(Translation)

Corporate Governance Report

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Last Update: June 30, 2016

Taiheiyo Cement Corporation

President and Representative Director

Shuji Fukuda

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Securities code: 5233

http://www.taiheiyo-cement.co.jp/english/index.html

The corporate governance of Taiheiyo Cement Corporation (the "Company") is described below.

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

1. Basic Views

The mission of the Taiheiyo Cement Group is to contribute to social infrastructure development by providing solutions that are environmentally efficient, enhance our competitive position and bring value to our stakeholders. Based on this mission, the Company will, in accordance with the provisions of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance," strive to improve corporate governance by ensuring the separation of the management's decision-making and supervisory functions from business execution to satisfy the expectations of stakeholders including stockholders and to realize sustainable growth and increase of its corporate value over the medium to long term.

The "Taiheiyo Cement Corporation Basic Policy on Corporate Governance" was established based on a resolution of the Board of Directors of the Company and is published on the website of the Company in its entirety.

Japanese URL http://www.taiheiyo-cement.co.jp/company/corpgov.html
English URL http://www.taiheiyo-cement.co.jp/english/company/corpgov.html

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

[Supplementary Principle 4.2.1 Management compensation as an incentive]

Compensation of internal directors and executive officers of the Company consists of fixed compensation as a consideration for the execution of duties and variable compensation that is linked to the financial performance of the Company for the relevant single fiscal year. As such, it is not linked to medium- to long-term results. However, the Company believes that the officers' shareholding association, which is the arrangement under which officers of the Company share common interests with the Company's stockholders through the holding of the Company's own shares, is functioning as an incentive for sustainable growth and the increase of the corporate value of the Company over the medium to long term.

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In the future, the Company will consider the introduction of a more effective and sound method to provide the senior management with incentives for sustainable growth as necessary.

[Supplementary Principle 4.10.1 Appropriate involvement/advice of independent outside directors through the establishment of an optional advisory committee]

The number of independent outside directors of the Company is two, which is less than a majority of the Board of Directors. However, the system is sufficient to ensure that the Board of Directors performs its supervisory function properly and fulfills its accountability as, for example, each of the independent outside directors states opinions that are appropriate and to the point based on their extensive experience and broad knowledge.
Under this system, candidates for a director of the Company are nominated appropriately by the Board of Directors, which includes outside directors, after due deliberation. The amount of compensation of directors is determined appropriately by the Board of Directors, which includes outside directors, so as not to exceed the total amount approved by the General Meeting of Stockholders.
Therefore, as the independence and the objectivity of the functions of the Board of Directors are adequately secured by the current mechanism, the Company believes that the establishment of an optional advisory committee is unnecessary.

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

[Principle 1.4 Cross-Shareholdings]

Please refer to Article 22 (Basic Policy concerning Cross-Shareholding and the Exercise of Voting Rights Pertaining to Shares Held as Part of Cross-Shareholdings) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Principle 1.7 Related Party Transactions]

Please refer to Article 23 (Transactions with Related Parties) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Principle 3.1 Full Disclosure]

(1)Company objectives (e.g., mission), management strategies and management plans

Please find the mission, management strategies and management plans of the Company in the applicable sections of the Company's website.
<Mission>
Mission of the Taiheiyo Cement Group
Japanese URL http://www.taiheiyo-cement.co.jp/company/pol.html
English URL http://www.taiheiyo-cement.co.jp/english/company/pol.html

<Management strategies/management plans>
17 Medium-Term Management Plan
Japanese URL http://www.taiheiyo-cement.co.jp/ir/manage.html
English URL http://www.taiheiyo-cement.co.jp/english/ir/manage.html

(2) Basic views and guidelines on corporate governance

Please refer to "1.1 Basic views" of this Report.

(3) Board policies and procedures in determining the compensation of the senior management and directors

Please refer to Article 15 (Policy and Procedure for the Determination of Officers' Compensation) of the

"Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

(4) Board policies and procedures in the appointment of the senior management and the nomination of director and corporate auditor candidates

Please refer to Article 5 (Nomination Policy and Procedure for Candidates for a Director), Article 9 (Appointment Policy and Procedure for Executive Officers), and Article 12 (Nomination Policy and Procedure for Candidates for a Corporate Auditor) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Supplementary Principle 4.1.1 Board of Directors' decisions and the scope of the matters delegated to the management]

Please refer to Article 3 (Roles and Responsibilities of the Board of Directors) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Principle 4.9 Independence criteria for independent outside directors]

Please refer to Article 4 (Composition of the Board of Directors) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance" and the "Independent Officers" section of "2.1 Matters Concerning Organizational Structure, Organizational Operation, etc." of this Report.

[Supplementary Principle 4.11.1 Views on the appropriate balance between knowledge, experience and skills of the Board as a whole, as well as on diversity and appropriate board size]

Please refer to Article 4 (Composition of the Board of Directors) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Supplementary Principle 4.11.2 Status of concurrent positions at other listed companies held by directors /corporate auditors of the Company]

Please refer to Article 7 (Concurrent Positions of Directors) and Article 14 (Concurrent Positions of Corporate Auditors) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

[Supplementary Principle 4.11.3 Analysis and evaluation of the overall effectiveness of the Board of Directors and the summary of the results]

As stipulated in Article 19 (Evaluation of the Overall Effectiveness of the Board of Directors) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance," the Company conducts the analysis and evaluation of the overall effectiveness of the Board of Directors each year.
Assessment for FY2015 was implemented via a questionnaire format for all Directors, analysis and assessment was made by the Chairperson of the Board and Outside Directors based on the results, and upon reporting the contents to the Board of Directors, future issues and measures were deliberated and confirmed.
As a result, the Board of Directors of the Company is generally being appropriately managed overall, and the Company has determined that the effectiveness of the overall Board of Directors has been secured. Meanwhile, constructive opinions were presented regarding further vitalization of discussions, and the Company recognizes that some aspects require further improvement, such as the scope of discussions within the Board of Directors.
In the future, in light of the results of effectiveness assessments, the Company will work to make required improvements with the intent of further improving the supervisory functions and decision-making functions of the Board of Directors.

[Supplementary Principle 4.14.2 Training policy for directors and corporate auditors]

Please refer to Article 18 (Training Policy for Directors, Corporate Auditors, etc.) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

(Translation)

[Principle 5.1 Policy for constructive dialogue with stockholders]

Please refer to Article 24 (Policy for Constructive Dialogue with Stockholders) of the "Taiheiyo Cement Corporation Basic Policy on Corporate Governance."

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Stockholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	89,901,000	7.26
The Master Trust Bank of Japan, Ltd. (Trust Account)	70,273,000	5.67
HSBC-Fund Services Bank Negara Malaysia-Equity	35,829,000	2.89
Mizuho Bank, Ltd.	23,756,007	1.91
MSCO Customer Securities	23,543,900	1.90
State Street Bank and Trust Company 505225	20,960,729	1.69
State Street Bank West Client-Treaty 505234	20,857,460	1.68
Japan Trustee Services Bank, Ltd. (Trust Account 7)	16,990,000	1.37
The Bank of New York Mellon SA/NV 10	15,482,001	1.25
Meiji Yasuda Life Insurance Company	15,273,000	1.23

Controlling Stockholder (except for Parent Company)	-------
Parent Company	None

Supplementary Explanation

(1) In the Change Report made available for public inspection as of May 19, 2016, Sumitomo Mitsui Trust Bank, Limited and two other companies were reported to hold the following shares as of May 13, 2016. However, as the Company is unable to confirm the number of shares effectively held by these three companies as of the end of the fiscal year under review, these shareholdings are not included in the table above.
The shareholdings reported in the Change Report are as follows:

Sumitomo Mitsui Trust Bank, Limited	Number of shares held	48,266 thousand	Shareholding ratio	3.90%
Sumitomo Mitsui Trust Asset Management Co., Ltd.	Number of shares held	3,727 thousand	Shareholding ratio	0.30%
Nikko Asset Management Co., Ltd.	Number of shares held	27,165 thousand	Shareholding ratio	2.19%
Total	Number of shares held	79,158 thousand	Shareholding ratio	6.40%

(2) In the Change Report made available for public inspection as of March 22, 2016, BlackRock Japan Co.,

Ltd. and seven other companies were reported to hold the following shares as of March 15, 2016. However, as the Company is unable to confirm the number of shares effectively held by these eight companies as of the end of the fiscal year under review, these shareholdings are not included in the table above.
The shareholdings reported in the Change Report are as follows:

BlackRock Japan Co., Ltd.	Number of shares held	21,162 thousand	Shareholding ratio	1.71%
BlackRock Investment Management LLC	Number of shares held	1,323 thousand	Shareholding ratio	0.11%
BlackRock (Luxembourg) S.A.	Number of shares held	6,135 thousand	Shareholding ratio	0.50%
BlackRock Life Limited	Number of shares held	2,804 thousand	Shareholding ratio	0.23%
BlackRock Asset Management Ireland Limited	Number of shares held	5,507 thousand	Shareholding ratio	0.44%
BlackRock Fund Advisors	Number of shares held	18,925 thousand	Shareholding ratio	1.53%
BlackRock Institutional Trust Company, N.A.	Number of shares held	17,328 thousand	Shareholding ratio	1.40%
BlackRock Investment Management (UK) Limited	Number of shares held	2,373 thousand	Shareholding ratio	0.19%
Total	Number of shares held	75,559 thousand	Shareholding ratio	6.10%

(3) In the Report of Possession of Large Volume made available for public inspection as of June 22, 2015, Mizuho Bank, Ltd. and two other companies were reported to hold the following shares as of June 15, 2015. However, as the Company is unable to confirm the number of shares effectively held by these two companies other than Mizuho Bank, Ltd. as of the end of the fiscal year under review, these shareholdings are not included in the table above.
The shareholdings reported in the Report of Possession of Large Volume are as follows:

Mizuho Bank, Ltd.	Number of shares held	23,756 thousand	Shareholding ratio	1.92%
Mizuho Securities Co., Ltd.	Number of shares held	5,307 thousand	Shareholding ratio	0.43%
Mizuho Trust & Banking Co., Ltd.	Number of shares held	34,259 thousand	Shareholding ratio	2.77%

(Translation)

Total	Number of shares held	63,322 thousand	Shareholding ratio	5.12%

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section, Fukuoka Stock Exchange Main Board
Fiscal Year-End	March
Type of Business	Glass & Ceramics Products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 100 to less than 300

4. Policy on Measures to Protect Minority Stockholders in Conducting Transactions with Controlling Stockholder

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

The Company owns two listed subsidiaries. The Company, based on the "Group Companies Management Rules," properly manages and supports its subsidiaries under the basic principle that the Company will assist them in establishing an autonomous and stable management that is based on their own responsibilities, with adequately functioning management bodies (general meeting of stockholders, board of directors, corporate auditors, board of auditors).

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 Board of Auditors

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of	1 year

(Translation)

Incorporation	
Chairperson of the Board	President
Number of Directors	13
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yoshiko Koizumi	Lawyer											
Yuzo Arima	From another company								△	△		

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/corporate auditor
g. Major stockholder of the Company (or an executive of the said major stockholder if the stockholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/corporate auditors are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshiko Koizumi	Yes	-	**<Reason for the appointment as an outside director>** Yoshiko Koizumi has wealth of experience as a lawyer and the broad insight of corporate legal affairs. As such, she is considered to be suitable to serve as an outside director from an

			equitable and impartial standpoint. **<Reason for designation as an independent director >** Yoshiko Koizumi has been designated as an independent director as she satisfies the "Independence Criteria for Outside Officers" established by the Company and it is therefore determined that there is no risk of any conflict of interest with general stockholders.
Yuzo Arima	Yes	Yuzo Arima had held a position of an executive (Managing Director) at TOSOH CORPORATION, which is a business partner of the Company, until June 2010. In addition, Kenji Ogawa, who had worked for the Company in the past, has assumed the office of outside director at TOSOH CORPORATION.	**<Reason for the appointment as an outside director>** Yuzo Arima has wealth of experience as a senior management executive of a company and the insight of corporate management in general. As such, he is considered to be suitable to serve as an outside director from an equitable and impartial standpoint. **<Reason for designation as an independent director>** Yuzo Arima has been designated as an independent director as he satisfies the "Independence Criteria for Outside Officers" established by the Company and it is therefore determined that there is no risk of any conflict of interest with general stockholders.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee	Not Established

[Corporate Auditors]

Establishment of Board of Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	5
Number of Corporate Auditors	4

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Departments

[Status of coordination between corporate auditors and accounting auditors]
Corporate auditors receive reports and explanations from accounting auditors regarding their audit plans, methods and results and exchange opinions with them as appropriate.
When accounting auditors visit a branch, plant, etc., for an on-site audit, corporate auditors accompany them whenever possible.

[Status of coordination between corporate auditors and the Internal Auditing Department]

(Translation)

Corporate auditors hold meetings with the Internal Auditing Department regularly and as necessary to exchange opinions. They also receive reports from the Department on internal audit plans and their implementation status in all particulars and request the Department to conduct an investigation as necessary.	
Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	2
Number of Independent Corporate Auditors	2

Outside Corporate Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Takashi Nonaka	From another company							△			○			
Yoshio Narukage	From another company							△						

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. Corporate auditor of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a corporate auditor
i. Major stockholder of the Company (or an executive of the said major stockholder if the stockholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the corporate auditor himself/herself only)
k. Executive of a company, between which and the Company outside directors/ corporate auditors are mutually appointed (the corporate auditor himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the corporate auditor himself/herself only)
m. Others

Outside Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Takashi Nonaka	Yes	Takashi Nonaka had held a position of an executive (Deputy President and Representative Director) at Mizuho Bank, Ltd.,	**<Reason for the appointment as an outside corporate auditor>** Takashi Nonaka has wealth of experience as a senior management executive of a company and the insight of corporate management in general. As

		which is a major business partner of the Company, until March 2008. The amount of borrowings of the Group from the bank as of March 31, 2016 is 53,448 million yen. He has also held a position of an executive (Chairman) at Mizuho Trust & Banking Co., Ltd., which is a business partner of the Company, until March 2015. The amount of borrowings of the Group from the bank as of March 31, 2016 is 9,551 million yen.	such, he is considered to be suitable to serve as an outside corporate auditor from an equitable and impartial standpoint. He also has considerable knowledge of finance and accounting based on his long experience at financial institutions. **<Reason for designation as an independent corporate auditor >** Takashi Nonaka has been designated as an independent corporate auditor as he satisfies the "Independence Criteria for Outside Officers" established by the Company and it is therefore determined that there is no risk of any conflict of interest with general stockholders.
Yoshio Narukage	Yes	Yoshio Narukage had held a position of an executive (Executive Officer) at Sumitomo Mitsui Banking Corporation, which is a major business partner of the Company, until April 2007. The amount of borrowings of the Group from the bank as of March 31, 2016 is 39,240 million yen.	**<Reason for the appointment as an outside corporate auditor>** Yoshio Narukage has wealth of experience and knowledge at financial institutions, etc. As such, he is considered to be suitable to serve as an outside corporate auditor from an equitable and impartial standpoint. He also has considerable knowledge of finance and accounting based on his long experience at financial institutions. **<Reason for designation as an independent corporate auditor >** Yoshio Narukage has been designated as an independent corporate auditor as he satisfies the "Independence Criteria for Outside Officers" established by the Company and it is therefore determined that there is no risk of any conflict of interest with general stockholders.

[Independent Directors/ Corporate Auditors]

Number of Independent Directors/ Corporate Auditors	4

Matters relating to Independent Directors/ Corporate Auditors

[Independence Criteria for Outside Officers]

Outside officers are considered to be sufficiently independent from the Company if they do not fall under any of the following items:

1. A person who is or was an executive (Note 1) of the Company or any of its subsidiaries;

(Translation)

2. A person who is or has recently been a person falling under any of the (1) through (7) below:
(1) A major stockholder (Note 2) of the Company or an executive of a major stockholder of the Company;
(2) A party whose major business partner is the Company (Note 3) or an executive thereof;
(3) A major business partner of the Company (Note 4) or an executive thereof;
(4) A person belonging to an audit corporation that is the accounting auditor of the Company;
(5) A party who receives a significant amount of donation or aid (Note 5) from the Company or an executive thereof;
(6) An individual who receives a significant amount of money (Note 6) or other property from the Company as a lawyer, certified public accountant, tax accountant, consultant, etc., in addition to the compensation that he/she receives from the Company as an outside officer; or
(7) An executive of a legal entity, etc. that is a law firm, auditing firm, tax accounting firm, consulting firm, etc., whose major business partner is the Company (Note 7).

3. A person who is a close relative (Note 8) of any of the persons listed in 1. and 2. above.

Notes:
1. An executive is an executive director, corporate officer, executive officer, or an employee who holds a senior management position.
2. A major stockholder is a stockholder who holds 10% or more of the voting rights of the Company.
3. A party whose major business partner is the Company is a party who has carried out transactions with the Company for an amount exceeding 2% of the annual consolidated total net sales for the latest fiscal year of that party.
4. A major business partner of the Company is a party who has carried out transactions with the Company for an amount exceeding 2% of the annual consolidated total net sales for the latest fiscal year of the Company or a financial institution that has an outstanding balance of loans to the Company that exceeds 2% of the consolidated total assets of the Company as of the end of the latest fiscal year of the Company.
5. If the recipient is an individual, a significant amount of donation or aid means a donation or aid exceeding an average of 10 million yen per year over the last three fiscal years. If the recipient is a legal entity, a significant amount of donation or aid means a donation or aid of an average of 10 million yen per year over the last three fiscal years or 30% of the total annual expenses of said legal entity, whichever the greater.
6. A significant amount of money means an amount of money exceeding an average of 10 million yen per year over the last three fiscal years.
7. A legal entity, etc. whose major business partner is the Company is a legal entity, etc. that has carried out transactions with the Company for an average amount per year over the last three years exceeding 2% of the annual consolidated total net sales of said legal entity, etc.
8. A close relative means a spouse or a relative within the second degree of kinship.

[Incentives]

Incentive Policies for Directors	Performance-linked Compensation

Supplementary Explanation

Directors' compensation consists in part of variable compensation, which is linked to the financial performance of the Company.

Recipients of Stock Options	

Supplementary Explanation

(Translation)

[Director Compensation]

Disclosure of Individual Directors' Compensation	No Individual Disclosure

Supplementary Explanation

Compensation paid to directors and corporate auditors
Directors: 773 million yen (in total for 14 directors)
Corporate auditors: 74 million yen (in total for 7 corporate auditors)

Policy on Determining Compensation Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Compensation Amounts and Calculation Methods

The upper limits of compensation for directors and corporate auditors are separately set by a resolution of the General Meeting of Stockholders (not more than 100 million yen per month for directors and not more than 13 million yen per month for corporate auditors). The amounts of compensation of individual directors are determined by a resolution of the Board of Directors and the amounts of compensation of individual corporate auditors are determined by consultation among corporate auditors. The compensation plan for directors (excluding outside directors) consists of fixed compensation and variable compensation whereas the compensation plans for outside directors and corporate auditors consist only of fixed compensation. Specifically, the amount of the variable compensation of directors (excluding outside directors) is calculated by multiplying the amount calculated as consolidated net income for the current fiscal year times 1% (an upper limit of 400 million yen) by the multiplier assigned to each position, which is paid starting from July in the fiscal year following the end of the current fiscal year. However, this amount can be reduced in consideration of the financial performance of the Company or other circumstances. In principle, variable compensation is not paid if the amount of annual dividend for the current fiscal year is less than 3 yen per share.

[Supporting System for Outside Directors and/or Corporate Auditors]

The Corporate Planning Department provides outside directors with such support for their execution of duties as agenda briefing for coming board meetings and regular business reporting (weekly as a rule).
For outside corporate auditors, liaison meetings are held regularly (weekly as a rule), at which full-time corporate auditors report the results of important internal meetings such as Executive Committee meetings.
The Company also has established a Corporate Auditor's Office consisting of three persons responsible for assisting corporate auditors.

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

(1) Management decisions based on the Companies Act are made by the Board of Directors and other important decisions are made by the Executive Committee.
(2) The Company has introduced an executive officer system and part of the business execution authority has been delegated to the executive officers in charge of individual businesses and departments.

(3) Also, the CSR Management Committee of the Company determines the ideal direction for the Company's business activities from the perspective of CSR (corporate social responsibility) and promotes the strengthening of corporate governance.

[Status of internal audits]

The Internal Auditing Department, which consists of nine persons, is responsible for conducting internal audits. The Internal Auditing Department conducts internal audits to identify matters requiring improvements and then reports the audit results to the President to ensure the effectiveness of internal audits.

[Status of audits by corporate auditors]

The Board of Auditors consists of two internal corporate auditors and two outside corporate auditors and performs the oversight and audit functions targeting the management by such means of attending board meetings and other important meetings, interviewing directors and other executives to ask questions about the status of their execution of duties, and inspecting important approval documents. As part of its efforts to enhance the effectiveness of audit, the corporate auditors also visit branches, plants, subsidiaries, etc., to investigate the business execution status of the Company and the Group. They also hold regular corporate auditor liaison meetings to exchange opinions and share information among themselves to establish a system that enables them to conduct audits in a fair and appropriate manner.

[Status of accounting audits]

The Company has appointed KPMG AZSA LLC as the accounting auditor for accounting audits required by the Companies Act and for those required by the Financial Instruments and Exchange Act. The names of certified public accountants who executed the audit and the composition of the assistants involved in accounting audits are as follows: There is no special interest between the Company and the audit corporation or any of the engagement partners of the audit corporation engaging in the audit of the Company.

・Name of certified public accountants who executed the services

Designated limited liability and engagement partners: Shozo Tokuda, Yoshihide Takehisa,Yoshiaki Sekine

・Composition of the assistants involved in accounting audits

14 certified public accountants and 21 other assistants

Note: The other assistants consist of persons who have passed the CPA exam, persons in charge of system audit, etc.

3. Reasons for Adoption of Current Corporate Governance System

As stated below, with the appointment of outside directors and outside corporate auditors to perform checks from the external perspective, the Company believes that the current corporate governance system is sufficiently capable of ensuring the neutrality and objectivity of the management supervisory function.

(1) Outside directors and outside corporate auditors

Two outside directors have been appointed to oversee and supervise the overall management and two outside corporate auditors have been appointed to conduct audits of the execution of duties by directors. There is no special interest such as personal, capital or trade relationships between the Company and any of the two outside directors and two outside corporate auditors.

(2) Management oversight function

Corporate auditors oversee the execution of duties by directors by such means of attending board meetings and other important meetings, inspecting approval documents, and audits of individual departments. Moreover, by introducing the executive officer system, the Company strives to separate and distinguish the decision making and supervisory functions of the management from the business execution and will continue to improve corporate governance under the current system.

(Translation)

III. Implementation of Measures for Stockholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Stockholder Meeting	The Company sends the Convocation Notice of the General Meeting of Stockholders approximately three weeks before the meeting date.
Allowing Electronic Exercise of Voting Rights	The Company has adopted the system for exercising voting rights via the Internet from 2007.
Participation in Electronic Voting Platform	The Company has participated in the electronic voting platform for institutional investors operated by ICJ, Inc. since 2007.
Providing Convocation Notice in English	It is published on the website of the Company.
Other	The content of the Convocation Notice of the General Meeting of Stockholders is published on the website of the Company before it is sent to stockholders. The notice of resolutions is also published on the website of the Company after the close of the General Meeting of Stockholders.

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company has established the "Information Disclosure Policy" on May 1, 2007. The Company believes that winning the understanding and trust of the stakeholders of the Company through information disclosure is essential for the realization of the "Group Mission." The Company also recognizes active information disclosure as one of the corporate social responsibilities. The "Information Disclosure Policy" is available for inspection in the "CSR Initiatives" section on the website of the Company (URL http://www.taiheiyo-cement.co.jp/english/csr/disclosure_fr.html).
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds results briefings for securities analysts, institutional investors, etc., in May and November. Most recently, the Company held a results briefing for FY2015 on May 13, 2016, at which President and Representative Director Shuji Fukuda, Representative Director and Senior Executive Officer Yuichi Kitabayashi and Managing Executive Officer Yoichi Funakubo explained the results. The number of attendants at the briefing was 79.
Posting of IR Materials on Website	In the "Investor Relations" page (URL http://www.taiheiyo-cement.co.jp/english/ir/index.html) on its website, the Company publishes such information as summaries of financial results, results briefing materials, annual reports, CSR reports, and annual securities reports (a link to EDINET). Timely disclosure materials are published in the "News Releases" page (URL http://www.taiheiyo-cement.co.jp/english/news/index.html) on the website of the Company.
Establishment of Department and/or Manager in Charge of IR	Department in charge of investor relations: General Affairs Department Officer in charge of investor relations: Shigeru Matsushima, Director and Managing Executive Officer Head of secretariat for investor relations: Takahiko Imachi, General Manager of General Affairs Department

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In our Business Principles we pledge to "communicate broadly with society." The "CSR Guidelines," which specify actions that are essential for implementation of the Company's Business Principles, prescribe that "we will practice appropriate information disclosure and communication with stakeholders, based on the status of our CSR management promotion, and build relationships of trust" as one of the basic policies for the promotion of CSR management. Furthermore, the Company has stipulated the Basic Policy and Rules for Stakeholder Communication and is trying to engage with our stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	By recycling wastes and by-products for use as raw materials for cement production, the Company is reducing environmental load to the society through the reduction of the consumption of natural mineral resources, the prevention of global warming, and the extension of the lifetime of landfills. The Company is earnestly developing technologies to increase the volume of the use of recycle wastes. The Company is also conducting a wide variety of CSR activities including the efforts to ensure full compliance and to strengthen communication with local communities. (Please refer to the "CSR Report 2015," which is published on the website of the Company (URL http://www.taiheiyo-cement.co.jp/english/csr/csr_fr.html).
Development of Policies on Information Provision to Stakeholders	The Company has established the "Information Disclosure Policy" on May 1, 2007. The Company believes that winning the understanding and trust of the stakeholders of the Company through information disclosure is essential for the realization of the "Group Mission." The Company also recognizes active information disclosure as one of the corporate social responsibilities. The "Information Disclosure Policy" is available for inspection in the "CSR Initiatives" section on the website of the Company (URL http://www.taiheiyo-cement.co.jp/english/csr/disclosure_fr.html).
Other	**<Collaboration with external organizations>** The Company is working on the resolution of various problems including global environmental issues and labor safety improvements through the participation in international activities such as the Cement Sustainability Initiative of the WBCSD (World Business Council for Sustainable Development). (Please refer to the "CSR Report 2015," which is published on the website of the Company (URL http://www.taiheiyo-cement.co.jp/english/csr/csr_fr.html). **<Fundamental policies and initiatives for the promotion of women's empowerment>** The Company proactively employs women and improve the work environment so that they are able to commit to long-term employment in the Company. The Company is also developing human resources capable of exercising initiatives at work and at home and enhancing in-house systems to support this development of such human resources. By promoting such work-life balance management, the Company will strive to become an organization in which diverse human resources can realize their full potential. The Company announced the following goals and fundamental policies in December 2013 to be shared inside and outside the Company and are making company-wide efforts to achieve them. The Company has also

	established quantitative targets concerning the empowerment of women as part of the CSR Objectives for 2025. In July 2015, the Company established the Diversity Promotion Office within the Human Resources Department to provide active support to the Company's efforts to ensure internal diversity including the promotion of women's empowerment. Furthermore, a General Business Action Plan was defined in March 2016 based on the Act on Promotion of Women's Participation and Advancement in the Workplace, and while quantifying promotion of activities for women, announcements are made on the Database for Companies Promoting Activities for Women of the Ministry of Health, Labour and Welfare. (Please refer to the "Taiheiyo Cement Corporation Action Plan," which is published on the website of the Company (URL http://www.taiheiyo-cement.co.jp/english/csr/human_resources_fr.html). As of March 31, 2016, the ratio of female employees is around 6.4%. The Company intends to increase this to over 10% by 2020 through a targeted recruitment program. The Company is holding a job seminar for female students to help them to understand the business of the Company. As a result, female employees who are "G Course" employees, for whom the area of office is not limited, accounted for approximately 33% of new employees who joined the Company in April 2016. The Company will, in accordance with the following goals and fundamental policies, continue to work on "the promotion of active recruitment and retention of female employees," "the expansion of work areas and career development for female employees," and "the promotion of work-life balance management." **[Goals and fundamental policies]** 1. Goals (1) Increasing the employment ratio of women Increase the employment ratio of women under "G Course" categories after FY2014 to at least 30% (2) Building a portfolio of appropriate human resources Increase the ratio of female employees to at least 10% by 2020. (3) Promoting the appointment of female employees to management positions Increase the ratio of newly appointed female managers to 10% by 2020. 2. Fundamental policies Further increase corporate value by promoting innovation through the sharing of ideas and values across a diverse range of human resources. ・Promote active recruitment and retention of female employees in order to build an appropriate portfolio of human resources. ・Promote work-life balance management toward building an organization in which diverse human resources can fully demonstrate their abilities in the workplace. These goals and fundamental policies are published on the website of the Company and "Positive Action Information Portal Site" operated by the Ministry of Health, Labour and Welfare.

IV. Matters Related to the Internal Control System

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

The Company has established the basic policy as follows for building a system that enables the Company and its group companies to operate businesses appropriately and efficiently in accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act. The system is founded on the basic principles of further enhancing and strengthening various systems in operation to date, as well as reviewing and revising necessary matters.

1) System to ensure that Directors, Executive Officers and employees comply with laws and ordinances and the Articles of Incorporation in executing their duties

(i) The Company shall strengthen its system for ensuring that the actions of Directors, Executive Officers and employees comply with laws and ordinances, the Articles of Incorporation and other internal company rules, and conventional wisdom in accordance with the Mission of the Taiheiyo Cement Group, Business Principles, Basic Compliance Policy and Compliance Rules.

(ii) The CSR Management Committee, an interdepartmental committee under the direct authority of the Board of Directors, pursues policies to promote compliance awareness among Directors, Executive Officers and employees in accordance with the CSR Prospectus.

(iii) The Internal Auditing Department conducts audits of the business activities of each place of business within the Company to determine whether Executive Officers and employees comply with laws and ordinances, the Articles of Incorporation, etc. in executing their duties, provides advice and recommendations after identifying items in need of improvement, and reports to the President about audit results and then notifies Directors and Corporate Auditors.

(iv) The Company employs an internal reporting system that uses a compliance hotline to reach representatives both inside and outside the Company (law firm) to enable an accurate response while protecting the informer and ensuring transparency.

2) System to store and manage information related to the execution of duties by Directors

The Company documents, stores, and manages information related to the execution of duties by Directors in accordance with the Board of Directors Rules, Decision Making Rules and Document Management Rules. Directors and Corporate Auditors can review these documents at any time.

3) Rules and other systems related to managing the risk of loss

(i) The Company has prepared the Basic Risk Management Policy and Risk Management Rules covering basic matters and specific responses to prevent and minimize the impact of risk items that could significantly affect the business of the Taiheiyo Cement Group. The CSR Management Committee is in charge of pursuing specific measures, and reports to the Board of Directors about the status of these activities.

(ii) In the event of an emergency, the Company establishes an Emergency Headquarters led by the President to pool information and exercise top-down leadership in tackling the emergency in accordance with the provisions of the Risk Management Rules.

4) System to ensure that Directors execute their duties efficiently

(i) The Company delegates to Executive Officers the authority for certain business matters as stipulated in the Decision Making Rules and elsewhere. Executive Officers, based on a Management by Objectives, set clear targets for each responsible organization under their control and execute their duties efficiently.

(ii) The Board of Directors efficiently allocates business resources from the perspective of optimizing companywide resources and in accordance with the medium-term management plan and annual management policy (President's policy), and reviews the targets of Executive Officers and the progress of policies reported from time to time.

5) **System for ensuring proper execution of operations within the company group, comprising the Company and its subsidiaries**

The Company, in accordance with its Group Companies Management Rules, takes the following steps to provide appropriate management and support to its subsidiaries to enable the adequate functioning of their management organizations (general meeting of stockholders, board of directors, corporate auditors, and board of auditors) and the establishment of independent management based on self-responsibility.

(i) The Company assigns, in principle, Directors, Executive Officers and employees to serve as directors or corporate auditors at its subsidiaries. These corporate auditors conduct audits of internal control systems.

(ii) The Internal Auditing Department conducts audits of the business activities according to the size, nature of business, etc. of subsidiaries to determine whether the directors and employees of the subsidiaries comply with laws and ordinances, the Articles of Incorporation, etc. in executing their duties, provides advice and recommendations after identifying items in need of improvement, and reports to the President about audit results and then notifies Directors and Corporate Auditors.

(iii) The Company seeks to understand the business conditions of each subsidiary through performance reports and other means and endeavors to share information through exchanges of opinions between the Company and directors at subsidiaries (including directors serving concurrently as Directors, Executive Officers or employees at the Company) by periodically holding Group Executive Committee meetings.

(iv) The Company makes its subsidiaries appoint officers responsible for risk management and compliance as well as risk management and compliance promoters according to their size, nature of business, etc. and strives to prevent and reduce risks in the Taiheiyo Cement Group by collaborating with each company, and adopts a system for reporting to Directors and Corporate Auditors of the Company if a crisis occurs or if an event with the risk of developing into a crisis arises at a company.

6) **System to ensure reliability of financial reporting**

The Company develops a system required to properly conduct financial reporting such as consolidated financial statements.

7) **Matters related to personnel to assist Corporate Auditors and independence of such personnel from Directors**

The Company has established a Corporate Auditor's Office which assists Corporate Auditors in performing their duties, and assigns full-time personnel. The Company shall request and respect the opinion of the Board of Auditors in matters related to the transfer and evaluation of such full-time personnel.

8) **System for Directors, Executive Officers and employees as well as directors, corporate auditors and employees of subsidiaries or persons who received a report from them to report to Corporate Auditors and other systems for reporting to Corporate Auditors**

(i) The Company employs a system in which Corporate Auditors can attend important meetings related to business matters to receive reports from Directors and other employees about the status of the execution of their duties.

(ii) The Company adopts a system in which any facts that may inflict serious damage to the Company are reported to Corporate Auditors by Directors, Executive Officers and employees and directors, executive officers and employees of subsidiaries or persons who received a report from them.

(iii) The Company prohibits the unfavorable treatment of anyone who has made a report under the preceding item.

9) **Other systems to ensure effective auditing by Corporate Auditors**

(i) The Company employs a system in which Corporate Auditors are shown documents related to important decisions and can gain access to a variety of information, including management information, at any time.

(ii) The Company provides a venue for Corporate Auditors to exchange opinions and

information with the Accounting Auditor.
(iii) When a Corporate Auditor requests the prepayment or payment of expenses required for performing his/her duties, the Company promptly pays such expenses.

2. Basic Views on Eliminating Anti-Social Forces

(1) Basic views on eliminating antisocial forces
The Company states in the Basic Compliance Policy formulated in March 2005 that it will not have any relationship with antisocial forces or organizations and resolutely reject any unfair or unreasonable demands. In regard to said demands, the Company will maintain its stance of "never being afraid of them," "never giving money to them," and "never using them." In addition, in response to the enforcement of the Ordinance for Eliminating Antisocial Forces throughout Japan in 2011, the Company further adopted the stance of "not to have any relationship with antisocial forces" and strives to eliminate any relationship with them. The Company strives to ensure that all officers and employees of the Company are fully aware of the aforementioned policy and stance.

(2) Status of development of the system for eliminating antisocial forces
The Company has designated the General Affairs Department as the department in charge of handling demands from antisocial forces. The Department has developed a system that enables quick response through their efforts to collect information at all times in cooperation with external related organizations.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

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2. Other Matters Concerning to Corporate Governance System

Schematic depiction
Please see Reference: "Schematic depiction" in the Appendix at the end of this report.

Timely disclosure system
(1) Basic approach concerning the timely disclosure system
The Company intends to "build the relationship of trust with stakeholders through appropriate information disclosure to and communication with them" as stated in the CSR Guidelines which specify actions that are essential for realizing the Mission of the Taiheiyo Cement Group and implementation of the Company's Business Principles. The Company also states in the Basic Compliance Policy that it "will strive to promote the communication with stakeholders of the Company through the timely, appropriate, just and fair disclosure of necessary corporate information."

(2) Outline of the timely disclosure system
The Company has established the "Information Disclosure Regulations," which prescribe basic matters concerning information disclosure by the Company such as the information disclosure system and roles for

the purpose of ensuring the legal compliance and appropriateness of information disclosure. In these Regulations, the Company defines the corporate information for which disclosure is required under the "Securities Listing Regulations" as material information. The outline of the timely disclosure system for material information is as follows:

i) Timely disclosure system and roles

A. Site managers, upon exposure to potentially material information concerning the business site for which they are responsible, prepare a written information disclosure application and submit it to the officer in charge immediately after obtaining confirmation from the General Manager of the General Affairs Department.

B. Upon receipt of the written information disclosure application, the officer in charge determines whether the information in question is material information in accordance with the Financial Instruments and Exchange Act and the Securities Listing Regulations. If the information is determined to be material, the procedures for deliberation and decision on disclosure items outlined in C. below are followed.

C. The deliberation and decision of the disclosure items are carried out by the Executive Committee, the Board of Directors, or the officer in charge of the General Affairs Department, as appropriate, in accordance with the category of decision-making bodies responsible for the matter in question as prescribed in the "Approval Request/Reporting Standards," from the perspectives of legal compliance, accuracy, and appropriateness. However, in the case of an emergency, the President or the officer in charge of the General Affairs Department may make decisions on them. In this case, the General Manager of the General Affairs Department promptly notifies the Executive Committee members of the decision.

D. The General Affairs Department is responsible for information disclosure. After the disclosure details of material information are determined based on C. above, the General Affairs Department disclose the information to the Tokyo Stock Exchange and the Fukuoka Stock Exchange without delay and disclose it also to the appropriate mass media without delay after considering presentation of the disclosure details. The Department also publishes the information on the website of the Company and holds a press conference if necessary.

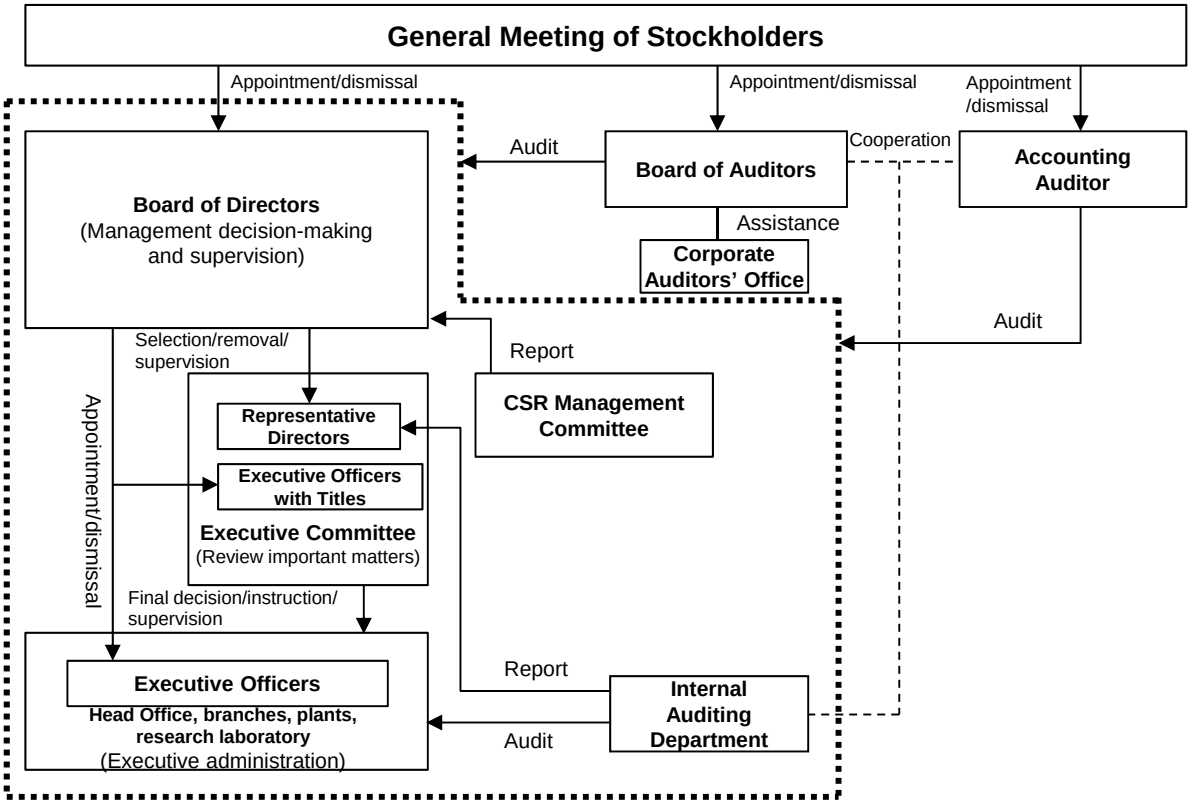
ii) Prevention of insider trading

The Company has established the "Insider Trading Prevention Regulations" for the purpose of preventing insider trading by the officers and employees of the Company and maintaining the credibility of the Company in the securities markets by properly managing material information.

Please see Reference: "Schematic depiction of the timely disclosure system" in the Appendix at the end of this report.

[Reference: Schematic depiction]

Schematic diagram of the corporate governance system of the Company



[Reference: Schematic depiction of the timely disclosure system]

