

03 Corporate governance reform

Here we report on the progress of governance reforms aimed at enhancing Resonac's corporate value.

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Governance Roundtable

Corporate governance reform

The approach the Board of Directors will take to maximize corporate value

How is the Board of Directors meeting the challenges Resonac must overcome?

Members of the Board discussed corporate governance reforms following the company merger, and the monitoring functions that the Board must perform.

Names of speakers are shown in blue font for inside Directors and inside Audit & Supervisory Board Members.

**<Reflections on discussions regarding portfolio reforms>
Resonac is entering its second year and still halfway to generating value as a new company
We must step up our monitoring efforts**

K. Morikawa We create action plans based on the Board of Directors' evaluation of its own effectiveness. The action plan for fiscal year 2023 includes (1) Taking specific measures to accelerate separation of execution and supervision, (2) setting an agenda for the Board of Directors in the future based on its objectives and roles, and (3) securing additional communication opportunities. The Board concluded that it

was successful in devoting a greater share of its discussions to essential strategies. Revising the criteria for referring matters to the Board changed the structures of Board of Directors discussions significantly. Discussions regarding individual projects went from accounting for 39% of discussions in fiscal year 2022 to 13% in fiscal year 2023, while strategy and company-wide discussion shares rose from 41% to 63%. The Nomination Advisory Committee and the Remuneration Advisory Committee also began making corporate governance reforms, such as launching discussions regarding successors and executive compensation linked to KPI. Board members with diverse

experience and expertise in specialized areas are monitoring Resonac from a range of different perspectives.

N. Morikawa I was appointed Outside Director of Showa Denko in March 2020, after the Hitachi Chemical acquisition decision was made, and joined discussions. With respect to PMI reasonableness, which was the main topic of interest at the time, I think our plan was appropriate, and I also highly regard the fact that the merger was viewed as a crisis, and that a new management system was created and Team Takahashi was formed based on this understanding.

Since becoming Resonac, we have focused on monitoring if PMI is being implemented. I have high praise for the way

the portfolio reforms have gotten off to a solidly based start. In particular, I find the portfolio analysis approach of looking at whether or not Resonac is the best owner to be a highly persuasive one. However, shareholders won't wait forever. I think the next two or three years will be critical years in terms of getting results of our portfolio reforms, and we will need to monitor even more closely.

Tsuneishi Mr. Takahashi has a very clearly defined strategy for portfolio management and a straight, consistent message. I think the direction of that strategy is a valid and correct one. That said, even now Resonac has an extremely large number of business units, and I look



Noriko Morikawa
Outside Board Director

Yasukawa I have gone through a major merger before, so I have first-hand experience with how difficult a corporate merger is. I think what Resonac needs from me as an outside director is the ability to leverage my knowledge, which I have gained through dealing with various merger-related problems. Resonac is enthusiastically striving to achieve world-class levels in every area, be it strategy, decision-making, compensation systems, or cultivating an organizational culture. However, it has a large number of business sites, and it is still in the process of achieving complete integration, including the penetration of its culture. Going forward, I hope to continue providing appropriate advice when it is needed.

**<Regarding the partial spinoff of the petrochemical business>
Simply splitting off the petrochemical business wouldn't be enough
We are investigating and discussing what the new, post-spinoff company will be about**

Somemiya Two major reasons that the Board of Directors has been able to shift its discussions to medium- and long-term issues are the decrease in the number of agenda items for the Board to discuss, as a result of changes to the criteria for referring matters to the Board, and the creation of spaces for sharing information in advance. In particular, the executive side viewed the matters related to the petrochemical business as challenges in business portfolio and shared that view repeatedly and clearly, which I think contributed to the speedy decision by the Board to spin the business segment off.



Tetsuo Tsuneishi
Outside Board Director

forward to greater investigation at the Board of Directors level of whether or not our plans are well-suited to increasing profitability in each business segment, along with more detailed and deeper discussions.

Miyasaka While the amount of time spent discussing individual projects has been reduced to achieve the target of transitioning to a monitoring board, one also has to recognize that discussions have grown more abstract.

Maoka That's one of the problems of separating execution and supervision: it can lead to discussions becoming too vague. In a company like ours, with such a wide-ranging business portfolio, over-abstracting discussions can result in no longer being able to see what exactly is going on. We need to keep exploring how to maintain the right balance.

Toda I have only recently been appointed Outside Audit & Supervisory Board member, in March of 2024. The impression I have based on what I have heard is that monitoring has been focused on the integration process and cultivating the corporate culture of the newly formed company. Going forward, we will perhaps enter the stage in which we discuss how to bring in revenue. One of the key points of auditing is the maximization of corporate value, but society demands that we earn money through appropriate means to the eyes of all stakeholders. We need to closely monitor to make sure that there are no factors that could harm our corporate value and that we are properly putting our decisions into practice.

Isshiki Looking at the composition of the outside directors, I am the only one with extensive expertise regarding finance and investment. I think it would be advantageous if we had a young outside director with experience in international finance, in particular.

Kohei Morikawa

Board Director and Chairman of the Board



Tsuneishi Good point. The fact that information was shared in advance made it possible for the Board to have meticulous discussion in Board meetings. Under the petrochemical business partial spinoff plan, matters I raised were whether the new company would be capable of launching a new business and building up stock value, and what kind of support we would be offering to this new company. On the execution side, it was explained that we want the spin-off to play a leading role in the petrochemical industry through its technical development, which is why we went with a partial spin-off approach. Furthermore, we will continue providing support for carbon neutrality measures and personnel development, so we plan to keep under 20% of the stock. I think this is a reasonable plan, for the time being.

N. Morikawa Another noteworthy point is that preparations are being made carefully to reduce the impact on our shareholders and employees.

Isshiki The petrochemical business isn't one that you can just split off and be done with. The future shape of the industry is also important. In that sense, I think it is wonderful that the Company has really thought through the form that new company will take after the partial spinoff, through the sharing of information before Board of Directors meetings and through the meetings themselves.

Maoka I think we need to keep the discussion going, including on how the new company will contribute to society.

Somemiya This partial spinoff is unprecedented in the industry. Our stance in making portfolio reforms is causing a stir in the industry, and I think that was possible precisely because of the support offered by the Board of Directors.

**<Changes to criteria for referring matters to the Board, explanations provided in advance>
The improved quality of Audit & Supervisory Board discussions made possible by sharing information in advance has enabled the Board to serve its own unique roles and function effectively**

K. Morikawa You pointed out that revising the criteria for referring matters to the Board and that sharing information in advance has improved the quality of Board of Directors discussions. Going forward, I also hope for input from the perspectives of the effectiveness and the monitoring functions of the Board of Directors and the Audit & Supervisory Board.

Kato Sharing information in advance means there are no surprises in Board of Directors meetings, putting us on the same page and enabling us to start discussions straight away to really delve into the hearts of matters. This had a positive effect. Changes to the Board of Directors referral criteria have had benefits, such as enabling discussions on major topics, but at the same time, the fact remains that there are important topics that do not meet the referral criteria. The Audit & Supervisory Board reports on these important matters that do not meet criteria. This reporting includes discussions in Management Committee meetings and the contents of Committee decisions. We will leverage the information-gathering capabilities of the full-time Audit & Supervisory Board members and the solid independence and expertise of all of the Outside Audit & Supervisory Board members to improve the effectiveness of the Audit & Supervisory Board and reflect this in Board of Directors



Yasuyuki Miyasaka
Outside Member of Audit & Supervisory Board

meetings, thereby improving the Company's supervisory functions.

Yajima Outside directors and outside Audit & Supervisory Board members have different roles. While directors talk directly with management, one of the important roles of Audit & Supervisory Board members is to create opportunities for dialogue. Effective dialogue requires fresh information, so we also need to thoroughly fulfill our roles as information-gatherers. I think a good environment has been established for the Audit & Supervisory Board, but with respect to the Board of Directors, time limitations are still a pressing issue. Simply stating one's opinions is not comparable to engaging in dialogue. Sharing information in advance is an excellent step, but I feel we need to go further.

As an attorney who deals with corporate law, I focus on my role as a sensor detecting issues that could potentially negatively affect the Corporate value. In that sense, we need to have a thorough understanding of the situation in the field and what people in the field are saying. I think it is important that we have a system whereby topics can be suggested by people with a thorough understanding of the situation in the field.

Katayose Before being appointed as Audit & Supervisory Board member in March 2024, I had previous experience as a general manager of a business headquarters and as a CTO. I felt there was something of a divide between the corporate officers and the Board of Directors. It is hard for the Board of Directors alone to make judgments regarding the execution side, including their skills and experience, so I think one of the Audit & Supervisory Board's roles is to perform close monitoring.



Kiyoko Toda
Outside Member of
Audit & Supervisory Board



Kozo Isshiki
Outside Board Director

Tsuneishi Discussions about how to improve the Board of Directors' monitoring functions inevitably tend to be about the Board of Directors' systems and mechanisms. Of course, these are important points to discuss, but in terms of monitoring board's fundamental significance and functions, the most important role an outside director has is to serve as a representative for shareholders and reflect their wills in the management of the Company. We need to look at the management strategies and management measures from the execution side and determine, from a shareholder's perspective, if they are appropriate and meet shareholders' expectations. We need to determine if they are solid strategies, if we have the capabilities and power needed to implement them, and if there are any invisible risks. If the executive plans are appropriate and feasible, the outside directors must serve as supervisors and, at the same time, as the plans' greatest supporters, helping guide them to fruition.

<Pressing issues Resonac must tackle now>
Portfolio management is the priority agenda toward improvement of corporate value, followed by sustainability and risk management

K. Morikawa Mr. Tsuneishi, you said that outside directors have to be supporters. Resonac aims to be a company that can compete on the world stage, so we need to achieve not only world-class business performance but also world-class governance functions, and to explain these functions to investors. What plans does execution side has for improving the effectiveness of the Board of Directors?

Imai With respect to what, overall, is demanded from Board of Directors monitoring, I think the most important aspect is the approach taken in looking at the viability of decision-making processes.

Within the monitoring performed by the Board of Directors, the most critical agenda items are portfolio management, sustainability, and risk management. I think, as was discussed earlier, that the Board of Directors is adequately monitoring the company portfolio. However, there remain challenges with sustainability and risk management.

Somemiya The question of how to have the Board of Directors engage in discussions aligned with shareholders' perspectives is an important one. Sharing feedback from shareholders, gathered through IR activities, stimulates discussions.

Maoka With respect to risk, as well, we need to clearly identify major risks from a company-wide perspective, as well as discussing risks in individual projects. I think that in our Board of Directors discussions, we are able to provide information that is even more useful than before.

Imai It's important to clearly state the scope of discussions and provide the information necessary for those discussions. For example, the Board of Directors discusses succession plans. Instead of discussions about individual succession candidates, it would be beneficial to define clear themes such as the division of roles between the Board of Directors and the Nomination Advisory Committee, and to engage in discussions about the entire framework, such as what kinds of people the Company wants to develop and what kinds of skill sets executives must have. I think this is vital.

Kenji Yasukawa
Outside Board Director



Masako Yajima
Outside Member of
Audit & Supervisory Board

N. Morikawa I agree, that is extremely important. To be honest, looking back on the past two years, I feel like the Board of Directors has been a bit distant from the Nomination Advisory Committee and the Remuneration Advisory Committee. We need to clarify the roles of each of these committees, as well as their relationship to the Board of Directors, to achieve a unified personnel strategy and develop future generations. I think there is still a lot that we can, and should, do.

Takahashi Everything I do as CEO, be it developing future generations of employees or fostering our corporate culture, is done with the aim of maximizing corporate value. When I decide to work on something, I make that decision with resolve and conviction, and I make sure to always maintain cause and dignity. I would like to know whether I am maintaining a proper balance, from a shareholder perspective. I would like people to share with me whether they think I am making decisions that contribute to corporate value maximization. I have received valuable feedback about past investment projects, and in the future, as well, I am determined to provide thorough explanations about milestone investment and decisions, so I hope we can discuss these together.

K. Morikawa This discussion has really impressed on me that Resonac has taken things to the next level. Following the business merger that was Resonac's starting point, we have gone on to reinforcing the Board of Directors' functions, focusing our efforts on enhancing governance, and really taking things up a notch. There are still many issues that we have to address, so let's keep on the right path, uniting our strengths so that we can maximize Resonac's corporate value.