05 Resonac's Governance

Here we introduce the progress of corporate governance reformation for enhance Resonac's corporate value.

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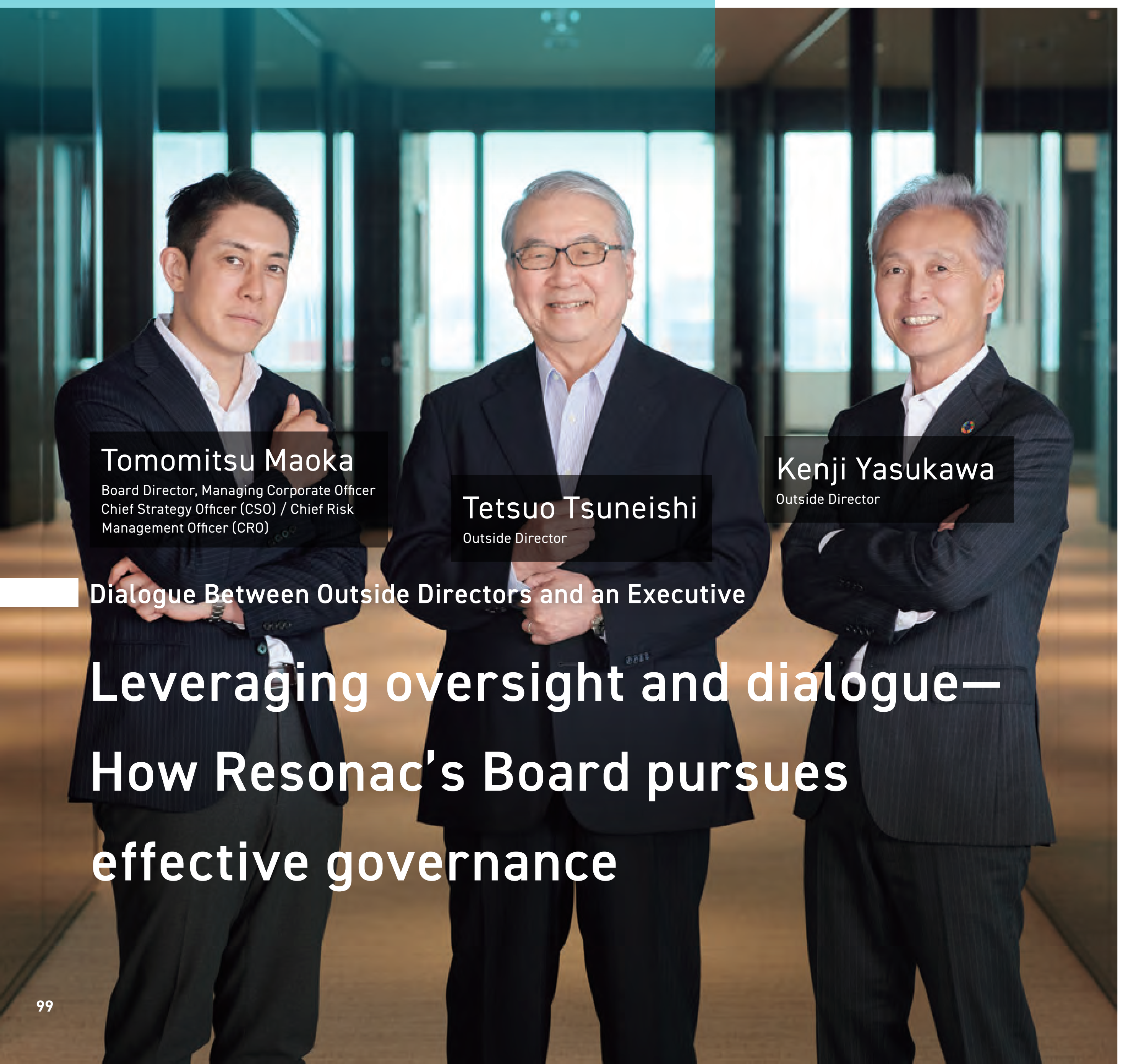

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Dialogue Between Outside Directors and an Executive

Leveraging oversight and dialogue—How Resonac's Board pursues effective governance

Since our two companies merged, Resonac has focused on building a new corporate culture and reorganizing its management system.
At the Board of Directors, we have started by clarifying the Board's monitoring role, reviewed agenda setting and the criteria for appointing directors, and strengthened communication. This has steadily improved our system, ensuring that policies and practices are aligned.
Our fiscal 2024 focus on defining Resonac-style monitoring functions has been a key initial effort to strengthen governance effectiveness.
We had a candid discussion, including perspectives of outside directors, about how to divide oversight and execution roles, optimize diversity and skills, and tackle future challenges.

Progress and current status since integration

Maoka Until recently, Board of Directors had become more like slightly stricter Management Committee. The line between oversight and execution was blurred. I think this happened because, although the "when" and "where" were clear, discussions moved forward without defining the other elements of the 5 Ws and 1 H framework. In our Board of Directors so far, we have primarily focused on clarifying the Board of Directors' role to improve the quality of its discussions. That has involved refining how we select board agenda items by raising the financial threshold for discussions. We also shifted our focus to monitoring function, and introduced pre-briefings for important matters and casual opinion exchange meetings. We especially put a lot of effort into defining the monitoring that would ensure the Board functions effectively.

Tsuneishi I joined as an outside director in March 2023, so I haven't observed changes in the Board over a long period. However, I feel that the new management team led by CEO Takahashi is strongly cohesive and has built a strong framework. Another notable feature of the Company is that, despite being long established, more than half of upper management (inside directors) joined in just the last few years. However, while Resonac has many locations both in Japan and abroad, there are still issues in terms of whether each site has built strong relationships and achieved ideal co-creation operations. Given the company's size, governance challenges are likely significant, so we need to keep a close watch on this. That said, it is unmistakably a rationally driven implementing organization that makes quick decisions. In this ultra-VUCA (volatility, uncertainty, complexity, and ambiguity) society of rapid change, Resonac's ability to make quick decisions and act swiftly is a major strength.

Yasukawa I also haven't been in my position long enough to fully assess the changes. But I'm impressed by the strong commitment to creating a new culture, along with the ability to put it into action, instead of keeping the old traditions of the former Showa Denko and the former Hitachi Chemical after their major merger. However, from a business perspective, the different areas of focus of the former companies have resulted in limited interaction among staff at the operational level, which is a challenge. Different cultures could develop at each business site, so we need to closely monitor how this issue is addressed. Portfolio management is a frequent topic in Board discussions. I feel that the Board of Directors is eager to embrace changes to meet its goals. However, since Resonac is a manufacturing company that produces complex parts and materials, it would be good, I believe, to hear more about quality control and quality improvement.

The essential elements for more effective monitoring

Maoka In 2024, the Board of Directors had in-depth discussions about the style of monitoring that would suit Resonac. "Monitoring" is easy to say, but surprisingly hard to define precisely. But to make monitoring more effective, we need a clear definition. That's why we started by discussing a Resonac style of monitoring so we could put that into words. To sum up, we haven't reached a final decision yet. We have just set up initial guidelines to gradually provide feedback as discussions continue. Tsuneishi-san and Yasukawa-san, what perspectives do you think the Board of Directors at Resonac now needs to improve the effectiveness of its monitoring functions? As outside directors, what do you focus on to ensure effective monitoring?

Tsuneishi And when you delve deeper into the term "monitoring," you find its function essentially means watching over business execution from a shareholder point of view. And when you delve deeper into the term "monitoring," you find its function essentially means watching over business execution from a shareholder point of view. With that in mind, in order to enhance functionality, the focus should be on how three bodies within the Board of Directors, namely the Nomination Advisory Committee, the Remuneration Advisory Committee, and the Audit & Supervisory Board, can stay independent and effective while improving their performance as committees. That said, if I were asked whether monitoring is the Board's ultimate goal, I would say it is not. The true objective of both the Board of Directors and the Management Committee is to increase corporate value in the short, medium and long term, and monitoring is simply one effective means of achieving this. In recent years, "diversity" often comes up with monitoring. It's also important to clearly recognize a viewpoint that the purpose of embracing "diversity" is to strengthen corporate value. Although it's not entirely a case of mixing up means and ends, we often see a focus on methods and forms without clearly defining the objectives.

Yasukawa I'll tell you about my approach to ensuring effective monitoring. From a short-term business perspective, what I focus on most is setting accurate goals. The goal must be on the highest point you can reach through effort. If the goal is too low or too high, that can slow down the business. We need to watch closely whether the goals have a solid, logical foundation. So, we would like to ask executive management to provide detailed information to support this. The priority from a medium- to long-term perspective is portfolio management. Now Resonac has a strong position in semiconductor back-end processes. But if it's recognized that this area is profitable, competitors from around the world might enter the market. What are we going to do if that happens? Will we move to another field or will we develop our experience and achievements into strengths? We need to discuss which path to take from the many options available. We also need to be well-prepared for both strategic and environmental risks. For something like decoupling, I want to ensure that the company doesn't get caught off guard, not knowing what to do next. By categorizing and focusing on various challenges and risks, I am eager to actively contribute to Board discussions myself.For something like decoupling, I want to ensure that the company doesn't get caught off guard, not knowing what to do next. By categorizing and focusing on various challenges and risks, I am eager to actively contribute to Board discussions myself.

Saying "monitoring" is easy, but defining it precisely is hard. Enhancing effectiveness requires alignment in thinking. [Maoka]

We could make the Board to further enhance its effectiveness by building a system that allows flexible adjustment of its composition to match changes in times and shareholder composition.

[Mr. Yasukawa]

Skills and diversity required for the Board

Maoka Your discussion is directly connected to the three areas defined in the fiscal 2025 action plan—sustainability, portfolio management, and risk management. In 2024, we also reviewed the selection criteria for directors. The selection criteria used before were quite generic and not tailored to Resonac. It was not an acceptable situation for us, as we stood at the new starting point following the integration of historic Japanese chemical manufacturers, determined to increase corporate value through global competition. That's why we've redefined the skills and selection criteria that Resonac needs for the future. Tsuneishi-san and Yasukawa-san, what do you think are the skills and diversity required for the Board of Directors?

Tsuneishi As I mentioned earlier, a board's diversity should increase corporate value. You could hire people with backgrounds that are not relevant to the company or its business just for the sake of diversity, but you won't increase corporate value by that. Companies should first find people who can excel in the companies, their industry, and business model. Companies should first find talented people who can excel in the companies, their industry, and business model. Then, they should decide how to increase diversity among those candidates. Recently, there has been too much focus on diversity itself without carefully tying it to increasing corporate value. We have to go back to basics. Expectations of the Board of Directors should align with the Board's core role. That means overseeing, advising, and supporting business execution from the perspective of representing shareholders. Appointments should be based on this approach.

Yasukawa Tsuneishi-san is exactly right about the skills and diversity required for the Board. Building on that, to make the Resonac's Board more stable, we need a system that allows flexible adjustment of its composition to match changes in times and shareholder composition. Resonac's Board composition is now focusing on monitoring, but in a few years, the Board might be expected to engage more in strategic discussions. To respond to changing needs and circumstances, setting fixed terms for outside directors would be one effective way to help the Board maintain an optimal composition. Setting a term enables us to find successors in advance and handle unexpected resignations more easily.

Tsuneishi It's also important to know whether they can handle their duty. Even if someone is highly capable, if they serve as outside directors for many companies other than Resonac, they will inevitably have limited time and energy to commit. Simply asking someone to join doesn't guarantee they'll do so. To keep things running smoothly, we need to expand our pool of strong candidates for the 2 to 3 years ahead.

Yasukawa Times are changing quickly, and we need to find the right people for each era. Long tenures might not be helpful for this. Of course, if someone has made a significant contribution, we can extend their term with everyone's agreement. Keeping things flexible is more beneficial.

Governance challenges in 2025 and outlook

Maoka As mentioned, Resonac is currently defining its monitoring function while incorporating feedback. Our main focus is to refine this process. We are now putting a lot of effort into cultivating corporate culture, developing human resources, and optimizing the business portfolio. But since things are always changing, it's important to regularly reassess our agenda. We are now putting a lot of effort into changing corporate culture, developing employees, and optimizing the business portfolio. But since things are always changing, it's important to regularly reassess our agenda. We must tackle the quality control issues Yasukawa-san pointed out at the beginning of the discussion and truly integrate our business processes and information systems which have become increasingly complex due to the integration. Leaving aside whether these are governance issues, without focusing on these details, the Company cannot evolve as a business.

Tsuneishi From a board governance perspective, we must strengthen the independence and effectiveness of the advisory committees. I believe the current level is already quite high, but it's not something that can ever be considered finished. We must keep working on it. From a company-wide perspective on global and group governance, Resonac has a large number of locations and businesses, so it is necessary to consider how to effectively connect them and strengthen these connections. It is especially important to ensure psychological safety and create an environment where all of our over 20,000 employees can speak their minds freely to anyone, anywhere. Building a corporate culture like this could ultimately help establish group governance. While formally written group governance structures are important, governance truly thrives in a culture and atmosphere that goes beyond rigid documentation.

Yasukawa We live in an era of multistakeholder capitalism. Companies must contribute to all stakeholders in the society we are part of, including shareholders, employees, business partners, customers, and the local community. Shareholder capitalism may focus solely on short-term profits, but multistakeholder capitalism requires us to think about sustainability as well as profits. The Board of Directors must advance discussions to benefit all stakeholders. In portfolio management, businesses should always discuss how to spot and use current market trends. When selling a business, for instance, it's crucial to regularly review and assess which factors should have been monitored to ensure a more successful sale. We are keenly aware that, having just been through the major transformation after the merger, Resonac is not yet in a stable position. Over the next year or two, I'd like to hear the Board identify promising opportunities and the investments needed to nurture growth from them. I look forward to delving into deep discussions about those opportunities.

We need to create an environment where all of our over 20,000 employees can speak their minds freely to anyone, anywhere. Building this kind of corporate culture allows governance to truly thrive. [Mr. Tsuneishi]

• About this dialogue

Participants : Tetsuo Tsuneishi, Outside Director; Kenji Yasukawa, Outside Director; Tomomitsu Maoka, Board Director, CSO/CRO

Aim : Showing the steps we have taken to strengthen governance (achievements and current status), what the governance system is needed to further enhance Resonac's strengths and which points we believe governance needs to be strengthened.

• Keywords of the dialogue

Governance reforms that have been promoted	Careful selection of agenda items for Board of Directors, shift to monitoring-focused functions, introduction of advance explanations and opinion exchange meetings for important matters, and verbalization of definitions.
Improving the effectiveness of monitoring functions	Improving the independence and performance of the Nomination and Compensation Committees and the Audit Committee, setting goals, portfolio management, strategic risk and environmental risk management
Composition of the Board of Directors	Criteria for appointing directors, diversity to enhance corporate value, supervision and support from the perspective of shareholders, and flexible system development
Issues and the Future of Governance	Agenda setting tailored to the situation, global governance, a corporate culture that ensures psychological safety, and multi-stakeholderism