

[Translation for Reference and Convenience Purposes Only]

Note1. This document has been translated to English from the Japanese original for reference and convenience purposes only. In the event of any discrepancy between this translated document and the Japanese original, the Japanese original shall prevail. Pictures, graphs, charts and some reference matters in the Japanese original have been omitted from this translated document.

Note2. This “Framework for ensuring appropriateness of business & its operational status” and “Basic policy regarding corporate control” in the business report are available on our corporate website and thus have not been included with the convocation notice document.

Internet Disclosure for Notice of Convocation of the 17th

Ordinary General Meeting of Shareholders (Excerpt)

**(“Framework for ensuring appropriateness of business & its operational status” and
“Basic policy regarding corporate control” in the Business Report)**

[From April 1, 2020- to March 31, 2021]

Nippon Sanso Holdings Corporation

Framework for ensuring appropriateness of business & its operational status

1) Overview of internal control system

The Board of Directors of the Company has approved a resolution as follows regarding a framework for ensuring the appropriateness of business (internal control system) pursuant to provisions in the Ordinance for Enforcement of the Companies Act.

Meanwhile, the Board of Directors revised part of contents of the resolution at a meeting on October 1, 2020, in connection with the Company's transfer to a holding company system, effective the same day. Main points of the revision are changes in the execution system of the Company Group and the risk management system (abolishment of the Compliance Committee, the Risk Assessment Committee and the Information Management Committee and establishment of the Global Risk Management Committee and the Global Strategy Review Committee).

1. Framework for confirming the execution of duties by Company Group directors & employees complies with laws/regulations & Articles of Incorporation

- The directors of the Company shall determine the basic policy of compliance in the Group and establish an organization and rules to ensure its effectiveness.
- The Company has a Chief Compliance Officer (hereinafter referred to as "CCO") and a Regional Chief Compliance Officer (hereinafter referred to as "RCCO") in each overseas region to provide education according to compliance risks in Japan and each region overseas. The Company shall clarify the rules for dealing with violations and make them known to each Group company.
- The CCO and each RCCO have authority to control and supervise compliance promotion activities, and shall strive to enhance and permeate the Group's compliance promotion activities.
- The Company shall establish a whistle-blowing mechanism in Japan and overseas to ensure a system that allows employees to report compliance violations within the Group and the possibility of such violations without suffering any disadvantage.
- In order to ensure the reliability of financial reporting, an internal control reporting system shall be established and its effective and efficient operation and evaluation shall be carried out.
- The Company's audit department shall carry out an internal audit of the operational status of the above organizations, institutions and systems.

2. Matters concerning storage & management of information related to execution of duties by directors

- Information related to the execution of duties by directors shall be appropriately stored and managed based on the Information Security Management Regulations and other related regulations based on the Information Management Basic Policy of the Group.
- The above storage and management system shall allow relevant information to be kept available to directors and members of the Audit & Supervisory Board.
- The operational status of the above organizations and institutions shall be subject to internal audits by the Company's audit department.

3. Regulations & other systems for managing Group risk of loss

- The directors of the Company shall determine the basic policy of risk management in the Group and establish an organization and rules to ensure its effectiveness.
- Risk management shall be carried out by the department in charge of the relevant field, and the Global Risk Management Committee shall be established to select important risks for the entire Group and formulate countermeasures.
- The Company's internal audit department shall carry out an internal audit of the operational status of the above organization.

4. System to ensure efficient execution of duties by Group directors

- In order to ensure the efficient execution of duties by directors, the Board of Directors shall practice reasonable division of duties and appoint appropriate executive officers.
- The Global Strategy Review Committee shall formulate the Group's management strategy and manage its progress.
- A medium-term Group management plan shall be formulated, quantitative and qualitative targets shall be set to achieve the plan, and performance management shall be carried out through quarterly monitoring.

5. System to ensure appropriateness of Group operations

- The Group shall manage its business based on the above policy, management rules and other related regulations, and compliance promotion, risk management and other systems that make up the internal control system shall cover the entire Group. As a holding company, the Company shall maintain and operate the internal control system while respecting the independence of each Group company. The Company shall support and manage it according to the prevailing situation.
- The Company's internal audit department shall cooperate with the internal audit department of each Group company, and shall grasp and evaluate the status of setting up and operating the internal control system in the Group through the audit of each Group company.

6. System for appointment of employees sought by auditors to assist them

- The Audit & Supervisory Board shall have a secretariat established as an organization for assisting the duties of Board member auditors and as an entity independent of the command and order of directors. Dedicated employees shall be assigned to the secretariat.

7. Matters for securing independence of above employees from directors & ensuring effectiveness of instructions given to such employees

- Employees of the Audit & Supervisory Board's secretariat mentioned in the preceding item shall not receive the command and order of directors when receiving an order necessary for audit work from Board member auditors.
- The evaluation of the above employees shall be carried out by Board member auditors, and the prior consent of auditors shall be obtained for their transfer, disciplinary action, etc.

8. System for reporting to auditors, system for ensuring no unfavorable treatment of anyone reporting to auditors

- Auditors and directors shall hold regular meetings to share information, and directors and employees shall report the following matters i) to v) to auditors without delay in addition to legal matters.
- The Company's directors and employees, and the directors, auditors and employees of each Group company shall report to the Company's department in charge regarding matters corresponding to iv) or v) below, and may also report directly to auditors or the Audit & Supervisory Board.
- It is prohibited for anyone who has made a report to auditors specified in this item to be treated unfavorably because of the report.
 - i) Contents decided by the Board of Directors regarding important matters that affect the management of the Company or each Group company;
 - ii) Results of internal audits of the Company or each Group company conducted by the department in charge;
 - iii) Of the whistle-blowing mechanism, any matter that has a significant impact on the management of the Company or each Group company;
 - iv) Matters that violate compliance and have a significant impact on the management of the Company or Group companies;
 - v) Among matters related to poor quality and product defects, matters that have a significant impact on the management of the Company or each Group company.

9. Policy related to processing of expenses or debts incurred in auditors' execution of duties

When an auditor requests prepayment or reimbursement of expenses for the execution of his/her duties, the request shall be met promptly unless it is deemed that the expenses or obligations related to the request are not necessary for the execution of the relevant auditor's duties.

10. Other systems to ensure effective audits by auditors

The Audit & Supervisory Board shall receive a prior report on the audit plan of an accounting auditor, regularly receive reports on audit results, and make other efforts in cooperation with the internal audit department to maintain close relations with the accounting auditor in order to supervise the accounting auditor and ensure the independence of the accounting auditor from directors.

2) Operational status of internal control system

1. Operational status of compliance

To promote compliance with laws, regulations, etc. in Japan, we held a Compliance Committee meeting for the first half of the fiscal year in September before the transition to a holding company structure, received reports from the Company and Group companies regarding the status of legal compliance, and confirmed the details of improvement measures and the status of progress in their execution. We also affirmed the status of progress in lawsuits in which the Company and Group companies are involved as parties concerned. We have reported the results of activities of the Compliance Committee to the Board of Directors.

As for compliance education in Japan, officials in charge of compliance promotion, appointed by the Chief Compliance Officer (CCO) in the Company and the Group Companies, undertook training. Compliance education was also conducted for officers and other people in managerial positions as well as employees of different ranks, focusing on response to compliance risk as a main theme. (Number of participants in Japan: a total of 10,029)

For the promotion of compliance abroad, Regional Compliance Officer (RCCO) of North America, Europe, East Asia, Taiwan, Southeast Asia, India and Australia push ahead with compliance promotion activities under the supervision and control of the CCO in response to each region's compliance risk. CCO received reports from the RCCOs on the status of each region's legal compliance and progress in lawsuits, the execution of matching education in response to each region's compliance risk, and the operation of each region's whistle-blowing scheme, shared such information and reported the results of activities to the Board of Directors.

We also have a whistle-blowing channel in place in domestic and foreign Group Companies for early discovery and correction of compliance violations. For each whistle-blowing case, we respond with remedy action, recommendations, etc. based on investigations while strictly protecting a whistle-blower's privacy, thus preventing any recurrence. We thoroughly protect whistle blowers and prohibit detrimental treatment of them in operating whistle blowing mechanism.

2. Operational status of information security

With telework and teleconferencing spreading rapidly amid the COVID-19 pandemic, new styles of work based on digital technology are increasingly prevalent, making it more important than ever for individuals to have good ICT literacy. Against that background, we conducted educational training for officers and employees of the Company and the Group Companies in Japan, such as practice sessions on the assumption of cyberattacks and targeted threats by e-mail, e-learning lessons on information security, and other training using ICT-based educational tools. (Number of participants in Japan: a total of 14,436)

We established Nippon Sanso Holdings Group IT Security Standards that stipulates rules to be observed by the Group Companies when using, deploying and managing the information systems to protect electronic information collected, stored, processed, transmitted, and used by the information system from leakage, tampering, disappearance, destruction and so forth due to external threats and internal illegality.

3. Operational status of risk management

We held a Global Risk Management Committee meeting in February with a view to enhancing the Group's entire risk management and received reports on the status of risk management from the persons in charge of each business segment (Japan, USA, Europe, Asia and Oceania, Thermos), thus confirming the directionality of a risk management framework built as a holding company. We have reported the results of activities of the Global Risk Management Committee to the Board of Directors.

As for technological risks associated with security, the environment, product quality/safety, and intellectual property, we confirmed efforts made by each business segment at a meeting of the Global Strategy Review Committee held in February and determined a policy framework for initiatives to be taken as a holding company. We are undertaking the execution of matters decided at the meeting while establishing the Technological Risk Communication Committee and appointing a responsible person in charge at each Group business company.

4. Operational status of internal auditing

We have internal audit departments in Japan, US and Europe and they conducted internal audit of Group companies located in such regions. The internal audit department in Japan conducted internal audit of Group companies in Asia & Oceania region, as well.

Internal audits of four business establishments of Taiyo Nippon Sanso Corporation, 21 affiliates in Japan and six overseas affiliates in Asia & Oceania region were conducted mainly via online due to COVID-19 impact,, with emphasis on the confirmation of legal compliance and the status of internal control systems. Additionally, audit of Taiyo Nippon Sanso Corporation's export department and export control office regarding security trade control was also conducted. The auditors pointed out flaws, offered advice for improvement and following up instructions.

Security inspections of 26 domestic business establishments and three others abroad in Asia & Oceania region were conducted regarding legal compliance and the status of management of plant operations, the inspectors pointed out flaws and issued instructions.

5. Operational status of financial reports

We distributed internal control checklists to the Company and 145 affiliates to continue improving business quality and ensure the efficiency of internal control related to financial reports. Each company's self-assessment was confirmed by the Corporate Audit Office and the accounting auditor based on documented evidence, and matters found deficient were corrected on the part of relevant companies.

Other than the above, we are operating our internal control system in a proper manner to ensure the appropriateness of business.

Basic policy regarding corporate control

I. Basic policy regarding what anyone controlling Company's policy decisions on finance & business should look like

The Company makes it a fundamental principle that anyone controlling the Company's policy decisions on its finance and business must fully understand the Company's management philosophy, sources of corporate value, relationship of trust with stakeholders supporting the Company, etc., and secure and improve the Company's corporate value, as well as common benefits of shareholders, in the long term.

Shares in the Company, a listed enterprise, are authorized to be traded freely through the stock market by many shareholders and investors. Should a major purchase or takeover bid be proposed, we do not rule it out totally as long as it contributes to securing and improving corporate value of the Company and, eventually, common benefits of shareholders.

We believe that final judgment on whether or not to accept such a major purchase offer, etc. should be subject to the intention of shareholders.

II. Initiatives contributing to realization of basic policy

We are taking the following initiatives so that many investors may continue investment from a long-term perspective and that corporate value of the Company and, eventually, common benefits of shareholders, may be improved. We believe that these initiatives will contribute to realizing the above basic policy regarding control over the Company.

1. Initiatives to improve corporate value

Based on the four-year Medium-Term Management Plan (Ortus Stage 2) starting in the fiscal year ending March 31, 2018, the Company endeavored to improve its corporate value based on the four strategies of (1) structural reform, (2) innovation, (3) globalization, and (4) M&As. Under ordinary circumstances, we were scheduled to formulate and announce a new Medium-Term Management Plan beginning in the fiscal year ending March 31, 2022, but we postponed it for one year and decided to announce a new plan starting in the fiscal year ending March 31, 2023 due to uncertain prospects of the world economy and of our own business environment stemming from the global COVID-19 pandemic.

2. Initiatives to improve corporate value by enhancing corporate governance

The Company's Board of Directors has formulated corporate governance principles that will guide our corporate governance. The Company believes it the essence of corporate governance to ensure transparency and objectivity in decision-making, based on the positions of shareholders, customers, employees, regional communities, etc., from the perspective of seeking the Group's sustained growth and long-term improvement in corporate value, and to make effective use of management resources we have and boost management vitality through swift and resolute decision-making. We are striving to improve corporate governance along the lines of fundamental thinking as follows.

- (1) Respect shareholders' rights and ensure equality.
- (2) Consider the benefits of shareholders and other stakeholders, and work in partnership with them in an appropriate manner.
- (3) Disclose corporate information in a timely and appropriate manner to ensure transparency.
- (4) Improve the effectiveness of the Board of Directors' function of supervising business execution by separating supervisory and executive functions.

- (5) Conduct constructive dialogue with shareholders to contribute to the Group's sustained growth and medium- to long-term improvement in corporate value.

As for the internal control system, the Company is striving to enhance the entire Group's spirit of legal compliance and corporate ethics based on the "Code of Conduct of the Nippon Sanso Holdings Corporation Group." In this connection, we have appointed a Chief Compliance Officer (CCO) and a Regional Chief Compliance Officer (RCCO) in Japan and each of seven overseas regions. Under the CCO's supervision and control, the RCCOs push ahead with compliance promotion activities in accordance with each region's business risk, thus endeavoring to ensure the Group's legal compliance. In a move timed with the transfer to a holding company, we have set up the Global Risk Management Committee for the purpose of strengthening the whole Group's risk management, thereby receiving a report on the status of risk management from the persons in charge of each business segment and confirming the directionality of establishing a risk management framework as a holding company.

Concerning technological risks associated with security, the environment, product quality/safety, and intellectual property, we have confirmed the status of initiatives by each business segment in the course of discussions by the Global Strategy Review Committee, which decided on a policy to be taken as a holding company. We are putting matters decided by the committee into practice by appointing an official in charge at each business company while setting up the Technological Risk Communication Committee as a liaison organization.

3. Initiatives to prevent inappropriate parties from controlling Company's decision-making on finance & business in light of its basic policy

Against any party trying to make massive purchases of shares in the Company, we will take appropriate measures, to the extent permitted by relevant laws such as the Companies Act and the Financial Instruments & Exchange Act, including the pursuit of information necessary and sufficient for shareholders to judge the advisability of such a move, coupled with the disclosure of opinions of the Company's Board of Directors, and the securing of time for shareholders to examine such an issue.

4. Board of Directors' judgment of our specific initiatives & its reasoning

The Company's Board of Directors believes that the initiatives described in the above II. 1. 2. and 3. items are in accordance with the basic policy described in item I., matching the corporate value of the Group, including the Company, and eventually common benefits of shareholders, and that these initiatives are not intended to maintain the positions of the Company's officers.

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