Risk Management and Compliance

Risk management is an infrastructure for maintaining and improving the soundness and sustainability of our business. Legal compliance is essential for reducing risks. We conduct activities to reduce risks and strive to thoroughly ensure the compliance across the group.

Basic Risk Management and Compliance Policies

- **Basic Risk Management Policy**
  The materialization of any significant risk at the company may not only damage our management resources but also adversely affect our stakeholders. Any resulting loss of stakeholder trust or public reputation could leave the company severely damaged.

  We formulated the following Basic Risk Management Policy to effectively respond to any significant risk as soon as it is identified and ensure the continued and sustainable growth of our business. In line with this policy we are creating our risk management system and pursuing effective risk management measures to reduce significant risks and minimize loss in the event that any such risks materialize.

  1. We prevent and reduce risks in order to ensure the quality and safety of our products and services, protect the lives and safety of our employees and their families, and earn greater trust from our stakeholders.
  2. We create a system to appropriately manage a wide range of risks associated with our business activities.
  3. We promote risk management through a plan-do-check-act cycle.
  4. We quickly and appropriately deal with risks as they are identified.
  5. In collaboration with group companies we build a system for immediately detecting new risks arising from changes in our business environment and for quickly and appropriately dealing with risks at the group level.

- **Basic Compliance Policy**
  Under our Business Principles, we pledge that we will act in strict compliance with the law and in accordance with social mores. Fully aware that compliance is the foundation of CSR management, we published the Basic Compliance Policy and simultaneously created compliance rules in March 2005. We do not limit our definition of compliance to legal compliance; our definition includes compliance with the social mores from which our laws originate, the mission and business principles of our group, and internal regulations.

Basic Compliance Policy (Summary)

- Compliance with the Mission, Business Principles and social norms
- Maintaining internal systems and rules and ensuring broad-based awareness of them
- Cooperation with all group companies and promotion of educational activities
- Working out appropriate responses and policies for occurrence of problems
- Timely and appropriate disclosure and communication of necessary information
- Compliance with international standards and rules, and respect for local cultures and customs
- Rejection of corrupt and unfair requests from antisocial influences or organizations

Risk Management and Compliance Promotion System

Our president has ultimate responsibility for risk management and compliance promotion. The officer in charge of both areas (officer in charge of the General Affairs Department) is appointed by the president to preside over the Risk Management & Compliance Committee and systematically promote organized activities.

The committee plays a core role in our risk management and compliance promotion for the entire group. It embodies the policy, identifies company-wide risks, implements risk management activities based on PDCA cycles and promotes compliance. Moreover, it studies and proposes the creation and revision of rules for risk management and compliance and provides instructions for advancing the awareness and education of employees.

Under the guidance of this committee, each business site and group company has an officer responsible for risk management and compliance, and a risk management and compliance promoter, who carry out specific duties. We held four Risk Management & Compliance Committee meetings in fiscal 2017.
Whistleblower Program

We properly handle reports and proposals in accordance with company procedures and have whistleblower hotlines both internally (at the CSR Group of our General Affairs Department) and externally (at a law firm) for us to directly receive reports without the need for formal company procedures. Our internal hotline is located in a dedicated, locked room that is only accessible to hotline staff. It is equipped with dedicated phone and fax lines as well as a computer with a dedicated address in order to safeguard the privacy of those submitting reports. Our external hotline is available to all employees of group companies in an effort to strengthen group governance, improve program effectiveness and reduce the burden on individual companies.

Moreover, we have created regulations so that whistleblowers using the program are not subject to unfavorable treatment. Whistleblowers have the option of either disclosing their identity, including their name and department, or reporting anonymously to mitigate any potential psychological constraint.

In fiscal 2017 we received reports from numerous employees via the hotline. However, none of the reports were determined to be treated as whistleblowing under the program.

Process of Identifying and Evaluating Company-wide Risks

We identify and evaluate group-wide risks every three years and conduct annual review of those risks.

In fiscal 2016 we identified company-wide risks that may have a serious impact on the management of our group based on environmental changes over the next ten years by referring to guidelines such as ISO 31000. During this process, we provided risk management training to risk management and compliance leaders and also consulted risk management experts.

Risk Management and Compliance Promotion System

Note: As of April 2018, 107 group companies are managed under the above system.

Identifying and Evaluating Company-wide Risks

- GRI102-11, 17, 201-2, 205-2
Critical Company-wide Risks that Were Identified

- Declining birthrate and aging population
- Shrinking domestic market
- Economic deterioration
- Hosting the Tokyo 2020 Olympic and Paralympic Games
- Climate change
- Stricter environmental regulations
- Changes in the fuel market
- Large-scale disasters
- Progress of globalization
- Intensification of global issues
- Terrorism and riots
- Intensified competition for developing new materials
- Intensified competition with foreign companies
- Progress of free trade, including TPP
- Technical innovation
- Spread of low-carbon concrete in societies
- Progress of the network society
- Increased cyber security risks
- Changes in employment
- Rise of inbound businesses
- Deterioration of the financial environment
- Aging of plant facilities and resources
- Changes in business processes
- Spread of cloud systems
- Progress of telecommuting and flextime system
- Changes in organizational culture
- Shortage of human resources
- Progress of overseas projects

Risk Countermeasures
Upon reviewing the identified company-wide risks and evaluation results, our Risk Management & Compliance Committee specifies those to be addressed every year, and risk countermeasures are implemented through PDCA cycles.

Risk Reduction Activities (FY2017)

<table>
<thead>
<tr>
<th>Areas</th>
<th>Major Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDCA for risk management</td>
<td>Planned and implemented measures against the following company-wide risks:</td>
</tr>
<tr>
<td>Improperities and crimes</td>
<td>Conducted a monthly e-learning training program for all employees</td>
</tr>
<tr>
<td>Earthquakes and tsunamis</td>
<td>Conducted initial response drills for large-scale earthquakes at 4 plants (Kamiso, Ofunato, Fujisawa and Onai), not including 2 plants where drills were conducted in the previous year Conducted a Shake Out drill at each business site</td>
</tr>
</tbody>
</table>
 CSR Management

Corporate Governance

Risk Management and Compliance

■ Group Legal Round Tables for Group Companies
Since fiscal 2005 we have been holding round-table discussions attended by management and legal affairs representatives from our group companies. These provide opportunities to share legal information (including revisions to laws) in order to further our understanding of major laws relating to corporate management and to assist in the creation of our group’s compliance regime. In fiscal 2017 we discussed the following topics.

■ Group Legal Round Tables (FY2017)

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Attendees</th>
<th>Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>July 2017</td>
<td>15 (13 companies)</td>
<td>Initial response for occurrence of problems</td>
</tr>
<tr>
<td>26</td>
<td>October 2017</td>
<td>94 (94 companies)</td>
<td>Countermeasures against anti-social influences (ordinances and provisions to prevent association with members of organized crime groups) and unfair requests</td>
</tr>
</tbody>
</table>

Information Security

■ Information Security Promotion System
Our Information Security Basic Policy and Information Security Management Regulations are the basic regulations governing our information security management system. We have created an Information Security Management Regime in accordance with these regulations and actively work to maintain information security under this regime.

Our president has ultimate responsibility for information security. Appointed by the president is the information security officer (officer in charge of the Corporate Planning Department), who presides over the Information Security Committee in order to advance organized and planned information security promotion activities.

■ Information Security Structure

Please visit our website for more information on our Information Security Basic Policy.

http://www.taiheiyo-cement.co.jp

CSR → Management → Risk Management and Compliance

■ Information Security Promotion Activities
In fiscal 2017 we conducted an e-mail drill to respond to targeted attacks and provide detailed information on recent crimes to raise awareness of such risks. We also conducted a backup datacenter activation drill, disaster recovery drills, a security level survey of group companies and information security training. In that same year, an incident involving the leak of insider information occurred at an overseas group company. Although no serious damage resulted, we will strengthen measures such as introducing initiatives adopted by domestic group companies to overseas group companies.
Protection and Use of Intellectual Property

**Intellectual Property Policy**
Our fundamental intellectual property policy is to maintain and strengthen the group’s competitive advantages by ensuring the protection of our intellectual property as a key business infrastructure as well as strategically conducting intellectual property activities beneficial to new businesses. Under this policy, we manage intellectual property in collaboration with business and R&D divisions to contribute to increasing corporate value of the Taiheiyo Cement Group.

**Intellectual Property Management System**
The company has established Intellectual Property Rights Handling Rules and an associated management system to guide our intellectual property activities. The Intellectual Property Department assigns staff members to the headquarters mainly to perform administrative tasks and to the Central Research Laboratory to handle applications for and protect rights and research efforts. In addition, intellectual property promoters are assigned as contact points to the business divisions and the Central Research Laboratory to actively promote the effective and efficient creation, protection and use of our intellectual property in collaboration with the Intellectual Property Department. Issues involving the entire group are deliberated on by the Intellectual Property Rights Committee.

**Intellectual Property Management System for the Group**
We formulated and began applying the Taiheiyo Cement Group Intellectual Property Management Guidelines, which apply to the entire group, in March 2018 to promote the use of our intellectual property and reduce associated risks. We regularly convene staff who are in charge of intellectual property at the main group companies in order to promote and vitalize our intellectual property activities corresponding to the scale and industry of each group company, by sharing issues, exchanging information and holding workshops.

**Outline of Our Intellectual Property**
As of the end of fiscal 2017, the company had 729 patents pending, owned 1,087 patents and registered 264 trademarks and 18 designs.

The cement segment accounts for the largest share of patents owned by the company. However, over the past several years the share of patent applications in the environmental and mineral resources segments has been growing in line with our business and R&D strategies. In order to increase business revenue from patents, we must obtain patents for technologies including peripheral technologies, considering company business conditions. With this understanding, we possess a wide ranging collection of strong, advanced patents from the perspective of retaining sufficient influence on competitors in terms of intellectual property.

As a technology-oriented manufacturer, we have recently focused on raising the percentage of inventors among all employees. We believe this would cultivate a mindset of valuing corporate intellectual property and develop the originality and portfolio of each business by protecting inventions, leading to the continued strengthening of our competitiveness.

**Number of Domestic Patent Applications by Segment**
![Number of Domestic Patent Applications by Segment](image)

Few applications for ceramics-related patents have been submitted since fiscal 2014 because the ceramics business was transferred to another company.

**Domestic Patents by Segment (as of the end of FY2017)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Total Patents</th>
<th>Cement</th>
<th>Environment</th>
<th>Mineral Resources</th>
<th>Construction Materials</th>
<th>Ceramics and Electronics</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Patents</td>
<td>1,087</td>
<td>43.2%</td>
<td>34.9%</td>
<td>20.0%</td>
<td>1.8%</td>
<td>0.1%</td>
<td>43.2%</td>
</tr>
</tbody>
</table>

**Licensing Activities**
While the company applies for and acquires rights primarily to ensure competitive business advantages, we also proactively license rights that we do not use to other companies. Of course, we are also granted licenses for technologies that are likely to contribute to our business from other enterprises.
Risk Management for Intellectual Property

Our acquisition and control of intellectual property is conducted under the Rules for Handling Intellectual Property Rights stated above. This intellectual property right strategy is intended to ensure that implementation corresponds with the reality of our individual businesses.

Intellectual property, including pending patent applications, is handled through a centrally controlled database by the Intellectual Property Department. We strive to prevent infringements of competitors’ patents and strictly manage risks by ascertaining recent developments of issues through the ongoing circulation of patent information, a patent watch system and an intellectual property review service with the utmost attention paid to setting our own criteria. Moreover, we are increasing employee awareness when we hold workshops, in-house training and intellectual property strategy meetings with various divisions. There have been no cases in which we have been sued for intellectual property infringement and thereby hindered in our business.

We have strengthened protection of the intellectual property we possess and firmly respond to infringement by other companies.

To manage trade secrets and prevent leaks of knowhow and technology, we formulated and enforce Information Security Management Regulations and Document Management Rules that cover the entire group. In addition, we use the guidelines stipulated in the Rules for Handling Intellectual Property Rights to determine whether we will file a patent application for a technology or keep it secret as internal expertise in order to prevent technology leaks.

Group companies have formulated or reinforced various intellectual property rules while completing the execution of agreements with each inventor.

Given that we are actively licensing our core technologies overseas from the perspective of our projected global management stance of focusing on our mission of providing concrete solutions worldwide, we also address the risks of overseas licensing. The legal systems of emerging Asian countries are different from the system in Japan. For example, licensors are responsible for quality/performance assurance in those countries. In addition to internal information dissemination, we are implementing risk management in cooperation with specialized lawyers who are familiar with situations in those countries.

Intellectual Property Award Program

We have paid specified compensation to inventors for their patent applications and for registered patents that have significantly contributed to the business profits under our regulations. Furthermore, we have started to operate an Intellectual Property Award Program to strengthen employee awareness of intellectual property and vitalize their efforts in fiscal 2017. Achievements have been recognized through the Excellent Invention Award (1 award, 4 recipients), the Intellectual Property Contribution Award (2 awards, 9 recipients), New License Award (1 business site) and Largest Number of Patent Applications Award (1 individual and 1 department).

Training and Awareness Raising

To raise awareness of intellectual property and increase its potential, the company encourages employees, especially members of the research division and the technology development division, to take the Intellectual Property Management Skills Test, a national licensing examination. We have continued other employee training efforts such as external workshops held by the Japan Intellectual Property Association and Japan Institute for Promoting Invention and Innovation in addition to in-house training at our Central Research Laboratory, the headquarters, branches and plants. In fiscal 2017 we implemented the training programs, described below, with 337 attendees including employees from group companies. We have also partially introduced an e-learning program. Furthermore, through efforts such as information exchange gatherings and study meetings for members in charge of the intellectual property of group companies stated above we strive to protect and fairly use intellectual property across the group while respecting other companies’ intellectual property and preventing infringement, from the perspective of intellectual property as a source of profit.

Number of Attendees for Intellectual Property Training Sessions Implemented in Fiscal 2017

<table>
<thead>
<tr>
<th>Training Content</th>
<th>Taiheiyo Cement Corporation Employees</th>
<th>Group Company Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>26</td>
<td>56</td>
<td>82</td>
</tr>
<tr>
<td>Description</td>
<td>10</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>The revised Patent Act</td>
<td>259</td>
<td></td>
<td>259</td>
</tr>
<tr>
<td>Total</td>
<td>245</td>
<td>92</td>
<td>337</td>
</tr>
</tbody>
</table>

Seminar on preventing intellectual property infringement