

Evaluation of the Board of Directors' Effectiveness

May 11, 2023

Nippon Sanso Holdings Corporation

Nippon Sanso Holdings Corporation's Principles of Corporate Governance approved at the Board of Directors meeting on October 15, 2015, provides that the board will carry out an annual analysis and evaluation of the overall effectiveness of the board, based on each director's self-evaluation, and will make a summary of the results public in a timely and appropriate manner. The Board implemented the first analysis and evaluation of its effectiveness in the fiscal year ended March 2016, and has since continued efforts to improve its effectiveness. The following is a summary of the results of the analysis and evaluation of the effectiveness of the Board of Directors during the fiscal year ended March 2023 (hereinafter, "the term").

1. Evaluation process

- (1) Evaluated officers: Board Directors (9 persons)
- (2) Evaluation method: Each director was asked to fill out a questionnaire in which evaluation items were listed and submit it to the Secretariat of the Board of Directors after entering his/her evaluations. The Secretariat compiled and anonymized the evaluations of the directors in a report and distributed the report to all directors. The Board met to discuss the evaluations and decided on matters to be improved during the term.
- (3) Evaluation items (overview):
 - (i) What the Board was or was not able to discuss effectively regarding the following points identified as the challenges of the term based on the results of the effectiveness evaluation conducted in the previous term (fiscal year ended March 2022)
 - (a) The company's role as a holding company should be discussed continuously.
 - (b) The Board should continue discussions as to how the company can contribute to customers and society through its businesses, including hydrogen business, regarding the realization of carbon neutrality.
 - (ii) Areas where the Board was or was not able to effectively function during the term, regarding its four responsibilities* laid out in the Principles of Corporate Governance
 - (iii) What the Board should discuss and monitor on a priority basis in the current term (fiscal year ending March 2024)
 - (iv) Activities of the Advisory Committee on Appointments and Remuneration
 - (v) Composition of the Board of Directors

- (vi) Dialogue with shareholders and investors
- (vii) Operation of the Board meetings, support for outside directors, and training for directors
 - * Four responsibilities of the Board: (1) Supervise the overall business and its management, (2) Establish and maintain a system of internal control, (3) Choose, appoint, and dismiss the CEO and other management personnel, evaluate them, and decide their level of remuneration, (4) Decide business strategy and take on important executive decisions

(4) Schedule

- (i) The Secretariat briefs the directors on the method, items, and schedule of Board effectiveness evaluation of the term (January 20, 2023)
- (ii) Directors submit their evaluation results to the Secretariat (Deadline: February 17, 2023)
- (iii) The Secretariat distributes the report of evaluation results to the directors (March 31, 2023)
- (iv) The Board discusses the evaluations (April 26, 2023)
- (v) Based on the above discussions, the Board decides an annual schedule, including details of what is to be discussed on a priority basis by the current-term Board (May 11, 2023)

2. Evaluation results

- (1) Below are the evaluation results regarding the points that had been identified as the term's challenges.

- (i) The company's role as a holding company should be discussed continuously.

Some members highly evaluated the Board's role as a holding company, whereas other members were not so sure. Positive opinions included: "The CEO of our operations in Japan, US, and Europe are appointed as Board members and the CEO of Asia and Oceania is appointed as an executive officer. The participation of these officers in Board meeting discussions enables the Board to deepen its understanding of the specific situations of overseas operations and clearly communicate its decisions as the holding company, thereby ensuring governance over the whole group" and "The main roles of a holding company are to share best practices among different regions and to drive the creation of global policies, programs, initiatives, and actions. The Carbon Neutral Programs, Global Insurance Project, and specialized meetings on cyber security, risk management, and pricing are examples of how we are fulfilling those roles." On the other hand, opinions calling for further discussions were also heard: "We have not necessarily been able to hold effective discussions on our role as a holding company and

need to continue discussions,” “global operation as a holding company needs to be organized and discussed in a more systematic manner.”

- (ii) The Board should continue discussions as to how the company can contribute to customers and society through its businesses, including hydrogen business, regarding the realization of carbon neutrality.

Regarding our contribution to decarbonization through our businesses, we have established the Carbon Neutral Working Group as a collaboration across Group Companies to provide customers with products and services that contribute to the environment. During the term, the Board reviewed and approved a long-term agreement to supply hydrogen to Vertex Energy in the US. The hydrogen will be produced from renewable feedstock produced by Vertex as a by-product. Based on the perspective that while there are wide ranging opportunities to contribute to carbon neutrality through our business, the resources required to do so will be large, the following opinions were raised: “Since it is still unclear what will become the mainstream approach to social implementation of decarbonization, it is important that we constantly keep an eye on various trials taking place across the globe and keep track of global trends to inform our discussions”; “We need to appropriately select areas where we can provide higher added-value than our competitors.”

- (2) Areas where the Board effectively functioned during the term

The Board considered itself as having fulfilled the roles it was expected to fulfill during the term. In addition, some members highly evaluated the Board’s activities during the term on the following points.

- (i) Until a while ago, all nine members of the Board used to be composed of Japanese male members, of which three were outside directors, but now, there are five outside Board directors, two non-Japanese members and two female members. This is a result of strong determination to make progress in terms of diversity.
- (ii) The newly appointed outside Board directors brought various expertise in fields such as technology, accounting, and law to the Board. As a result, insightful questions were raised on potential project risks, which led project proposers to carefully conduct financial analysis and risk analyses before presenting to the Board meeting.
- (iii) The Board was able to engage in meaningful discussions regarding HyCO projects and other efforts to enter new fields of business in new geographical regions.
- (iv) Information on investor relations activities, communication with investors and analysts, and feedback from such activities was appropriately shared in Board meetings. The Board is effectively functioning in terms of dialogue with shareholders and investors. In addition to the above points, the Board decided to include, from non-financial KPIs

specified in the Medium-term Management Plan, improvement in lost-time injury rate compared to the previous year and compliance training completion rates of the previous year as factors used in the calculation of remuneration for Board directors starting from July 2022.

- (3) Points that needed improvement for the Board to more effectively function (excluding those already mentioned in 2. (1) above)

Non-Japanese Board members had to participate online in most of the Board meetings held during the term because of travel restrictions due to the COVID-19 pandemic. During this period, Board meetings were held in the time frame from 9:00 am to 12:00 noon in consideration of time-zone differences, but because of this time limitation, some noted that there was not enough time for sufficient discussion.

It was also pointed out that the Board could make use of an opportunity to exchange views and propose ideas on business problems in an informal setting, as a means to deepen the understanding of outside directors on the business and promote communication between outside and inside directors. With the increase in the number of outside directors to five, a meeting for outside directors to exchange views has been held on a monthly basis since this April.

- (4) Future challenges

With regard to the following points that had been identified as the term's challenges, the Board will continue to discuss these issues into the current term, as there were opinions that discussion was insufficient, and the Board needs to continue discussions.

- (i) The company's role as a holding company should be discussed continuously.
- (ii) The Board should continue discussions as to how the company can contribute to customers and society through its businesses, including hydrogen business, regarding the realization of carbon neutrality.

We will also consider holding opportunities for inside and outside directors including non-Japanese members to exchange information and views, since travel restrictions to Japan have been lifted.

Based on the results of the latest evaluation, the Board will continue striving to realize efficient and effective corporate governance and, through such efforts, to achieve our Group's sustained growth and improvement in corporate value.

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