

[Provisional Translation Only]

This English translation of the original Japanese document is provided solely for information purposes.

Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.

## Corporate Governance Report

Last Update: 19 August 2020

### **Nippon Sheet Glass Company, Limited**

Shigeki Mori

Representative Executive Officer, President and CEO

Contact: Legal and Company Secretarial

(81)3-5443-9522

Securities Code: 5202

<http://www.nsg.co.jp>

The corporate governance of Nippon Sheet Glass Company, Limited (the "Company") is described below.

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

### **1. Basic Views**

Nippon Sheet Glass Group (the "NSG Group" and the "Group") has established the "NSG Group Corporate Governance Guidelines" below as constituting our basic views on the matter of corporate governance.

The Group considers achievement of an advanced level of corporate governance a key management objective and will implement the following.

#### **(1) Organizational structure**

- a) The Group's ultimate parent company, Nippon Sheet Glass Company, Limited will adopt a Company with Three-Committee structure and the Company hence will establish and maintain the Board of Directors (the "Board"), the Nomination Committee, the Audit Committee, the Compensation Committee (individually referred to as the "Committee") and office of Executive Officers.
- b) The Board will authorize the Executive Officers to make decisions on the execution of

businesses for the Company within the scope as permitted by law, thereby facilitating separation between business execution and oversight, enhancing the transparency of the management processes and strengthening the Board supervisory function over the executive management.

- c) The Company will establish and maintain an internal control system operating on a Group-wide basis including in relation to financial reporting (J-SOX).

## (2) Stakeholders Communication

- a) The Group aims to be judged by as best in class by our many stakeholder groups in a variety of settings across the whole group (including shareholders, customers, suppliers and local communities) from their own perspectives and also will develop, maintain and enhance good relationship with any of such groups.
- b) In relation to the matter of disclosure of corporate information whether or not it is to be made according to legal requirements, the Group always aims to act in a timely and appropriate manner both in terms of the substance and form, with a view to maintaining and invariably enhancing transparency of management of the Group.

## (3) Code of Conduct

The Group will, in order to materialize those values, create the NSG Group Code of Ethics which all entities and employees etc of the Group must comply with and will be regularly reviewed in light of the status of implementation/embedding within the Group and the contents.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

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

### 【Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness】

We have been working on global projects focused on inclusions & diversity since 2017 and are working on promoting diversity at our corporate body including the Board of Directors. . Regarding directors, two out of nine are foreign directors in terms of internationality, and all of them are male at the moment in terms of gender, but the Nomination Committee recognizes the appointment of female directors as an important management issue and continues to be qualified. We are working on the selection of possible female candidates. Of the 17 executive officers (including 3 persons who also serve as directors), which is also an organization under the corporate law, 9 persons are foreign executive officers and 2 persons

are female executive officers. The Group will continue to strongly promote the diversification of directors and executive officers.

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

**【Principle 1.4 Cross-Shareholdings】**

The Company and its material subsidiaries do not own politically held listed shares as a matter of principle except where such shareholding is or becomes necessary for the purpose of enhancing our sustainable enterprise value and serving the important business purposes such as strategic business alliance, the intent of which is adopted for as “Policy on nil ownership of politically held listed shares” disclosed in our website.

[http://www.nsg.com/~media/NSG/Site Content/sustainability/Downloads attached to pages in sustainability section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site Content/sustainability/Downloads attached to pages in sustainability section/CorporateGovernanceGuideline2020_08_E.pdf)

**【Principle 1.7 Related Party Transactions】**

The Group has established strict procedure concerning the Related Party Transactions in order not to harm the common interest of the Company’s shareholders according to the relevant laws and regulations such as Companies Act and its internal policies.

Visit our website for details.

[http://www.nsg.com/~media/NSG/Site Content/sustainability/Downloads attached to pages in sustainability section/Principle\\_1\\_7\\_1812\\_E.pdf](http://www.nsg.com/~media/NSG/Site Content/sustainability/Downloads attached to pages in sustainability section/Principle_1_7_1812_E.pdf)

**【Principle 2.6 Roles of Corporate Pension Funds as Asset Owners】**

According to the revision of asset management guidelines for defined benefit plans of Japan, we have revised the pension management policy in March 2018 and newly organized the asset management committee . We also have placed the staff in charge of the matter in Treasury and HR and have been conducting pension asset management while appropriately educating those in charge of asset management and operation in order for them to acquire necessary expertise in the area. In relation to the stewardship activities we use the opportunities of quarterly reports made by each fund manager by monitoring their activities in such respects. No conflict of interest will arise in regard to exercise of the voting rights as such exercise vests in the sole discretion of the fund managers insofar as the managed assets are concerned.

We continue to seek, with the aid of external support as well as expertise accumulated internally within the Group, enhancing the expert quality of the asset managing process and thus strengthening the function of the pension scheme as asset owners.

【Principle 3.1 Full Disclosure】

(i) Business principles, business strategies and business plans

The Group has formulated the management principles "Our Vision" Long-term Strategic Visions respectively and made them publicly available in our website and various publications etc. The Group has decided to postpone the announcement of a new medium-term management plan, which was planned to start in FY2021, considering the current uncertainties of our business environment due to COVID-19. The new Medium-Term Plan will be announced when it becomes possible for us to foresee the impacts of COVID-19 on our business.

Management Principles "Our Vision"

Mission

Changing our surroundings, improving our world

Aspiration

Through innovation, becoming the most trusted partner in all industries we work in

Core Values

- ◆ Respect others and unleash their potential.
- ◆ Exemplify trust and integrity.
- ◆ Ensure efforts to serve society.
- ◆ Take the initiative.
- ◆ Embrace challenges and learn from failure.
- ◆ Follow through to get results.

<http://www.nsg.com/en/about-nsg/our-vision>

The NSG Group's Long-term Strategic Visions :

<http://www.nsg.com/en/investors/sustainable-investment/management-strategy>

(ii) Basic views and guidelines on corporate governance (NSG Group Corporate Governance Guidelines)

The Group has crystallized its basic views and guidelines on corporate governance in the form of NSG Group Corporate Governance Guidelines and uploaded it in our website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

(iii) Policies and procedures in determining the compensation for the senior management

and Directors

The Compensation Committee, chaired by Independent External Director and composed of six (6) Directors including the Chairperson, five (5) of whom are Independent External Directors, determines the policy of, and individual contents of, compensation payable to Executive Officers and Directors.

Please see below "Compensation for Directors and Executive Officers (Shikkoyaku), Disclosure of Policy on Determining Compensation Amounts and Calculation Methods" in "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management".

(Principles of Compensation for Directors and Executive officers)

[https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle\\_3\\_1\\_3\\_2008\\_E.pdf](https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle_3_1_3_2008_E.pdf)

(iv) (v) Policies and procedures in the appointment and the dismissal of the senior management and the nomination of Director candidates

The Company will decide the candidate for director at the Nomination Committee, chaired by Independent External Director and composed of six (6) Directors including the Chairperson, five (5) of whom are Independent External Directors and submit the details to the ordinary general meeting of shareholders as a proposal. In addition, the Board of Directors will, on the basis of recommendation rendered by the Nomination Committee in advance, appoint or dismiss senior executive managers including Executive Officers. These decisions will be carried in accordance with "General Criteria to Select Candidates for Directors" or "Policy and Procedure on Appointment and Dismissal of Executive Management", which details are accessible in our website.

[https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle\\_3\\_1\\_4\\_2008\\_E.pdf](https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle_3_1_4_2008_E.pdf)

**【Supplementary Principles 4.1.1 A brief summary of the scope of authority delegated to the management】**

It is the purview of the Board that makes decisions on the defined material matters including the adoption of a fundamental management policy for the Group such as business and financial strategy and medium to long-term business plan and election of Executive Officers as well as those actions otherwise required to be determined by laws or the Articles of Incorporation of the Company. The Board authorizes the Executive

Officer(s) to decide on all other matters as matter of principle in order to enable nimble and flexible decision-making by the executive management as well as enhance effectiveness of supervision by the Board.

An overview of the scope of such delegation is described on Article 10.1(2) of the NSG Group Corporate Governance Guidelines.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

#### **【Supplementary Principles 4.1.3 Roles and Responsibilities of the Board (1)】**

The Nomination Committee has clarified the qualifications as top managing officer and required personality or character as a part of the Chief Executive Officer's succession plan. Further, the Company has also established and has been operating training programs or leadership development plans for management development needs. In addition to such plan for CEO, the Company has also created and maintained AND regularly reviewed and thus ensured validity of the succession plans for certain specified senior managers of the Group. In case the incumbent CEO is appointed as a member of Nomination Committee, he/she will not be involved in any decision or discussion as to his/ her own succession plan, except only where he/she expresses his/her opinion in response to specific request if any from the Nomination Committee asking for the same. As relevant, the Terms of Reference of Nomination Committee is uploaded in our website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

#### **【Supplementary Principle 4.2.1 Roles and Responsibilities of the Board (2)】**

The Compensation Committee has designed and been operating the executive remuneration system and determines the remuneration amounts based on "Principles of Compensation for Directors, and Executive Officers". This is also referred to in Article 16 of the CG Guidelines.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

#### **【Supplementary Principle 4.3.2 Roles and Responsibilities of the Board (3)】**

The Nomination Committee, clarifies, pursuant to the Policy and Procedure on Appointment and Dismissal of Executive Management, the necessary qualifications for CEO and its procedure for appointment on the basis of which the Nomination Committee makes recommendation on CEO candidate for the Board of Directors and then Board of Directors

decides such appointment with such recommendation. In case the incumbent CEO is appointed as a member of Nomination Committee, he/she will not be involved in any decision or discussion as to such recommendation on appointment of CEO, except only where he/she expresses his/her opinion in response to specific request if any from the Nomination Committee asking for the same.

As relevant, both of the Terms of Reference of Nomination Committee and the Policy and Procedure on Appointment and Dismissal of Executive Management are uploaded it in our website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

#### **【Supplementary Principle 4.3.3 Roles and Responsibilities of the Board (3)】**

In case any early dismissal of CEO is contemplated (including the case where unexpected failure to renew the term is contemplated for the purpose of this subject-matter) the Nomination Committee first conducts deliberation of the matter and then renders recommendation on the outcome of such deliberation for the Board of Directors. The Board of Directors then makes its ultimate decision for the matter with such recommendation. In case the incumbent CEO is appointed as a member of Nomination Committee, he/she will not be involved in any decision or discussion as to such recommendation relation to his/her dismissal, except only where he or she expresses his/her opinion in response to specific request if any from the Nomination Committee asking for the same.

As relevant, both of the Terms of Reference of Nomination Committee and the Policy and Procedure on Appointment and Dismissal of Executive Management are uploaded it in our website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

#### **【Principle 4.8 Effective Use of Independent Directors】**

The Company currently has five Independent External Directors, so the majority of directors are independent external directors. Further, the Chairman of the Board as well as chairpersons of all three Committee are all appointed from among the Independent External Directors.

Please see Articles 9.2 and 13 of the NSG Group Corporate Governance Guidelines for detail on the significance and role of those Independent External Directors.

[http://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle\\_4\\_8\\_1907\\_E.pdf](http://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/Principle_4_8_1907_E.pdf)

**【Principle 4.9 Independence Criteria and Qualification of Independent Directors】**

The Company, when considering qualification for independence with regard to external directors, has established and applies its own independence criteria duly taking account of their relationships with the Group, the Executive Officers as well as major shareholders, further to the requirements had by TSE in relation to such independence standards.

Its detail is as described in, “Matters relating to Independent Directors” in “II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management” and disclosed in the website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

**【Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness】**

At least one member of the Audit Committee, which consists of five Independent External Directors, will be elected from among those who have specializes knowledge on finance and accounting to a respectable degree and the purpose of that is prescribed in Article 9 of the CG Guidelines. Currently, Mr. Toshiyuki Yamasaki and Mr. Kunihiro Minakawa, Director, are elected as such an auditing committee.

In addition, the Group analyze and evaluate the effectiveness of the Board of Directors on a fiscal year basis, disclose the results, action plans, etc. The purpose of this is also prescribed in Article 22 of the CG Guidelines. The CG guidelines are also disclosed on our website

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

**【 Supplementary Principle 4.11.1 Views on the appropriate balance of knowledge, experiences and competence of the Board of Directors as a whole, its diversity and appropriate size, and the policy and the procedure for nominating Director candidates】**

The Group values the principle and wisdom of creating and maintaining diversity in the composition of the Board given specifically the development of and commitment to the businesses conducted globally. The Group aims to ensure that the Board will be composed of member that have a diverse background including in terms of professional skills, expertise or experience, and at the same time its size will be maintained so that the Board can discharge its function effectively and efficiently.



Its detail is described on Article 9 of the NSG Group Corporate Governance Guidelines.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads attached to pages in sustainability section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/CorporateGovernanceGuideline2020_08_E.pdf)

**【Supplementary principle 4.11.2 Concurrent positions held by Directors】**

Concurrent positions held by Directors are disclosed in our Website and described in the notice of convening the ordinary General Meeting of Shareholders and Financial Results Reports.

[https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/PrincipleofReplenishment\\_4\\_11\\_2\\_2008\\_E.pdf](https://www.nsg.com/~media/NSG/Site%20Content/sustainability/Downloads%20attached%20to%20pages%20in%20sustainability%20section/PrincipleofReplenishment_4_11_2_2008_E.pdf)

The notice of convening the ordinary General Meeting of Shareholders:

<http://www.nsg.com/en/investors/ir-library/shareholders-meeting>

Financial Results Reports (YUHO):

<http://www.nsg.com/en/investors/ir-library/financial-reports>

**【Supplementary principle 4.11.3 Analysis and evaluation of the Effectiveness of the Board of Directors as a whole, and an outline of the results】**

The NSG Group has made it an internal practice to implement an annual effectiveness review of the Board (the “Board”) and three Committees (individually the “Committee” and collectively the “Committees”) to continuously enhance the level of function and effectiveness of its Board of Directors and three Committees. The purpose of this is also prescribed in Article 22 of the CG Guidelines. The CG Guidelines are also disclosed on our website.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads attached to pages in sustainability section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads attached to pages in sustainability section/CorporateGovernanceGuideline2020_08_E.pdf)

In this process the Board confirms the progress of the ongoing action plan as it relates to the issues previously identified, creates an additional action plan addressing any newly found issues and then combines and integrates the issues into one integrated action plan for regular monitoring to continuously aim for enhancement of the effectiveness of the Board as a whole.

The overall summary of the results from the review made in relation to FY ended March 2019 is as follows:

[Our Effectiveness Review Process]

The Board confirmed the progress of the action plans effective from prior years for improvement realized during FY ended March 2019. Then in relation to the FY ended March 2019, the effectiveness review of the Board and Committees was conducted with reference to feedback and views taken from each Director in terms of composition, status of meeting management, agenda setting, manner and substance of deliberation and direction in the role of each such organization. The entire process for such review was led and supervised by the Independent External Directors under the leadership of the Chairman of the Board of Directors.

[Evaluation Summary]

The effectiveness review endorsed that the Board and the Committees were all properly and soundly operated to ensure their effectiveness. That said, the review also referred to the following points to be addressed:

(i) The Company should conduct more in-depth analysis of identified key issues of the Group and thus address the matter of ensuring the corporate sustainability and enhancing its enterprise value on a medium to long term basis. This is even more important because the Group is soon to launch the discussion on a new MTP incorporating the review results of the Company regarding the MTP Phase 2 expiring at the end of the FY ended March 2020.

(ii) The Company should apply more thorough management of the PDCA cycle and have consistent and steady follow-up on the important subjects deliberated by the Board including on the part of the executive team.

(iii) The Company should pursue further diversification on the composition of directors including in terms of gender and international experiences.

We will address these matters sincerely.

<http://www.nsg.com/~media/NSG/Site Content/sustainability/Downloads attached to pages in sustainability section/PrincipleofReplenishment 4 11 3 2 1910 E.pdf>

However, the effectiveness review has been suspended concerning the discussion on the New Mid-term Plan to be commenced in FY2021 due to the repercussions of the worldwide pandemic of COVID-19. The Board plans to have thorough discussion on the next MTP when we can figure out a more clear-cut business outlook.

【Supplementary principle 4.14.2 The training policy for Directors and etc.】

The Company, upon their election and afterwards on as-needed basis, provides each Director of the Company with such information and explanation about related laws like Companies Act, corporate governance and material management issues, by having reference to familiarity and experience of each.

In addition to these, especially for external directors, the Company provides them with explanation about the basic information (business, history, financial, organization, and main regulations, etc.) on the Group and its business, and opportunities to visit the site, do interviews with business executives occasionally.

Its detail is described on Article 12.5 of the NSG Group Corporate Governance Guidelines [http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

**【Principle 5.1 The policy for constructive dialogue with shareholders】**

The Group considers open, constructive, and effective dialogue with shareholders is quite crucial. The Group aims to engage effectively with shareholders and investors by making the most of a number of avenues and opportunities available to us including through regular communications, investor relation activities and the General Meeting of Shareholders, whilst simultaneously ensuring adherence to any applicable laws. Its detail is described on Article 2 of the NSG Group Corporate Governance Guidelines.

[http://www.nsg.com/~media/NSG/Site\\_Content/sustainability/Downloads\\_attached\\_to\\_pages\\_in\\_sustainability\\_section/CorporateGovernanceGuideline2020\\_08\\_E.pdf](http://www.nsg.com/~media/NSG/Site_Content/sustainability/Downloads_attached_to_pages_in_sustainability_section/CorporateGovernanceGuideline2020_08_E.pdf)

Also, IR activities are as described “2 Investor Relations activities” in “III. Implementation of Measures for Shareholders and Other Stakeholders”.

**【Principle 5.2 Establishing and Disclosing Business Strategies and Business Plan】**

In order to increase the shareholder value over the medium to long term, the Group will take into consideration the costs of capital fully and produce the basic policies for earnings plan and capital policy whilst based on the situations the Group is then facing we intend to present the targets for earnings power and capital efficiency etc. adequately linked to its then important management agenda, along with making of appropriate and logical explanation about business portfolio review as necessary or useful or allocation of management recourses etc. for delivery of those targets.

The objectives of MTP Phase 2 (over a three-year period from FY2018 to FY2020) were to achieve financial sustainability and start the transformation into the VA Glass Company. The two financial targets were net financial debt/EBITDA of lower than 3x and operating return on sales (ROS) of greater than 8 percent. Although the Group steadily improved the profits up to FY2019 as mentioned above, it has been severely impacted by the sharp drop of automotive production in Europe and the deterioration of supply and demand balance in architectural glass markets since the beginning of FY2020. As a result, the Group failed

to achieve the financial targets of MTP Phase 2 in FY2020, the final year of MTP Phase2. The Group has decided to postpone the announcement of a new medium-term management plan, which was planned to start in FY2021, considering the current uncertainties of our business environment due to COVID-19. The new Medium-Term Plan will be announced when it becomes possible for us to foresee the short- to medium-term impacts of COVID-19 on our business.

However, the Group believes its overall long-term direction remains valid, but will be re-confirmed once the longer-term impact of the pandemic is better understood. The broad direction is shown below.

Innovation Company, Changing our Surroundings with Advanced Ideas

- Establish stable financial base
- Core business as basis for a certain level of profitability
- New business development led by BIC to drive the Group' s growth
- Portfolio transformation based on profitability, capital efficiency and growth
- Promotion of lean and agile organization and culture

## 2. Capital Structure<sup>[updated]</sup>

Percentage of Foreign Shareholders <sup>[updated]</sup>	10% or greater but less than 20%
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### [Status of Major Shareholders] <sup>[updated]</sup>

Name / Company Name	Number of Shares Owned (shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	3,889,200	4.29
BNY GCM CLIENT ACCOUNT JPRD AC ISG	3,433,383	3.79
Japan Trustee Services Bank, Ltd. (trust account)	1,961,000	2.16
Japan Trustee Services Bank, Ltd. (trust account 5)	1,949,300	2.15
JUNIPER	1,760,000	1.94
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS – UNITED KINGDOM	1,451,000	1.60
NSG Client Stock Ownership	1,242,678	1.37
Japan Trustee Services Bank, Ltd. (trust account 1)	995,200	1.10
Japan Trustee Services Bank, Ltd. (trust account 9)	975,700	1.08
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	959,807	1.06

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

### Supplementary Explanation<sup>[updated]</sup>

- ① The status of major shareholders is as of June 4, 2020
- ② In the Large Shareholding Report (Change Report) that was used for public inspection on April 14, 2020, Although it stated that the one company of Sumitomo Mitsui Trust Asset Management Co., Ltd. and its joint holder, as of April 8, 2020 owned a total of 9,136,100

shares, we are not included in the above status of major shareholders because we can not confirm the number of real owned shares as of June 4, 2020.

- ③ In the Large Shareholding Report (Change Report) that was used for public inspection on May 21, 2020, Although it stated that the three companies of Nomura Securities Co., Ltd. and its joint holders, as of May 15, 2020 owned a total of 5,181,463 shares, we are not included in the above status of major shareholders because we can not confirm the number of real owned shares as of June 4, 2020.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-End	March
Type of Business	Glass and Ceramics Products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	¥100 billion or greater but less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	100 or greater but fewer than 300

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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

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## **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 Three Committees
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#### **[Directors] [updated]**

Maximum Number of Directors Stipulated in Articles of Incorporation	No limit is defined.
Term of Office Stipulated in Articles of Incorporation	One year
Chairperson of the Board	Outside Director
Number of Directors	9

**[Outside Directors] [updated]**

Number of Outside Directors	6
Number of Independent Directors	5

Outside Directors' Relationship with the Company (1) [updated]

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Toshikuni Yamazaki	External											
Yasuyuki Kimoto	External								△			
Jörg Raupach Sumiya	Scholar											
Hiroshi Ishino	External								△	△		
Kunihito Minakawa	External											
Yoshihiro Kuroi	External											

\* 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/*kansayaku*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder 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/*kansayaku* 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) [updated]

Name	Membership of Committees	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Toshikuni Yamazaki	Nomination / Compensation / Audit	○		<p>Mr. Toshikuni Yamazaki has the career and experiences of serving as Representative Director, Executive Vice President (in charge of finance, investor relations and accounting) and full-time corporate auditor of the major international manufacturing company, and a member of the Investment Advisory Committee of the Government Pension Investment Fund, Japan (GPIF).</p> <p>We expect that he continues to contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company through overseeing performance of Executive Officers from an independent and objective standpoint as well as based upon his abundant experiences and broad perspectives with regard to</p>

				<p>business management and finance and accounting.</p> <p>Mr. Yamazaki has also been designated as Independent Director since he meets the independence standards of External Directors as defined by TSE and the Company's own independence standards as established in its "Independent Directors", hence no threatening to give or cause conflict of interest between his capacity as external director and general shareholders of the Company.</p>
Yasuyuki Kimoto	Nomination / Compensation / Audit	○	<p>Mr. Yasuyuki Kimoto served as Chairman of the Board of Directors, Olympus Corporation from April 2012 to June 2015. While Olympus and NSG have business relationships, such transactions account only for less than one percent of the total consolidated sales of each company.</p>	<p>Mr. Yasuyuki Kimoto has the career and experiences of serving as chairman of the Board of the major international manufacturing company, a majority of whose Board consisted of Independent External Directors, as well as leading the Board, involving several non-Japanese Independent External Directors, of the UK local entity of the major Japanese financial institution. We expect that he continues to contribute to the supervisory function of the Board and furthermore to enhancement of the</p>

				<p>enterprise value of the Company through overseeing performance of Executive Officers from an independent and objective standpoint as well as based upon his abundant international experiences and broad perspectives with regard to business management.</p> <p>Mr. Kimoto has also been designated as Independent Director since he meets the independence standards of External Directors as defined by TSE and the Company's own independence standards as established in its "Independent Directors", hence no threatening to give or cause material conflict of interest between his capacity as external director and general shareholders of the Company.</p>
Jörg Raupach Sumiya	Nomination/ Compensation / Audit	○		<p>Dr. Jörg Raupach Sumiya has international experience in the field of both business and academia, and is currently a professor at the collage of business administration, Ritsumeikan University, one of the Japan's famous private university.</p>

				<p>We expect that he continues to contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company through overseeing performance of Executive Officers based upon his abundant experiences and broad perspectives with regard to an academic expert and business management.</p> <p>Dr. Jörg Raupach Sumiya has also been designated as Independent Director since he meets the independence standards of External Directors as defined by TSE and the Company's own independence standards as established in its "Independent Directors", hence no threatening to give or cause material conflict of interest between his capacity as external director and general shareholders of the Company.</p>
Hiroshi Ishino	Nomination / Compensation / Audit	○	Mr. Hiroshi Ishino is currently acting as a senior corporate advisor for Kansai Paint Co., Ltd., and although there is a	Mr. Hiroshi Ishino was in charge of overseas operations at a major trading company, and since then has been promoting the Group's global strategy

			<p>business transaction relationship between NSG and Kansai Paint, the transaction amount is less than one percent of the consolidated sales of both companies. In addition, Mr. Keiji Yoshikawa, a former director of NSG, was appointed as an external director of Kansai Paint Co., Ltd. in June 2018. It has been five years since he retired as a director of NSG and three years have passed since he retired as a senior corporate advisor. It has passed, and there are currently no positions in NSG, including honorary positions. Kansai Paint Co., Ltd. was appointed by Mr. Keiji Yoshikawa as an external director based on his background as a manager in the manufacturing industry and his</p>	<p>as president and CEO of a major international manufacturer. It is expected that he will contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company including in overseeing performance of Executive Officers from an independent and objective standpoint as well as based upon his abundant experiences and broad knowledge and perspectives with regard to business management.</p> <p>Mr. Ishino has also been designated as Independent Director since he meets the independence standards of External Directors as defined by TSE and the Company's own independence standards as established in its "Independent Directors", hence no threatening to give or cause material conflict of interest between his capacity as external director and general shareholders of the Company.</p>
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			<p>knowledge of corporate governance. He has been appointed as an external Director after evaluating his abundant experience and insight with regard to business management. These are independent judgments and do not affect the independence of Mr. Hiroshi Ishino, not the mutual appointment.</p>	
Kunihito Minakawa	Nomination / Compensation / Audit	○		<p>Mr. Kunihito Minakawa has been a Managing Executive Officer and an Audit &amp; Supervisory Board Member at a major international manufacturer, and has global experience, a wide range of insights and practical experience in finance and auditing. It is expected that he will contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company including in overseeing performance of Executive Officers from an independent and objective</p>

				<p>standpoint as well as based upon his abundant experiences and broad knowledge and perspectives with regard to business management and finance and accounting. Mr. Hiroshi Ishino was in charge of overseas operations at a major trading company, and since then has been promoting the Group's global strategy as president and CEO of a major international manufacturer. It is expected that he will contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company including in overseeing performance of Executive Officers from an independent and objective standpoint as well as based upon his abundant experiences and broad knowledge and perspectives with regard to business management.</p> <p>Mr. Minakawa has also been designated as Independent Director since he meets the independence standards of External Directors as defined</p>
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				by TSE and the Company's own independence standards as established in its "Independent Directors", hence no threatening to give or cause material conflict of interest between his capacity as external director and general shareholders of the Company.
Yoshihiro Kuroi			Mr. Yoshihiro Kuroi concurrently serves as Advisor of Japan Industrial Solutions Co., Ltd. ( "JIS" ) NSG has concluded an agreement on share subscription of Class A shares with JIS Fund II, of which JIS is an unlimited liability partner. 15,000 Class A shares have been allocated and issued to JIS Fund II.	Mr. Yoshihiro Kuroi has been a president of an overseas subsidiary at a major trading company, and has a wealth of practical experience in overseas business, IR departments, etc. as an executive officer at a major automobile manufacturer and major automobile parts manufacturer. It is expected that he will contribute to the supervisory function of the Board and furthermore to enhancement of the enterprise value of the Company including in overseeing performance of Executive Officers from an independent and objective standpoint as well as based upon his abundant experiences and broad knowledge and perspectives with regard to business management.



## [Committees]

### Committee's Composition and Attributes of Chairperson [updated]

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Nomination Committee	6	0	1	5	External Director
Compensation Committee	6	0	1	5	External Director
Audit Committee	5	0	0	5	External Director

## [Executive Officers (Shikkoyaku)]

Number of Executive Officers (Shikkoyaku)	17
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### Status of Additional Duties

Name	Representative Authority	Additional Duties as Director			Additional Duties as Employee
			Nomination Committee Member	Compensation Committee Member	
Shigeki Mori	Yes	Yes	○	○	No
Clemens Miller	Yes	Yes	×	×	No
Kenichi Morooka	Yes	Yes	×	×	No
Tony Fradgley	No	No	×	×	No
Koichi Hiyoshi	No	No	×	×	No
Satoshi Ishino	No	No	×	×	No
Reiko Kusunose	No	No	×	×	No
Hiroshi Nishikawa	No	No	×	×	No
Jochen Settelmayer	No	No	×	×	No
Phil Wilkinson	No	No	×	×	No
Tim Bolas	No	No	×	×	No
Mike Greenall	No	No	×	×	No
Shiro Kobayashi	No	No	×	×	No
John Mercer	No	No	×	×	No
Yutaka Nakashima	No	No	×	×	No
Iain Smith	No	No	×	×	No

Milena Stanisci	No	No	×	×	No
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## [Auditing Structure]

Appointment of Directors and/or Staff to Support the Audit Committee	Appointed
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Matters Related to the Independence of Such Directors and/or Staff from Executive Officers (Shikkoyaku)

The Audit Committee Office is set up to assist the Audit Committee and as many staff members as necessary are assigned to the Office. Assignment of such staffs is reported to the Audit Committee in advance for its members' consent. The head of the Audit Committee Office stays outside the executive management and follows only the Audit Committee's chain of command.

Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

The Audit Committee holds a meeting with the Accounting Auditor and the Group Internal Audit regularly and as necessary to receive reports on audits, exchange opinions and gather information.

## [Independent Directors]

Number of Independent Directors	5
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Matters relating to Independent Directors

In determining the independence of the independent outside directors, the Company has taken into consideration the independence criteria for outside directors established by the Tokyo Stock Exchange and has its own independency standards for external directors as follows, in consideration of the relationship with the Group, its officers, and major shareholders.

<Criteria of Independency for External Director in NSG>

External Directors of NSG falling into any of the following categories are considered to lack independency as an external director.

(1) As to the External Director him/herself, where:-

- a) He/she is, has become or once served as an executive Director, executive officer, corporate officer or employee of the NSG Group (hereinafter collectively referred to as "Executive/Employee");
- b) i) He/she has a business relationship with the Company and received from the Company the following sum during any single financial year for him/her/(it) of those past three years most recently ended or (in case where the one having such

business relationship is an organization such as legal entity, then he/she serves or served as Executive/Employee of the organization), or NSG Group is a Major Business Partner for him/her/it

- Aggregate payments equivalent to more than 1% of their consolidated sales during the subject year

; OR,

ii) he/she has a business relationship with the Company and paid the Company the following sum during the Company's any single financial year of those past three years most recently ended, or he/she is a Major Business partner of the NSG Group (or in case where the one having such business relationship is an organization such as legal entity, then he/she serves or served as Executive/Employee of the organization);

- Aggregate payments equivalent to more than 1% of the Company's consolidated sales during the subject year

Note: For the purpose of this criteria protocols, the expression "Major Business Partner(s)" means, as between the NSG Group and the group having business relationship with us, those persons which could be, in terms of magnitude of its business relationship, expected to exert the same degree of influence on the decision-making process of the other as would exist among parent-subsidiary relationship or affiliated group.

- c) He/she is an Certified Public Accountant retained as Accounting Auditor for the Company (or in case the accounting firm is retained as Accounting Auditor then he/she serves as partner or employee of the firm) or he/she has engaged in any audit activities of the NSG Group businesses at any time during the past three years;
- d) He/she is one of those consultants, accountants or lawyers who have received substantial amount of cash or other financial gains (equivalent to JPY 10 million or more per financial year of the Company) from the NSG Group (or in case where an organization such as consulting, accounting or law firm is the one having received such cash or gains, then he/she belongs to any such organization);
- e) He/she has material business relationship with or material interest in the NSG Group (or in case where an organization such as legal entity has such relationship or interest, he/she is an Executive/Employee of the organization) (For this purpose, the fact of receipt of the sum in the form of donation or loans from the NSG Group equivalent to JPY 10 million or more on an average per annum for the immediate past three financial years of the Company is deemed to constitute such material interest in the NSG Group);

- f) He/she holds cross-Directorships or has significant links with other Directors/Executive Officers of the Company through involvement in other companies/bodies;
- g) He/she is a major beneficial shareholder who is entitled to 10% or more of the total voting rights of the Company (or in case where the organization such as legal entity falls into such a shareholder, then he/she currently is or was employed as an Executive/Employee of the organization at any time during the past five years); or
- h) any individual who has fallen under d), e) or f) above during the Company's any single financial year of those past three financial years most recently ended.

(2) As to the close relative(s) of the External Director (his or her spouse, or relative (s) within the second degree of kinship or who lives in the same residence ), where:-

a) He/she is or was in the past five years an executive Director/officer or senior employee of the NSG Group (hereinafter collectively referred to as "Senior Manager");

b) i) He/she has a business relationship with the Company and received from the Company the following sum during any single financial year for him/her/(it) of those past three years most recently ended (in case where the organization such as legal entity has such business relationship, then he/she serves or served as a Senior Manager thereof), OR the NSG Group is a Major Business Partner for him/her/it

➤ Aggregate payments equivalent to more than 1% of their consolidated sales during the subject year

; OR

ii) He/she has a business relationship with the Company and paid the Company the following sum in any single financial year of the Company during its past three years most recently ended, or is a Major Business Partner of the NSG Group (in case where an organization such as legal entity has such business relationship, then he/she serves or served as a Senior Manager of the organization);

➤ Aggregate payments equivalent to more than 1% of the Company's consolidated sales during the subject year

c) He/she is a Certified Public Accountant retained as an Accounting Auditor (or in case the accounting firm is retained as Accounting Auditor then he/she is a partner or Senior Manager thereof) or has engaged in any audit activities of the NSG Group businesses at any time during the past three years;

d) He/she is one of those consultants, accountants or lawyers who have received

substantial amount of cash or other financial gains (equivalent to JPY 10 million or more per financial year of the Company) from the NSG Group (in case where an organization such as consulting, accounting or law firm is the one having received such cash or gains, then he/she serves as partner, associate or Senior Manager of the organization);

e) He/she has material business relationship with or is materially interested in the NSG Group (in case where an organization such as legal entity has such relationship or interest, then he/she is a Senior Manager of the organization) (For this purpose, the fact of receipt of the sum in the form of donation or loans from the NSG Group equivalent to JPY 10 million or more on an average per annum for the past three financial years of the Company most recently ended is deemed to constitute such material interest in the NSG Group.);

f) He/she is a major beneficial shareholder who is entitled to 10% or more of the total voting rights of the Company (in case where the organization such as legal entity falls into such a shareholder, then he/she currently serves as Senior Manager of the organization); or

g) He/she has fallen into either or both of d) and/or e) at any time during the past three financial years of the Company most recently ended.

The Company designates all external directors who meet the qualification as Independent Director as such.

## [Incentives]

Incentive Policies for Directors and/or Executive Officers (Shikkoyaku)	Implementation of a performance-linked incentive scheme and a stock option system and others
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### Supplementary Explanation

For details of performance-linked compensation, please refer to the "The system of annual Performance-linked compensation (bonus) plan" and the "Long-term incentive plan" in the "Disclosure of Policy on Determining Compensation Amounts and Calculation Methods" below. In addition, in May 2020, we introduced Restricted Shares compensation plan for executive officers who have been assigned to Japan.

Recipients of Stock Options	Executive Officers and others
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### Supplementary Explanation

Executive Officers and Corporate Officers, who are retained or employed pursuant to the terms of appointment in place in Japan.

[Compensation for Directors and Executive Officers (Shikkoyaku)]

Disclosure of Individual Directors' Compensation	Partial disclosed
Disclosure of Individual Executive Officers' (Shikkoyaku) Compensation	Partial disclosed

Supplementary Explanation

【Disclosure status】

The Company discloses the total amount of compensation paid to Non-Executive Directors (External Directors) and Executive Officers including additional amounts paid by subsidiaries of the Company separately and by each category of compensation. The Company further discloses the amount of compensation individually for those who receive JPY 100 million or more in total in the Annual Securities Report.

【Amount of compensation】

Amount of compensation is disclosed in the Notice of Convening Ordinary General Meeting of Shareholders and the Annual Securities Report as well as in the Company's website below.

Notice of Convening Ordinary General Meeting of Shareholders

Financial Results Reports (YUHO):

<http://www.nsg.com/en/investors/ir-library/financial-reports>

Policy on Determining Compensation Amounts and Calculation Methods

Established

Disclosure of Policy on Determining Compensation Amounts and Calculation Methods

(i) Organization & Responsibilities

1. Organization & Responsibilities for determining Compensation

The company has in place the statutory Compensation Committee (the "Committee") as adopting a "Company with Committees" structure. Its current membership consists of the five Independent External Directors of NSG Group and one Director who concurrently serves as Representative Executive Officer, President and CEO. The current chairman is Mr. Jorg Raupach Sumiya, an External Director.

No member of the Committee is allowed to be present when matters relating to their specific compensation are being discussed. The Committee is supported by a secretariat from the Human Resources function and may use information from specialist external advisers when necessary. In addition, such member(s) of the Legal and Company Secretarial department based on the terms of reference of Committee acts as in-house legal adviser for any legal aspects or matters.

The Committee has formal authority to determine:

- The policy on individual compensation and other perquisites payable to the Directors and Executive Officers of the Company

• Individual compensation and other perquisites payable to the Directors and Executive Officers of the Company.

The Committee may also give recommendation or advice to the Representative Executive Officer, President and CEO on the policies and details with respect to compensation for the Group's senior management other than Directors and Executive Officers, keeping a consistency with the policy of 3. below.

## 2. Activities of the Committee in Compensation related Decision-Making Process

During FY2020, the Committee met on four occasions, and the Committee resolved the individual amount of basic salary, the number of stock options to be allotted, the performance indicators and method for determining the payment amount of incentives (performance-linked compensation), and the actual payment amount based on the achievement against the previous year's indicators. Accordingly, it monitored the progress against the relevant indicators of the running incentives. Attendance rate was 100%, all members attended all Compensation Committee meetings.

## 3. Compensation Policy for Executive Officers

### <A> Basic Policy

NSG Group is a global business, having principal operations in around 30 countries and sales in over 100 countries. The objectives of the compensation policy are to ensure that packages of employment terms and conditions are market competitive and designed in such a way as to attract, retain and motivate Executive Officers of the highest calibre on a worldwide basis in an international business.

The policy aims to ensure that each individuals basic salary and incentives are aligned with the performance of the Group and the interests of shareholders, as well as reflecting the commitment and achievements of the individuals concerned. While some of the elements of the packages of the Executive Officers will vary depending on the market conditions in the countries in which they are directly employed, annual bonus and long-term incentive plans (constituting our performance-linked compensation) follow a global policy and are structured, designed and co-ordinated at Group level.

### <B> Reward Structure and Compensation Composition Ratio

#### (Reward Structure)

Compensation packages for the Executive Officers principally consist of basic salary, Management incentive Plan (annual bonus) and Long- term incentive plan.

The Group operates a global grading structure across the Group, and management grade is determined based on job evaluation by the Group common scale using the HAY management grade methodology, a globally recognised job evaluation methodology. Management grade determines the maximum quantum levels for participants in both the annual and long-term incentive structures.

Category of compensation		Summary of compensation system
Fixed salary	Basic salary	•Set a market competitive levels compared to local markets in which the executive is employed.

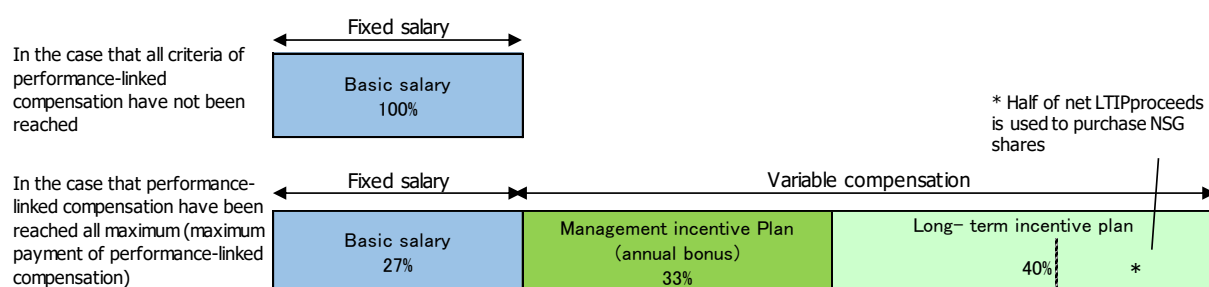
Performance-related compensation	Management Incentive Plan (annual bonus)	<ul style="list-style-type: none"> <li>• Assessed against the achievement of annual performance indicators which are mainly financial.</li> <li>• Aligned to NSG Group's Medium-Term Plan</li> <li>• Payment levels: Ranging between 0% and 125% against each individual's basic salary dependent upon the management grade</li> </ul>
	Long-term incentive plan	<ul style="list-style-type: none"> <li>• Assessed against the achievement of long-term performance indicators over a three-year period</li> <li>• Issued annually</li> <li>• Payment levels: Ranging between 0% and 150% against each individual's basic salary dependent upon the management grade</li> <li>• Require the purchase of NSG Shares by using part of the cash award from the plan</li> <li>• Shareholding targets set for Executives</li> <li>• Plans contain Malus (ability for the value of award to be reduced after it has been granted but before it has vested) and Clawback clauses (ability for the Group to require the participants to repay the value they received after the award has vested)</li> </ul>

Note: In addition to the above-mentioned compensation, restricted shares are issued annually to some Executive Officers under Japanese employment terms as a retirement saving plan. Restricted shares have been introduced from the FY2021 in place of stock compensation-type Stock Options which was abolished in the FY2020.

#### (Compensation ratio)

The ratio of basic salary and incentives is, rather than specifically and equally applied, set according to individuals' management grades.

#### <CEO's compensation ratio>



Note: For clarification, the above diagram includes only base salary plus annual and Long-term incentive plan compensation, no additional benefits are included. In addition, the impact of the share price movement element of the Long-term incentive plan is not taken into account.

#### <C> Basic salary



The salaries of Executives are reviewed annually. The policy is to broadly align salaries with market medians for a global business. In determining what are the appropriate market rates, account is taken of turnover, market capitalization and the complexity and breadth of internationalization. In reviewing salaries, account is also taken of the scope and responsibilities of the role, the performance of the individual, the progress the Company is making against its targets and plans and of salary increases planned for other managers.

#### <D> Management Incentive Plan (annual bonus)

Each Executive Officer participates in an annual performance-related incentive scheme. The Committee establishes the performance criteria and sets the appropriate bonus parameters. The incentive plans are based on challenging financial performance targets relating to the annual budget which is approved by the Board, and the Company ensures that such financial performance targets are clearly aligned to the overall Medium-Term strategy of the Group. The potential payment levels for Executive Officers range between 0 and 125% against each individual's basic salary according to the respective management grade.

In the financial year FY2021 due to the impact of COVID-19 on trading and markets the setting of realistic annual incentive plan targets will be extremely challenging. Like many other organisations NSG has reviewed their approach for FY21 only, due to the availability of data around which to set stretching targets. For FY21 only the Company will apply an exceptional approach to the annual incentive plan.

At the end of FY2021 a review will be done of a number of key milestones and deliverables and a discretionary decision taken in relation to a payment level. Deliverables will be focussed in three main areas, as a number one priority Health and Safety of employees, generation of and management of cash, transition and effectiveness of response to the pandemic and preparation of the business for the future.

This exceptional approach will be taken for one year only due to the unprecedented circumstances.

#### <E> Long-term incentive

Each Executive Officer may be invited to participate in a Long-Term Incentive Plan (LTIP). These plans are designed to reward the achievement of the Group's longer-term objectives over a three-year period whilst concurrently designed to align the interests of the Executive Officers with those of the shareholders by requiring them to use a part of the proceeds for purchase of NSG shares and thus owning the shares of the Company. An LTIP may be issued annually. Therefore, at any point in time there may be up to three overlapping plans in operation.

##### i) Performance measures and weight

Plan commencing in FY2018

Measure	Ratio
EPS	100%

Plans commencing in FY2019 and the FY2020

Measures	Ratio
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EPS	50%
ROS	50%

ii) Reasons for selected the measures

Measures	Reasons
EPS	The Company commenced the use of two indicators for plans issued from FY2019 onwards. Two performance measures ensure clear link with the Medium-Term Plan, incentivising executives to further strengthen earning power and enhance shareholder value.
ROS	

iii) Determination of LTIP Payment Level

- Payment is calculated by multiplying basic salary for the year the plan started by the total achievement rate calculated, each measure has equal weighting within the plan. Maximum quantum levels are determined by management grade, in the case of the LTIP the range is between 0 and 150% against each individual's basic salary.
- No payment is made if the entry point is not met on the scale.
- "Entry" is set in such a way to ensure that the business is meeting the minimum required performance level and the "Maximum" point on the scale has appropriate stretch. The scales are set and approved by the Committee.
- In order to align Executive Officers with shareholders, the award earned from these plans are factored up or down according to the share price movement during each three-year plan period, and LTIP payment level is adjusted based on the price movement of the monthly average share price in the month before the start of the plan and the monthly average share price of the last month of the plan.

iv) Nature of share-based compensation and Malus & Clawback

- The LTIPs require Executive Officers (including those residing in Japan) and other eligible participants to mandatorily invest 50% of any LTIP proceeds to purchase ordinary NSG shares, a mandatory with-holding operates in order to acquire NSG shares on behalf of the Executive. The mandatory investment leads to further alignment of the Executive Officers with shareholders, allowing Executive Officers to enjoy the benefits of share ownership and continue to be motivated to help build shareholder value.
- To drive share retention and alignment with shareholders, shareholding targets are set for each Executive Officer and are expressed as a percentage of basic salary. Assessment of progress towards the shareholding targets is reviewed annually. The target levels continue to be reviewed by the Compensation Committee in line with market practice, the shareholding targets for Executive Officers are currently between 25 and 100% of basic salary dependent upon the management grade.
- All LTIPs incorporate Malus (ability for the value of the award to be reduced after it has been granted but before it has vested) and Clawback clauses (ability for the Group to require the participant to repay the value they receive after the award has vested). The Group can exercise these provisions if one of a list of trigger events occurs. Trigger events include the Misstatement of results, an error that causes an award to be paid at too high a level, a serious illegal act, or a material breach of the Group Code of Ethics.

4. Compensation Policy for Independent External Directors

Objectives	<ul style="list-style-type: none"> <li>•To ensure that independent external directors can adequately and effectively fulfill their supervisory roles</li> <li>•To ensure that they have the capability and experience required to fulfill this role</li> </ul>
Compensation level	•Set at the appropriate level based on comparisons with other companies using benchmark data provided by specialist external advisers.*
Compensation Structure	<ul style="list-style-type: none"> <li>•Only Basic salary</li> <li>•Not eligible for Management incentive plans (annual bonuses) and Long-term incentive plans</li> <li>•Independent External Directors receive additional payment if they act as Chair at either the Board or any of the Committees.</li> </ul>

\* In the case that a Non-Independent External Director is elected, compensation will be set at an adequate level for his/her duties in a way commensurate with the duties discharged by Independent External Directors including in terms of whether or not they are appointed as member of any of three Committees and so forth.

[Supporting System for Outside Directors]

Secretariats are in place for the Board of Directors and the three Committees of Nomination, Audit and Compensation respectively to support External Directors. Each of such secretarial staff is tasked to deliver papers or give a brief on the matters in advance and also assist in other activities of the Directors, with a view towards facilitating the External Directors to participate in discussion of the Board and each of three Committees in an effective and active manner.

**[Status of those who retired from the President and Representative Director]**

Name of the senior adviser/executive adviser etc who are former representative director and president etc

Name	Position	Business content	Work style / condition	Date of retirement	Term of office
Yozo Izuhara	Honorary advisor	External activities such as business activities	Work style : Part time	29 June,2010	1 year , judge necessity of

		including participation in industry groups (not involved in management)	Presence of compensation : No		renewal every year
Katsuji Fujimoto	Honorary advisor	External activities such as business activities including participation in industry groups (not involved in management)	Work style : Part time  Presence of compensation : No	27 June,2013	1 year , judge necessity of renewal every year

Total number of the senior adviser/executive adviser etc who are former representative director and president etc	2
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Other matters

The NSG Group does not have a system of Executive Advisor.

Based on the request of the CEO, Honorary advisor engages in external activities such as business activities including participation in industry groups. They do not attend conference bodies related to business execution , they are not granted access authority to information related to management, nor do they participate in any management decisions.

In 2018, the NSG Group abolished the senior advisory system and revised the honor advisory system. In the future, We may make the president / chairman experienced as honorary advisor only when CEO judges it is necessary. In addition, Outside directors are involved in the election and compensation of honorary advisor, the overall scheme.

There is no payment for the above honorary advisers.

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

1. The Company's governance structure  
【Outline of the governance structure】

On 27 June 2008, the NSG Group changed its governance structure from a Company with Statutory Auditors to a Company with Committees (currently a Company with three Committees) consisting of the Board of Directors; the Nomination Committee, the Audit Committee and the Compensation Committee with a majority of each Committee comprising Independent External Directors; Executive Officers; the Management Committee mainly consisting of Executive Officers; and the Group Sustainability Committee and the Strategic Risk Committee.

#### 【The Board of Directors】

The Board of Directors is composed of nine(9) Directors of who six(6) are External Directors). The Board is responsible for deciding the basic policies for business management and internal control, segregation of duties among Executive Officers and other important management decisions, and supervising execution of duties by Executive Officers. The Chairperson of the Board is Mr. Yasuyuki KImoto, Independent External Director. The Legal Function serves as a secretariat to support the Board of Directors from the legal viewpoint. The Board meeting was held ten(10) times in the fiscal year ending March 2020. All Directors attended all Board meetings, with 100% attendance.

As the main points of consideration, the Board of Directors confirms the progress of the medium-term management plan (MTP Phase 2), which has reached the final year, and through discussions aimed at formulating a new medium-term management plan that will begin in the year ending March 31, 2021, deepened discussions on important management issues (finance, personnel, growth strategy, etc.). In addition, the Board of Directors fulfills the supervisory function by receiving appropriate and appropriate reports on measures to cope with the spread of COVID-19 (operations of business units, safety measures for employees, etc.).

#### 【Business executive structure】

Seventeen(17) Executive Officers are responsible for the business execution. Three (3) of them are Representative Executive Officers performing the duties of CEO, COO and CAO respectively. The Management Committee mainly consisting of the Executive Officers lead the Company's business operation and oversees the execution of businesses in order to realize the policies and targets set forth by the Board of Directors efficiently and appropriately. The Corporate Planning serves as a secretariat for the Management Committee.

Sustainability Committee builds the sustainability strategies, presides over all of the Group's sustainability related activities, and ensures effective communication with

various Stakeholders. Group Sustainability Committee is chaired by CEO or a person who is nominated by CEO and composed of CEO, COO, CAO, CFO, Group Sustainability Director, the Heads of each Strategic Business Unit, Chief Development Officer (CDO), Chief Human Resources Officer (CHRO), Chief Legal Officer (CLO), Chief Corporate Planning Officer (CCPO), Chief Communication Officer (CCO) and the Heads of relevant Group Functions.

Strategic Risk Committee periodically reviews policies, strategies and frameworks concerning risk management throughout the Group, and appropriately take into account the results of such review in forming the organization strategy and goals, in order to promote efficiency of the Group's business management and to improve the medium and long-term corporate value.

Strategic Risk Committee is chaired by CRO and composed of CEO, COO, CFO, CAO and Chief Risk Officer (CRO), the Heads of each Group Function, and the Heads of each Strategic Business Unit.

#### **【Nomination Committee】**

The Nomination Committee is in charge of deciding the details of proposals concerning appointment or removal of Directors to be submitted to the General Meeting of Shareholders, and also provide recommendation or advice with regard to candidates for Executive Officers. The Nomination Committee is chaired by Mr. Yasuyuki Kimoto, Independent External Director, and composed of six (6) Directors including the Chairperson, five (5) of whom are Independent External Directors. The HR Function serves as its secretariat providing support as necessary. In addition, members of the Legal & Administration who are approved by the Nomination Committee, serve as internal legal advisers. The Committee gathered six (6) times in the fiscal year ending March 2020.

All Directors attended all Board meetings, with 100% attendance.

As the main points of consideration, the Committee deepened discussions on actions to improve succession plans and training plans for major senior executives, including directors and executive officers, and management system.

#### **【Audit Committee】**

The Audit Committee is responsible for auditing the execution of duties by Directors and Executive Officers, preparing audit reports, and deciding details of proposals concerning appointment, removal or not reappointing the Accounting Auditor. The Audit Committee is chaired by Mr. Toshikuni Yamazaki, Independent External Director and comprises five

(5) Independent External Directors including the Chairperson. Mr. Yamazaki has the career and experiences of serving as Representative Director and Executive Vice President in charge of finance, investor relations and accounting of the major international manufacturing company equipped with abundant experiences and broad knowledge in the fields of financing and accounting. Mr. Minakawa has the career and experiences of serving as Corporate Senior Vice President and General Manager, Finance and Accounting, Corporate Auditor of the major international manufacturing company equipped with abundant experiences and broad knowledge in the fields of financing and accounting. The Audit Committee Office is in place for the purpose of providing support to the Committee. The Audit Committee met on eleven (11) occasions in the fiscal year ending March 2020. One of the committee members attended 10 out of 11, and the attendance rate of the other committee members was 100%

#### 【Compensation Committee】

The Compensation Committee is in charge of deciding the compensation policy for Directors and the Executive Officers as well as compensation details of individual Directors and Executive Officers. The Committee is chaired by Mr. Jörg Raupach Sumiya , Independent External Director and is composed of six(6) Directors including the Chairperson, five (5) of whom are Independent External Directors. The HR Function serves as the Committee's secretariat providing support as necessary. In addition, members of the Legal and Administration, as agreed by the Compensation Committee, serve as internal legal advisers for legal matters. The Committee held a meeting four(4) times in the fiscal year ending 2020. All Directors attended all Board meetings, with 100% attendance.

As the main points of consideration, based on the knowledge of external experts, the Committee reviewed the current compensation plan centered on the incentive plan and deepened the discussion on the optimal compensation plan. The Committee also reviewed the stock compensation plan and discussed how to treat compensation based on the impact of the spread COVID-19

## 2. Audit system

#### 【Internal Control, Internal Audit】

The NSG Group Internal Audit (GIA) performs internal audit on a group basis with nineteen(19) full-time staffs. GIA conducts a group-wide internal audit through site visits in coordination with the Audit Committee and the Accounting Auditor by having meetings with them regularly according to an annual audit plan based on the resolution of the

Company's Board of Directors on matters listed in the Article 416, Paragraph 1, Item 1, Subsection (b) and (e) of the Companies Act and under the internal control system established by the resolution. The Departments responsible for internal control on top of GIA also hold meetings with the Audit Committee regularly and as necessary to exchange opinions and cooperate with each other and Improve the effectiveness of audits.

**【Audit by the Audit Committee】**

All five members of the Audit Committee are Independent External Directors, and Toshikuni Yamazaki is the chairman of the two directors who have considerable knowledge of finance and accounting. The Audit Committee supervises and validates the status of the internal control system and its operation, and in accordance with the audit policy and the audit plan established by the Committee, holds interviews with the Executive Officers; attends important internal meetings including the Management Committee and investigates the business activities as well as assets of the Company and its major subsidiaries, etc. The Audit Committee holds meetings with the Accounting Auditor and GIA regularly and as necessary to receive update on the audit implementation, exchange opinions and gather information.

**【Accounting Audit】**

The Company has signed an audit contract with Ernst& Young ShinNihon LLC and is subject to its accounting audit. Certified public accountants who have carried out the Company's accounting audit work during the current consolidated fiscal year 2020 are Mr. Tomohiro Miyagawa, Mr. Takayuki Ando and Mr. Ryuichiro Umamo. The aforementioned audit firm takes measures so that the same person does not take charge of the Company's accounting audit beyond a certain period of time. The said two auditors satisfy the legal requirement pertaining to the number of years of continuous audit for the Company. There are 9 Certified Public Accountants and 28 other staffs helping the said two auditors perform the work.

**3. Risk Management**

Regarding risk management, as mentioned above, the NSG Group have established the Strategic Risk Committee. The committee is responsible for establishing a company wide risk management framework and promoting and coordinating the group's risk management process. Specifically, the committee prepare policies and procedures related to risk management, and decide the policy of identifying, evaluating and responding to risks including strategically critical risks that hinder the group's goals. The SBU and



the group function are responsible for executing them, and the committee also monitors the implementation status, thereby striving to improve the effectiveness of risk management. The NSG Group Internal Audit (GIA) audits the risk management policies, frameworks and processes formulated by the Strategic Risk Committee independently from the standpoint and points out any deficiencies and carries out assurance for improving its effectiveness.

In addition, the Audit Committee cooperates with GIA to monitor the effectiveness of Group-wide risk management, including the activities of the Strategic Risk Committee, from the perspective of sustainable growth of the Group over the medium to long term.

In this series of risk management processes, the Chief Risk Officer (CRO) is appointed to ensure that the duties of the Strategic Risk Committee are properly implemented.

#### 4. Ethics and Compliance

The Group E&C Department is in place for the purpose of ensuring compliance throughout the Group. Under the above system, the Group E&C Department will formulate, implement, and manage the comprehensive ethics and compliance policy in the Group, and be obliged to report directly to the Audit Committee about important matters.

#### 5. Matters pertaining to External Directors

##### 【Independence from the Company】

Five (5) External Directors are designated as Independent Directors as stipulated by the Tokyo Stock Exchange (TSE) and reported to that effect to TSE. In addition to the independence standards of External Directors as defined by TSE, the Company has established its own independence standards also factoring in the relationships with the Group, the Group's Executive Officers as well as major shareholders, as described in [Independent Directors]. All of the five External Directors meet the relevant standards of independence.

##### 【Supervision by External Directors and collaboration with other audits】

The secretariats of the Board of Directors and the three Committees of Nomination, Audit, and Compensation assist External Directors and provide them with necessary information. As mentioned above, the External Directors who serve as the Audit Committee members gather information through the Audit Committee by having meetings with the Accounting Auditor, the Group Internal Control and the Group Internal Audit. Based on the

information gathered this way, the External Directors supervise the execution of duties by the Executive Officers and Directors through the Board of Directors.

**【Outline of an Agreement on Liability Limitation】**

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation, an agreement is concluded between the Company and each of the External Directors pertaining to the liability for damages under Article 423, Paragraph 1 of the same Act to the effect that the liability of each of the External Directors in performing their duties in good faith and without gross negligence be limited to the amount as stipulated in each item of Article 425, Paragraph 1 of the same Act.

### 3. Reasons for Adoption of Current Corporate Governance System<sup>[updated]</sup>

#### 【Reasons for adopting the Company with Three-Committee structure】

We adopt the Company with Three-Committee structure to promote separation of the executive and the supervisory functions, enhance management transparency, improve the level of corporate governance and thereby to become a company trusted by our shareholders.

#### 【Roles and Functions of External Directors in the Company】

We expect that an Independent External Director, MR. Yasuyuki Kimoto, who is the Chairperson of the Board of Directors and the Chairperson of the Committees of Nomination, and a member of Audit and Compensation, will contribute to the management of the Group from an independent standpoint as well as based upon his abundant experiences and broad knowledge with regard to business management through the Board of Directors and each Committee. Regarding that Mr. Yasuyuki Kimoto concurrently serves as the Chairman of the Board of Directors and the Chairman of the Nomination Committee, NSG has created a succession plan based on the assumption that the maximum term of office of an external director is 6 years, and We have selected the chairperson of the Board and chairpersons of each committee, but this year, as an exception, the chairperson of the board of directors and the chairperson of the nomination committee retired upon the adjournment of Ordinary General Meeting of Shareholders at the same time, so he was appointed as a special case.

We expect that an Independent External Director, MR. Toshikuni Yamazaki, who is the Chairperson of the Audit Committee and a member of the Nomination and Compensation Committees, will contribute to the management of the Group from an independent standpoint as well as based upon his abundant experiences and broad knowledge with regard to business management through the Board of Directors and each Committee.

We expect that an Independent External Director, DR. Jörg Raupach Sumiya, who is the Chairperson of the Compensation Committee and a member of the Audit and Nomination Committee, will contribute to the management of the Group from an independent standpoint as well as based upon his abundant experiences and broad knowledge with regard to an academic expert and business management through the Board and each Committee.

We expect that an Independent External Director, MR. Hiroshi Ishino, who is a member of the Committees of Audit, Compensation and Compensation, will contribute to the management of the Group from an independent standpoint as well as based upon his abundant experiences and broad knowledge with regard to business management

through the Board of Directors and each Committee.

We expect that an Independent External Director, MR. Kunihiro Minakawa, who is a member of the Committees of Audit, Compensation and Compensation, will contribute to the management of the Group from an independent standpoint as well as based upon his abundant experiences and broad knowledge with regard to business management through the Board of Directors and each Committee.

We believe that the presence of these External Directors, who are independent of the Group, and their roles as the Chairperson of each Committee will contribute to further enhancement of management transparency and therefore corporate governance.

External Director, MR. Yoshihiro Kuroi is not an Independent Director since he does not fully satisfy the independence standards established by the Company, and is not in charge of each Committee, taking into account his career and experiences in engaging in corporate management as an External Director of multiple companies, we have selected him as an External Director expecting that he will contribute to the supervisory function of the Board through overseeing performance of Executive Officers.

### III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Shareholder Meeting	Due to the spread of COVID-19, this year's (2020) general shareholders' meeting was held after changing the Record Date for the Ordinary General Meeting of Shareholders, sends the notice 2 weeks prior to the day of the Ordinary General Meeting of Shareholders. The Group usually sends the notice 3 weeks prior to the day of the Ordinary General Meeting of Shareholders. The Group publicizes the notice 4 weeks prior to the day of the Ordinary General Meeting of Shareholders by filing it onto the Tokyo Stock Exchange and the electronic platform operated by ICJ as well as in our website.
Allowing Electronic Exercise of Voting Rights	To allow shareholders to submit their votes via the Internet, the Group takes part in electronic voting platform that permits the use of voting websites.
Participation in Electronic Voting Platform	The Group takes part in electronic platform operated by ICJ for institutional investors.
Providing Convocation Notice in English	The Group publicizes the English notice (with Business Report and Consolidated Financial Statements in full sentence excluding Audit Report) by filing it onto the Tokyo Stock Exchange and the aforementioned platform as well as on our website Shareholders' Meeting 4 weeks prior to the day of the Ordinary Shareholders' Meeting.
Other	The Shareholders' Meeting resolutions and voting rights result (Japanese and English) are posted in our website in addition to extraordinary reports (Japanese only) submitted via EDINET.

#### 2. Investor relations (IR) Activities

	Supplementary Explanations	Presentation by President
Preparation and Publication of Disclosure Policy	The Group's disclosure policy can be found in our website. (FYI)	

	<a href="https://www.nsg.com/en/investors/sustainable-investment/ir-policy">https://www.nsg.com/en/investors/sustainable-investment/ir-policy</a>	
Regular Investor Briefings for Individual Investors	The Group does not hold any regular briefing. Instead, have set up a section called "For Individual Investors" on our website to show information for individual investors.	No
Regular Investor Briefings for Analysts and Institutional Investors	The Group, in principle, holds a regular briefing for analysts and institutional investors after a second quarter (October or November) and an annual closing (May) attracting dozens of participants every time. A telephone conference is organized for every quarterly result in July or August and January or February. The Group also hosts briefings for institutional investors and analysts on business strategies and individual businesses separately from those above. As of July 2020, in order to COVID-19 , we also hold briefing for the second quarter and final financial results at the telephone conference.	Yes
Regular Investor Briefings for Overseas Investors	The Group, in principle, has regular briefings for overseas investors in Europe, North America and Asia (Hong Kong, Singapore) etc., two to three times a year. As of July 2020, visiting briefings are suspended to prevent COVID-19 .	Yes
Posting of IR Materials on Website	The Group website posts financial results information, timely disclosure matters' materials (other than financial information), Securities Report, Quarterly Report, Quarterly Results materials, Business Report ("To our shareholders"), Notice of Convening Ordinary General Meeting of	

	<p>Shareholders/ voting results, corporate governance update, Integrated Report (including Finance Data and Sustainability Data Book), Corporate Profile for Investors("Introduction to NSG")</p> <p><a href="https://www.nsg.com/en/investors/ir-library">https://www.nsg.com/en/investors/ir-library</a></p>	
Establishment of Department and/or Manager in Charge of IR	Our IR Department (the Head is Sachiyo Nishie) is responsible for IR.	
Other	The Group shows our profile, IR schedule, stock price and other information for individual investors in our website. "IR news mail alert service" is also available on demand basis.	

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	NSG Group's Corporate Governance Guidelines define how to build good relationship with diverse stakeholders such as employees, customers, suppliers, business partners and local communities. Furthermore, other internal rules including Sustainability Policy under these guidelines refer to more specific relationship.
Implementation of Environmental Activities, CSR Activities etc.	The Company has adopted, among others, NSG Group's Code of Ethics and Sustainability Policy and proactively performed the actions for environment preservation and other sustainability agenda under such framework. The Sustainability Committee chaired by CEO or a person who is nominated by CEO, adjusts and monitors those activities for promotion of sustainability. The Board has defined clear and unambiguous goals of the Group to be reached by 2018 in the areas such as environment, safety, health, energy, reduction of CO2, sustainable highly value adding product development, procurement and transportation responsibility and employees. The status of the progress vis-à-vis such goals from time to time is disclosed in our Integrated Report (including Finance Date and Sustainability Date Book) and our website.
Development of Policies on Information Provision to Stakeholders	NSG Group has established Corporate Governance Guidelines, Policy on Constructive Dialogue with Shareholders, Sustainability Policy, Investor Relations Communication Policies which are disclosed in our website.
Other	<p><b>【Employees diversity】</b></p> <p>The Group is a global corporate group. We have multinational managements. Over 80% of employees work outside Japan. Our Group's recruiting activities accommodate diversity since the Company believes a wide range of nationality, skill-set, qualification and experience will yield enormous benefit to our businesses. Our Group's female manager ratio stands at 15.2%.</p>



#### **IV. Matters Related to the Internal Control System**

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

- (1) The Group stands on the following principles to ensure that our Executive Officers and employees as well as Executive Officers, Audit Officers and employees of the subsidiaries (hereinafter collectively called "The Group's executive officers and employees") execute duties in a manner compliant to regulations and Articles of Incorporation:
- On the basis of "NSG Group Our Vision" the Group aims to ensure high levels of corporate ethics and compliance throughout the Group, proactively fulfilling its social responsibilities for the sustainable growth
  - Under the "NSG Group Our Vision" the Group establishes the "NSG Group Code of Ethics" providing business ethics and compliance with laws/ regulations/ internal policies and procedures, and uses its internal communication network to continually disseminate and provide educational activities about the contents of the Code of Ethics for the Group employees, together with other important internal provisions of the Group (e.g. Group policies, procedures or manuals).
  - Divisions responsible for laws, regulations and internal rules together with the Group Internal Audit identify compliance to them and report to the Audit Committee.
  - The Group establishes Ethics and Compliance Function who builds and maintains ethic and compliance mechanism throughout the Group.
  - The Ethics and Compliance Function will, throughout the Group:
    - ◆ work closely with a regional team in charge of ethics and compliance matters to promote and ensure compliance by adhering to strict standards and to promote ethics and compliance awareness through communication and training programs; and
    - ◆ conduct audits in cooperation with Internal Audit Function and other Internal Control Functions as it may deem necessary
  - The Ethics and Compliance Function shall also report to the Audit Committee.
  - The Group establishes a global reporting of concerns hotline not subject to usual reporting structure for execution of the businesses ("hotline"), which enables the Group employees to voice any ethics and compliance related issues through an independent external institution as points of contact; whereby the Group ensures the framework under which it is able to promptly detect and address any such issues.

- Ethics and Compliance Function shall, periodically or as appropriately, update the Audit Committee on the status of the implementation and operation of the hotline as well as on the issues brought from the hotline.
- The Group employees can make a report via the hotline with anonymity to the extent legally permitted and the Group explicitly guarantees that no retaliation or unfavorable personnel treatment will be taken against the Group employees in question for reason of the report.

(2) Rules and systems relating to the management of the risk of loss concerning the Group

- The Group establishes internal policies and procedures to adequately address risks arising from its business activities and comprehensively identify and manage all risks that it could be exposed to.
- The Group establishes internal policies and procedures that define how to treat specific risks associated with ethics and compliance, environment, safety, disaster management, product quality, information security, funding, raw material procurement, research and development and credit management and others, while each SBU and function shall manage such risks in respective areas of responsibility accordingly.
- Ethics and Compliance Function manages and controls significant ethics and compliance related risks including by preparation of adequate internal policies and procedures, in cooperation with Internal Control Functions such as Legal and Internal Audit.
- Risk control measures will be managed and taken, as necessary, including risk diversification and insurance on a group basis. Especially for the Group's insurance coverage, the Group maintains internal regulations and works on global insurance coverage. The Group endeavors to ensure the transfer of important risks of the Group by updating this every year.
- The Group develops and has in place policies and procedures for risk management purposes to prepare against and deal with major incidents that may occur globally or regionally.
- The Group establishes a control system to ensure the integrity of its financial reporting as well as the appropriateness and timeliness of other corporate disclosures.

(3) System for retaining/managing information on Executive Officers' execution of duties.

- Documents, records and any other information regarding Executive Officers' execution of duties shall be properly retained and managed in accordance with the applicable laws and internal rules

(4) System for ensuring effective and efficient execution of duties by the Group's Executive Officers and Employees

- The Group clarifies its annual target across the Group based on its medium to long term business plans formulated by the Board to exercise coherent policy management.
- The Board authorizes the Executive Officers to make decisions on the business execution within the remit permitted by law.
- The Group establishes the Management Committee comprising the Executive Officers as its members. Discussions and deliberations at the meetings thereof will be of assistance for the Executive Officers to make bold and prompt decisions on the Group businesses in an effective and efficient way, under the Group's basic policies and goals set by the Board.
- The Group clearly defines the area of duties and responsibilities assigned to respective Executive Officers and other Group employees pursuant to the resolutions by the Board and those internal policies and procedures providing for segregation of roles/duties and authorities.
- The Group prepares internal policies and procedures in relation to internal meeting or conference structures within the Group including those in relation to Management Committee and ensures that all business decisions for the Group be made in a manner complied with the standards and process for deliberation provided in such policies and procedures.
- The Group develops and maintains information systems that improve efficiency of business operation by leveraging IT technologies.

(5) Reporting-line in the Group

- The reporting-line structure will be built up and maintained within the Group for each and every SBU and function formed on a group-wide basis.
- The Group formulates an internal policy with respect to the management of the Company's subsidiaries which ensures each key subsidiary to notify the Company regularly of the matters relevant to it regarding: internal audit, finance, treasury, taxation, human resources, labor relations, pensions, health and s

safety, legal, ethics and compliance, environment and any other areas related to the matters and the risks associated with.

- Internal audit will be conducted on a group basis.

(6) Systems to ensure effectiveness of audits conducted by the Audit Committee

- The Audit Committee, as a part of oversight function of the Board, is tasked to audit execution of duties by Directors and Executive Officers, on the basis of this Key principle on Internal Control System, from a viewpoint of whether:
  - - ◆ an internal control system is established, maintained and implemented by the Executive Officers in an appropriate manner;
    - ◆ this Key principle itself is valid or requires no improvement.
  - For the purpose of ensuring the effectiveness of such audit:-
    - ◆ the Audit Committee may have its members attend Management Committee meetings and other important meetings of the Group. When other forms of decision making processes are used in lieu of discussion at a meeting, the Audit Committee reserves the right of access to any information related to or used in such decision-making processes;
    - ◆ the Audit Committee may, as it deems necessary, interview any of those Group employees in a senior positions who run the Group's SBU or Function and other Officers over their execution of duties;
    - ◆ the Audit Committee receives regular reporting about the current risk exposures of the Group with respect to the followings from departments and functions responsible thereof:-
      - internal audit, finance, treasury, taxation, human resources, labor relations, pensions, health and safety, investor relations, legal, ethics and compliance and environment, etc.
    - ◆ the Audit Committee reserves the right of access to papers used for Management Committee meetings, internal approval documents and any other material corporate document;
    - ◆ the Audit Committee receives explanation from the responsible Executive Officer on the Group's quarterly and full-year financial statements before they are presented to the Board for reporting or approval;
    - ◆ the Audit Committee meets with Internal Audit function and Accounting Auditor on a regular basis to obtain necessary information.

- ◆ Members of the Audit Committee may conduct onsite inspections of the Group's main sites to monitor the status of the business and assets when it deems additionally needed to do so in light of the purpose of the audit prescribed at the beginning of this section.

- (7) Systems for reporting to the Audit Committee by the Group's Employees or others
- Directors and Executive Officers shall report the followings to the Audit Committee immediately upon:-
    - ◆ detecting any fact that could pose a substantially harm to the Group
    - ◆ any actual or conceivably potential act against regulations or the Articles of Incorporation, committed by the Group's executive officers and employees
  - Without prejudice to generality of the foregoing section, the Audit Committee may request any of the Group executive officers and employees to prepare and submit such reporting as it deems necessary for audit
  - The Group explicitly guarantees that no retaliation or unfavorable personnel action in any manner should be taken against those who report to the Audit Committee on the ground of such reporting
- (8) Matters relating to Directors and/or Employees who support the execution of duties by the Audit Committee
- The Group installs Audit Committee Office to assist the Audit Committee's duties and assigns required number of staff ("Staff to Audit Committee").
  - Staff to the Audit Committee, under the direction of Audit Committee or Audit Committee members,
    - ◆ investigate, analyze or report audit matters either by themselves or in tandem with pertinent divisions and
    - ◆ assist on-site investigation by Audit Committee on present state of business and assets in key sites of the Group both in Japan and abroad if necessary.
- (9) Matters concerning independence of the aforementioned Directors and employees from our Executive Officers as well as matters for ensuring effectiveness of direction to such Directors and employees
- Any HR matters related to the Staff to Audit Committee are subject to prior reporting to the Audit Committee and its consent.

- Head of the Staff to Audit Committee shall never double with any position involved in our Group's business execution and solely follow the chain of command of the Audit Committee.

(10) Matters on policies related to procedures for prepayment or reimbursement of cost arising from execution of duty among Audit Committee members (limited to those pertinent to execution of duty of Audit Committee) and policies on processing other costs and debt arising from execution of such duties.

- When an Audit Committee member make a claim to the Group for a prepayment of any cost arising from execution of their duties or other claims stipulated in items in Clause 4 of Article 404, it shall not reject such claims unless the Group proves that any cost or debt related to the claims is not required for execution of duties of the member.

## 2. Basic Views on Eliminating Anti-Social Forces

The NSG Group articulates in its Code of Ethics that the Group shall consistently act ethically and comply with laws applicable in nations wherever the Group has its business footprint.

We deal with the anti-social forces in accordance with Japanese regulations based on our Code of Ethics. Our compliance manuals describe our philosophy of uncompromised resolve against the anti-social forces which do harm to a social order and safety and our firm attitude to the anti-social forces. We get such a spirit across to our employees through our in-house compliance training. Also, Group Internal Audit and Legal and Administration Department carry out monitoring on our effort in compliance including exclusion of anti-social forces and maintaining collaborative liaison with lawyers and law enforcement authorities, we collect and manage information on anti-social forces.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation
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### 2. Other Matters Concerning to Corporate Governance System

Our internal mechanism pertinent to timely corporate information disclosure goes as below;

(1) Disclosure of information on important decision

Any important decision subject to the timely disclosure is firstly initiated and escalated by a Division involved under our internal policy, then is assigned particular decision making unit by a Representative Executive Officer or in the Board followed by an immediate disclosure by IR under the direction of representative in charge of information disclosure. Any decision on critical issues is disclosed in a timely manner under the structure where IR and relevant divisions such as the Secretariat of the Board or Management Committee work together in order to avoid any incomplete disclosure by checking interactively.

Initiated by Division → Decision making unit assigned → IR or relevant division  
→ timely disclosure

(2) Disclosure of information on results information

Information on business results drafted firstly by the Finance is resolved or finalized by the Board. It is disclosed by IR under the direction of representative in charge of information disclosure immediately after the decision.

Finance → Decision making unit assigned → IR → timely disclosure

(3) Disclosure of information on material facts

Any material fact subject to timely disclosure is reported promptly by Divisions upon its occurrence to IR, who, under the direction of representative in charge of information disclosure, carries out timely disclosure.

Initiated by division incurred → IR → timely disclosure

Corporate Governance Mechanism (as of 16 July 2020)

