Markets	● Significant decline in gasoline demand ● Widespread corporate decarbonization pledges ● Increased need to reduce GHG emissions throughout the life cycle	● Continued increase in gasoline demand ● Increased demand for products related to climate change adaptation due to more frequent extreme weather events and rising temperatures
Society	● Lifestyles change amid pervasive decarbonization	● Major changes in livable areas amid heat waves and water shortages ● Frequent outbreaks of infectious disease
Extreme Weather	● Gradual but frequent temperature increases	● Flood frequency in Japan becomes noticeably more frequent, quadrupling compared to the end of the 20th century

## Quantitative Assessment Results and Measures

Changes in External Environment (Increased Impact Scenario)	Impact on our Company	Calculation Formula of Financial Impact	Impact on Profits		Measures (Opportunities)
			2030	2050	
New carbon tax, or emissions credit system introduced (1.5°C Scenario)	<b>Increased production costs</b> due to carbon tax imposed on the Company	Scope 1 Emissions × Carbon price	Moderate	Large	1 Strengthen initiatives toward carbon neutrality
	<b>Increased raw material costs</b> due to carbon tax imposed on suppliers	Scope 3, Category 1 Emissions × Carbon price × (100 - Price pass-through rate)	Moderate	Large	
Naphtha price hikes due to lower gasoline demand (1.5°C Scenario)	Lower demand for gasoline increases the naphtha prices, <b>increasing related raw material costs</b>	Naphtha price estimated by the Company × Profit sensitivity × Business growth rate	—	Small ~ Large	2 Strengthen lineup of products that address climate change (adding of high value)
Increase in demand for lumber used as fuel, biomass raw materials, etc. (1.5°C Scenario)	Intense demand for lumber <b>increases the cost of lumber</b> purchased by the Company	Monetary amount used to purchase wood materials × Logging tax rate	Small	Large	
Increase in customer needs for decarbonization (1.5°C Scenario)	Failure to meet business partners' demands results in a <b>decrease in sales</b> due to suspension of transactions	Net sales × Ratio of projects that emphasize climate change response × Expected reduction value for the Company	Moderate	Large	
	<b>Increase in capital investment</b> for conversion of manufacturing methods from existing products	Dereference between introduction costs for existing equipment and decarbonized equipment × Number of units of existing equipment	Small	Small	
Frequent occurrence of typhoons and torrential rain (4°C Scenario)	Damage to the Company plants resulting in damage to equipment, etc. leading to <b>extraordinary losses</b> and a <b>drop in sales</b> due to shutdown	Number of shutdown days based on the estimated maximum inundation height × (Net sales + amount of assets held by each plant) + Loss percentage based on expected maximum inundation height × Amount of assets held	Large	Large	3 Strengthen BCP against natural disasters

Impact of profit symbols: **Small** ... less than 500 million yen, **Moderate** ... 500 million yen to less than 1 billion yen, **Large** ... 1 billion yen or above

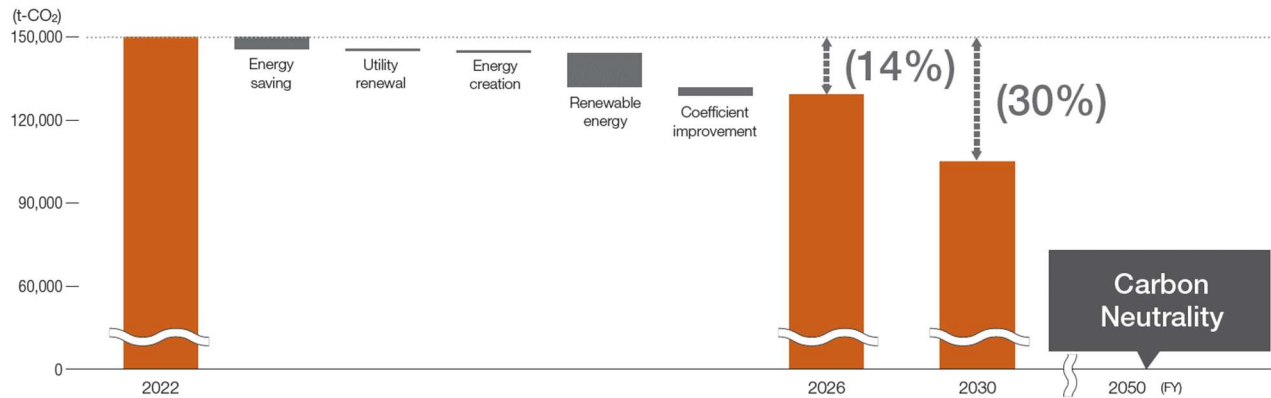
Measure  
1

## Strengthen efforts aimed at achieving carbon neutrality

We have shifted from the previous revenue intensity reduction target to the absolute reduction target, and included the target in the new Medium-Term Business Plan. We aim to achieve carbon neutrality by 2050 by implementing stronger emission reduction measures.

Associated risks with greater impact	
Changes in external environment	Impact on our Company
New carbon tax, emissions credit system introduced	Increase in manufacturing costs
Increase in customer needs for decarbonization	Decrease in sales

### Scope 1 and Scope 2 Emissions Reduction Plan



### Examples of Specific Efforts

Energy conservation activities	Since our major products use a lot of electricity, heat, and steam in production processes, we have been working to improve the energy use efficiency of these products. We will continue to promote energy conservation activities, such as improving the operation of utility facilities, and strive to improve production efficiency to reduce energy consumption.
Introduction of low-carbon utility facilities	We will promote the renewal and installation of utility equipment that contributes to energy conservation by utilizing the internal carbon pricing system. In addition, we will consider updating equipment that uses heavy oil and diesel fuel at some sites.
Adoption and purchase of renewable energy	Increase the ratio of non-fossil energy use, such as switching purchased electricity to renewable energy.
Fundamental shift in products and manufacturing processes	In the manufacturing of existing products, we will consider switching to a method that minimizes energy consumption such as electricity, heat, and steam as much as possible. We will also develop products that use less energy during manufacturing by making full use of our strength in resin synthesis technology.

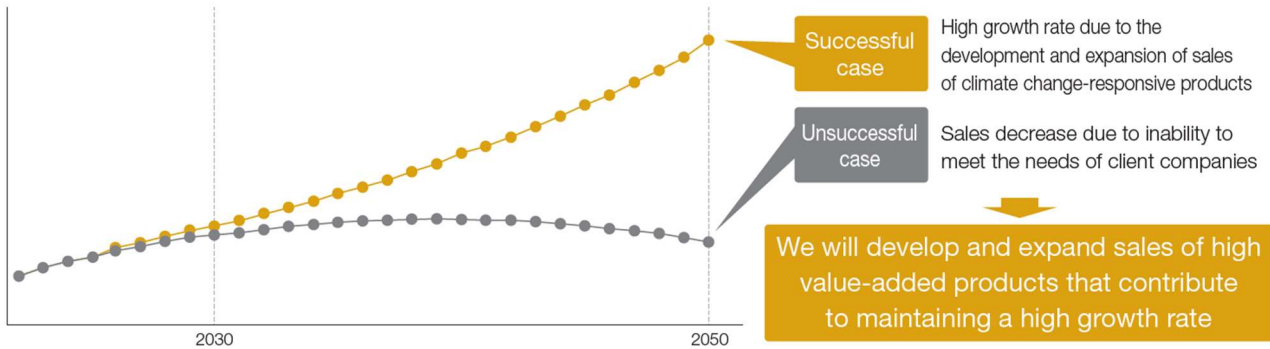
Measure  
2

## Strengthen lineup of products that respond to climate change (create high value-added products)

Based on our resin synthesis technologies and materials utilization technologies, we will develop products that contribute to responding to climate change and expand sales of such products. We aim to be a corporate group that achieves sustainable growth even in a rapidly changing world by increasing the added value of our products, covering the cost increase caused by climate change.

Associated risks with greater impact	
Changes in external environment	Impact on our Company
New carbon tax, or emissions credit system introduced	Increase in raw materials costs
Naphtha price hikes due to lower gasoline demand	Increase in raw materials costs
Increase in demand for lumber used as fuel, biomass raw materials, etc.	Increase in wood materials costs
Increase in customer needs for decarbonization	Decrease in sales

Sales Forecast based on Scenario Analysis



### Examples of Specific Efforts

Utilization of biomass materials	By utilizing plant-derived biomass materials, which can be regarded as giving off zero CO <sub>2</sub> emissions during waste combustion, we will reduce GHG emissions throughout the entire product life cycle and contribute to the formation of a circular economy by switching from depleted resources.
Environmental impact analysis through product life cycle assessments	In addition to identifying the stages in the life cycle of major products that emit a large amount of CO <sub>2</sub> , we will focus on developing products that reduce the carbon footprint and adapt to a decarbonized society.
Waste reduction	We promote the effective use of product scraps and waste materials generated during the manufacturing process, and offers refurbishment methods that reduce waste materials during installation, thereby contributing to the reduction of GHG emissions and the formation of a sustainable, circular economy.
Easier Construction	We provide products that can be easily installed in a short period of time, contributing to reducing the risk of heatstroke. In addition, this effort will also contribute to solving a serious issue that the construction industry is facing, which is major labor shortages.

Measure  
3

## Strengthen BCP against natural disasters

In order to prepare for intensifying natural disasters and frequently occurring extreme weather due to the impact of climate change, We will strengthen our business continuity plan (BCP). We will build a system to ensure immediate restoration by confirming actions to be taken in case of disaster through regular drills and clarifying workflows and division of roles towards restoration.

Associated risks with greater impact	
Changes in external environment	Impact on our Company
Frequent occurrence of typhoons and torrential rain	Extraordinary losses and drop in sales

### Recent disasters resulting in shutdown and countermeasures taken

Name of disaster	Time of occurrence	Locations impacted	Responses
Torrential rains in the Tokai Region	2000	Aica Kogyo Co., Ltd. Nagoya Plant and Jimokuji Plant	<ul style="list-style-type: none"> <li>● Installation of floodwalls</li> <li>● Enhancement of drainage pumps</li> <li>● Relocation of important equipment to higher places</li> </ul>
Torrential rains of July 2018	2018	Aica Kogyo Co., Ltd. Hiroshima Plant	<ul style="list-style-type: none"> <li>● Pavement and heightening of plant entrances, purchase of simple breakwaters</li> </ul>

### Examples of Specific Efforts

BCP drills	<p>We will continue to conduct BCP drills in response to location risks, which is conducted once a year at each production site in Japan and overseas. In particular, Aica Kogyo Co., Ltd.'s Nagoya Plant, Jimokuji Plant, and Hiroshima Plant, which have all experienced flood damage, will conduct drills for implementing flood damage countermeasures.</p> <p>Description of drills</p> <ol style="list-style-type: none"> <li>1. BCP review We divide the phases from the occurrence of a disaster to the decision to activate BCP, and from the activation of BCP to recovery activities, and confirm that the person in charge of the department understands the items to be carried out, and that there is room for improvement in the arrangements.</li> <li>2. Practical training Initial response to a disaster will be conducted according to procedures.</li> </ol>
Installation of waterproof walls	<p>The following measures were taken at sites that have experienced flood damage. We will continue to consider increasing the waterproof wall installation as necessary.</p> <ul style="list-style-type: none"> <li>● AICA Kogyo Co., Ltd.'s Nagoya Plant: The waterproof wall located in the lower part of the site has been raised and strengthened (a 600–700 mm waterproof wall was added to the existing 1,150 mm waterproof wall)</li> <li>● AICA Kogyo Co., Ltd.'s Jimokuji Plant: Raised exterior building structure 500 mm and purchased simple breakwater (for gate)</li> <li>● AICA Kogyo Co., Ltd.'s Hiroshima Plant: Raised exterior building structure 500 mm, purchased simple breakwater (for gate), and performed maintenance on buried drainage pipes</li> </ul>
Early response to typhoons and heavy rains	<p>If there is a typhoon or torrential rain forecast, the head office will alert potentially affected sites. In particular, production sites will be notified to start flood control measures as soon as possible.</p>

### Metrics and Targets

In the Medium-Term Business Plan started in April 2023, AICA declared to aim to achieve carbon neutrality by 2050 and shifted our reduction target to a total volume reduction target. AICA has set medium-term reduction targets of reducing greenhouse gas (GHG) emissions by 14% in fiscal year 2026 and by 30% in fiscal year 2030 from fiscal year 2022 levels. For Scope 3, AICA is working to calculate GHG emissions of the entire Group including overseas operations. AICA has set a materiality goal to set reduction targets for Scope 3 emissions and formulate measures to reduce such reduction during the period covered by the current Medium-Term Business Plan.

(Please refer to the AICA Report or our website for greenhouse gas emissions trends. <https://www.aica.co.jp/english/company/sustainability/report/>)