



Governance

To achieve sustainable growth over the medium to long term, we are working to improve the effectiveness of our Board of Directors and to strengthen our corporate governance framework.

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Roundtable Discussion with Outside Directors

Deepening governance, human resources, and business strategies to accomplish our SOC Vision 2035



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Evaluation of progress of business portfolio reforms, and management that takes the cost of capital and stock price performance into account

In this roundtable discussion with our Outside Directors, we would like to cover the topics that investors have shown particularly strong interest in this year. First, Mr. Morito, please share your thoughts on the business portfolio reforms, particularly regarding the feasibility of stabilizing income in the Cement business and expanding growth in the Advanced Materials business.

Morito The Company announced its “SOC Vision 2035” in May 2023, and simultaneously launched a new three-year medium-term management plan. Fiscal 2024, the second year of the current medium-term management plan, is a pivotal year in terms of achieving our goals. I will first focus on the fiscal 2024 results. To begin with, the current medium-term management plan is the first step toward accomplishing the Company’s vision, and the core of its strategy is to improve the profitability of existing businesses and to build a foundation for growth. The Company’s business portfolio consists of Cement, Mineral Resources, Cement-Related Products, Optoelectronics, Advanced Materials, and Others. We will therefore compare targets and results, concentrating on Cement as an existing business and Advanced Materials as a growth business.

First of all, although the Cement business has extricated itself from the losses of fiscal 2023, it needs to take further action to boost profitability if it hopes to reach its targets in the final fiscal year of the plan. Specifically, if it can steadily implement measures such as raising sales prices again, reduce variable costs through higher coal substitution rates, lower fixed costs, optimize production, and review electricity sales operations, I believe it will be able to reach its targets. Next, in the Advanced Materials business, the rate of progress for both net sales and operating income is currently at one-third, meaning it is not positioned to achieve the standard progress rate. This is a field that is greatly affected by global semiconductor demand, so the Company is currently expanding its production facilities in preparation for the market recovery and growth anticipated in fiscal 2025 and onward.

In terms of the business portfolio, the Mineral Resources and Cement-Related Products businesses are expected to meet their targets, as both sales and operating income in fiscal 2024 have exceeded the standard growth rate. However, the Optoelectronics business has been facing a severe business environment for some time, and it will be necessary to thoroughly discuss the future direction of that business.

In its March 2023 document, “Action to Implement Management that is Conscious of Cost of Capital and Stock Price,” the Tokyo Stock Exchange has made clear its expectation that all listed companies take the cost of capital and stock price performance into account. How do you assess the progress made by the Company in this regard?

Morito As part of its management approach that takes the cost of capital and stock price performance into consideration, the Company’s current medium-term management plan sets a target of achieving an ROE of 8.0% or higher, and it is working to maximize returns and optimize capital. One specific initiative is the introduction of return on invested capital (ROIC) management to focus on returns and costs, with a target of achieving an ROIC of 5.0% or higher. However, the actual results for fiscal 2024 were ROE of 4.7% and ROIC of 2.4%, thus falling short of the targets. We would like to see business divisions accelerate their efforts to meet those targets. In general, ROE indicates the overall performance of a company, while ROIC indicates the profitability of each business division. So, while ROIC is a meaningful management indicator from the perspective of business portfolio management, it has the disadvantage of being difficult to understand and implement at the ground level.

Indicators such as return on sales and invested capital turnover ratio, which are simply components of ROIC, are not directly related to day-to-day operations, so divisional staff would understandably have a hard time conceptualizing how to improve them. Looking ahead, I believe that breaking down the various KPIs (indicators that translate strategic goals into frontline metrics) that are handled on a daily basis at the ground level will lead to a better overall grasp of ROIC. In other words, it is important to break down ROIC into KPIs for each division using a reverse

tree approach. By making effective use of ROIC, the Company should be able to drive reforms to increase both profitability and the speed of business, which should enable more precise goal setting and performance evaluation.

Evaluation of Board effectiveness and the issues raised

In terms of verifying the progress of measures based on the management plan, ensuring the effectiveness of the Board of Directors is also a significant theme to zero in on. In this regard, and from your perspective as an overseer of management, what can you tell us about the issues raised in the fiscal 2024 Board evaluation?

Inagawa I believe that evaluating the effectiveness of the Board of Directors is essential for ongoing growth of the Company and to enhance corporate value, as it provides an objective assessment of whether the Board is fulfilling its roles and responsibilities appropriately. Based on that mindset, the Company has been implementing various measures to reinforce Board effectiveness for several years now. Measures involve upgrading explanatory board materials and methods, including advance materials, as well as extending support and information sharing for outside directors, alongside strengthening the Board of Directors’ Secretariat. Moreover, to make the Board evaluation more objective and accurate, we conduct interviews and enlist the services of an external evaluation organization, in addition to carrying out a questionnaire-based survey of the Board members. We also continue to make improvements based on the feedback we receive every year.

As a result, at recent Board meetings, there has been a lively exchange of opinions and questions focusing on crucial issues. In some cases, resolutions have been postponed to allow for additional materials or further investigation that had been requested. In that sense, I believe the Board of Directors is indeed fulfilling its role of providing appropriate oversight of the executive departments. This is substantiated by the fact that the effectiveness evaluation scores have been gaining ground year by year.

I have mentioned the positive aspects first, but of course there are also some issues that need to be addressed. In the previous Board evaluation, in fiscal 2023,

it was pointed out that discussions on key policy issues, such as monitoring of the medium-term management plan, operational policies for the High-Performance Products business, and future human resources policies, were insufficient. This year's Board evaluation reveals that, while regular progress reports and discussions were submitted and held in relation to monitoring of the medium-term management plan, deliberations in relation to the High-Performance Products business were probably not sufficient. Furthermore, in terms of the composition of the Board of Directors, there are insufficient personnel with expertise in the Advanced Materials business, which is expected to become a new pillar of the Company to supplement the Cement business. I think that some reinforcement in that area is required. Similarly, given that the Company aims to be an "environmental solutions company" and is looking to expand its overseas business, augmenting the Board with human resources with cutting-edge knowledge of environmental issues and expertise in overseas business development may also become a consideration for the future.

Makino Bolstering performance in the Advanced Materials business is an urgent task in terms of transforming our business portfolio, and it is critical that we secure professional human resources who can hit the ground running. We are always on the lookout for people who have a deep, operational-level knowledge of the high-performance products business field, and who are well versed in the market environment. The Board of Directors and the Nomination and Remuneration Committee have discussed this issue in depth, and have clearly communicated the urgent need to find and recruit individuals with an extensive understanding of this area to those on the front lines.

Evaluation of the human resources strategy

You mentioned securing human resources, but how does the Board of Directors assess what is needed for the Company's human resources strategy?
Inagawa In fiscal 2024, we conducted an employee engagement survey as a means to upgrade our personnel policies. Our analysis of the results clarified a number of pertinent issues. An appraisal of our human resources strategy was

also an element of our latest Board evaluation. My understanding is that the Human Resources Department is currently considering a comprehensive human resources strategy that encompasses employee recruitment, education and training, and career path development, and I acknowledge this as an issue for the Board of Directors to address in fiscal 2026 and beyond.

Makino Our first employee engagement survey, carried out in fiscal 2024, was a significant step for the Company. The survey results indicate that the workplace environment, as well as the relationships between supervisors and subordinates, are generally perceived in a positive light, and I am also very pleased to see that female employees feel that this is a comfortable place to work. Of course, the survey results cannot convey the full picture, so we need to use them as a reference point and to take a more multifaceted look at the workplace situation. We fully recognize that enabling employees to work with a sense of fulfillment, without experiencing hardship, is indispensable for the survival and growth of a company, and it was extremely beneficial that we could engage in such meaningful discussions on the value of human capital at the Board of Directors meeting following the results of the survey.

Evaluation of discussions held by the Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee as an advisory body to the Board of Directors is to ensure objectivity and transparency in the appointment and dismissal of our executives and management team, as well as in determining their remuneration and the provision of appropriate incentives. The status of this Committee has received critical attention, so what can you tell us about the progress of discussions held by the Nomination and Remuneration Committee in fiscal 2024?

Makino In fiscal 2024, the Nomination and Remuneration Committee met three times for in-depth discussions on a variety of topics. The greater frequency of meetings compared with previous years allowed the members to exchange opinions on more detailed matters and to enrich their discussions. First, regarding



succession plans, a major development was the Committee's establishment of regulations in regard to the appointment of the next president. We held detailed discussions on the criteria and methods for selection, including the ideal characteristics of a next-generation leader, such as trustworthiness and extensive experience in multiple fields, and conducted rigorous deliberations prior to formulating our draft report on presidential succession plans. We believe that by carefully defining the selection method, selection criteria, and selection process for presidential candidates, we can successfully execute appropriate and transparent succession planning for a new president who will prove to be popular and well-received.

We also discussed the need to start training multiple people early on for senior management roles, so I think we will see concrete steps taken in that direction. On top of that, we spent a good amount of time appraising executive remuneration, with the aim of establishing a system that will more clearly highlight the correlation between executive remuneration and performance to help bring about sustained growth and the medium- to long-term enhancement of corporate value. In June 2020, the Company introduced a stock-based remuneration plan as a long-term incentive, in addition to basic remuneration, for non-outside directors, in order to raise awareness of the importance of contributing to the improvement of medium- to long-term performance and the enhancement of corporate value.

On the other hand, although the basic remuneration portion is determined on a monthly basis, depending on performance figures, there are some issues such as a lack of clarity about the link between performance and remuneration. Therefore, starting from fiscal 2025, we are clearly dividing the basic

remuneration portion into "basic remuneration," as a fixed remuneration, and "short-term incentives," which are determined in accordance with each fiscal year's performance.

Consequently, remuneration is now structured into basic remuneration (monetary remuneration), short-term incentives (monetary remuneration), and long-term incentives (stock-based remuneration). We selected consolidated operating income as the performance indicator linked to short-term incentives, and hope that the impact of this on overall remuneration will serve as a positive incentive.

Inagawa The Nomination and Remuneration Committee also discussed the Board of Directors' skills matrix in fiscal 2024. This matrix is a very effective tool for optimizing Board composition and strengthening governance. We reviewed the skills matrix this year, keeping an eye on SOC Vision 2035, and discussed succession plans, not only for the president but also for the directors. We submitted our report to the Board of Directors, who then set out a new policy. This has made it easier to discuss what skills are lacking in terms of achieving our medium- to long-term vision, and how to fill the skills gaps we envisage after the current directors reach the end of their tenure. At this point, it is difficult to give a definitive assessment of the skills matrix. However, as mentioned earlier, the Company is currently reevaluating our human resources strategy in order to address the challenges of securing appropriate talent. We believe we need to dig deeper into the skill gaps, and to aim for a more comprehensive skills matrix by flexibly combining the development of internal human resources, through reskilling and on-the-job training, with external procurement, such as through cultivating strategies for recruiting experts, as well as outside directors and advisors.



Promoting Women's Participation in the Workplace

Morito In terms of human resources diversity, as the government promotes the advancement of women as part of its growth strategy, it will become increasingly important for the Company to expand opportunities for women to play an active role if we are to attain sustainable growth and development. Along with proactively hiring women, the Company is pursuing various initiatives, such as teleworking and flexible working hours, to make employment more convenient, and is expanding certain systems that facilitate the balance between work and childcare or caregiving. We are also promoting awareness of these issues within the Company through training. Ms. Makino, could I ask you to share your thoughts on this from your perspective as a female director?

Makino Certainly, I'd be happy to share my thoughts. Female employees have recently been providing more advance input into board meeting agendas, and their unique perspectives as women are often expressed in their opinions, which is refreshing to see. As outside directors, we have the opportunity to interact with many women in managerial positions, which serves as a useful reference for us when examining the suitability of female executive candidates. We hope to have many more such opportunities in the future.

During our roundtable discussion last year, I mentioned the need to set up a training program to develop female managers. In fiscal 2024, several proactive steps were taken, including encouraging female employees who are not yet in a managerial position to participate in training programs designed for female managers. Employees who attended those training programs have remarked that they gained a lot of insight and inspiration. There is no doubt that we are slightly behind the times due to the fact that this has traditionally been a male-dominated industry, so it is imperative, in my view, that we steadily increase the number of female managers and executives through training programs like this, as well as seek guidance from external advisors.

Another positive trend is that the rate of male employees taking childcare leave

has risen dramatically in recent years. When men get involved in childcare, it elevates their understanding of those women who are raising children. When men support the creation of a comfortable work environment that encourages female participation, this leads to the further advancement of women in the workplace.

To conclude

Could you each share your expectations of the Board going forward, as well as your perspectives as outside directors?

Morito Maximizing profitability in the Cement business is essential for transforming our business portfolio. We will continue our methodical approach to verifying the status of progress in this regard. I believe it is necessary to break down the financial metrics into more functional KPIs and to strengthen education in order to promote ROIC management throughout the Company. I am convinced that creating a system that enables employees to understand management indicators in terms of everyday business operations, and to put them into practice, will lead to improved profitability for the entire Company.
Makino Enhancing human capital and promoting women's participation in the workplace are directly linked to the sustainable growth of companies. As an outside director, I will help create a better environment through ongoing dialogue with those on the front lines. Education from an early stage, along with support systems both inside and outside the Company, are particularly important for developing female executive candidates. I will continue to support the creation of a workplace in which diversity is respected and where everyone can thrive.

Inagawa It is vital that we maintain efforts to enhance the effectiveness of the Board of Directors. We will continue to augment the quality of our governance through objective evaluation. There are many topics that need to be discussed—such as business expansion outside the Cement business, strategies in relation to our human resources, and higher-quality risk management—and I look forward to participating in more of our in-depth discussions.