

Operational status of the system necessary to ensure the properness of operations (Business Report for the 2020 Fiscal Year)

1. System for ensuring that the execution of the duties of Executive Officers is performed effectively (governance and business management plan)

(a) Company with Three Committees

After the approval at the General Meeting of Shareholders of the Company on March 26, 2020, the Company has transitioned to a company with Three Committees. By adopting the structure of that, we strive for management transparency, objectivity, and fairness, and we have largely delegated for the important decision-making authority related to the execution of business from the Board of Directors to the Executive Officers, and to separate and strengthen audit and execution.

During the 2020 Fiscal Year, the Board of Directors received reports on the status of the execution of duties by the Executive Officers on a regular basis or as necessary, appropriate deliberations were conducted for such as important projects and the formulation of the new Medium-Term Management Plan, and advice was given to the Executive Officers.

At the Nomination Committee, the Remuneration Committee, and the Audit Committee, in order to provide appropriate motivation and incentives and perform monitoring of the execution status so that the Executive Officers can exert their full potential, we deliberated on the successor plan for the Representative Executive Officer, President & CEO (Nomination Committee), examined a rational executive compensation system (Remuneration Committee), and provided advice for establishing a global audit system (Audit Committee).

In addition, we had opportunities for communicating with the Executive Officers for such as providing follow-up on executing their duties at meetings of the Independent Directors of the Board chaired by the Lead Independent Director of the Board, and promoted the realization of the efficient execution of duties by the Executive Officers.

Through these activities, we created an executive environment in which the Executive Officers can take appropriate and bold risks at meetings of the Board of Directors, meetings of the respective Committee Members and meetings of the Independent Directors of the Board, and we performed monitoring of the execution status.

(b) Business management plan

Since the 2020 Fiscal Year falls under the final year of the Company's three (3)-year Medium-Term Management Plan, we conducted deliberations on the next Medium-Term Management Plan at the meetings of the Board of Directors and the Executive Committee. In addition, the Representative Executive Officer, President & CEO and CFO of regularly reported to the Board of Directors on the status of the progress of the annual budget and the status of the achievement of

targets.

2. System for the management of the risk of loss at the Company (risk management)

(a) In relation to important meetings

The Company held meetings of the Board of Directors, Executive Committee and other important meetings on a regular basis during the current term and grasped the progress of the Group's business, and in the case where risk factors associated with the business occurred, we grasped the risks and conducted appropriate and continuous monitoring to respond to the risks.

(b) In relation to the Risk Management Committee

In the 2020 Fiscal Year, the Company reorganized the CSR Committee (previous term) and held meetings of the Risk Management Committee. At the Risk Management Committee, we performed monitoring of the status of the maintenance and operation of the risk management system (internal control system) at each Group company, and conducted deliberations to appropriately deal with important risks related to the entire Group. In addition, at the subcommittees of the Risk Management Committee, we conducted specific activities to strengthen credit management and information management, etc.

(c) Establishment of the General Counsel (General Counsel)

The Company established a General Counsel in October 2020, organized Legal Department, Board of Directors Office, and Corporate Administration Office in General Affairs under said jurisdiction, and started a system to further strengthen the effectiveness of risk management and governance.

(d) In relation to the Audit Department

During the 2020 Fiscal Year, the Audit Department of the Company conducted a risk assessment survey, which collected and analyzed the risk information of important domestic and overseas companies, and reported the results to the Audit Committee and the Representative Executive Officer, President & CEO and provided feedback to important companies, etc. in Japan and overseas as well as discussing the sharing of issues and future response policies.

In addition, it conducted risk-based business audits and evaluated the effectiveness of the Group's internal control systems, such as governance, processes, risk management, etc.

(e) Coronavirus disease (COVID-19) response

From January 2020, the Company held meetings of the Coronavirus Disease Control Headquarters from time to time, and examined and implemented countermeasures in collaboration with the respective Group companies in Japan and overseas.

As specific countermeasures, in accordance with the guidelines of each country's government and relevant organizations, we gave the highest priority to employee safety and ensured sufficient cash flow to protect business around the

world, and flexibly implemented responses based on the business continuity plan (BCP). In addition, we performed PCR tests for those who want to have from among all members of domestic Group companies. Under the declaration of a state of emergency, the upper limit of the attendance rate of the domestic Group employees was set at 20%, and a telework (remote work) environment for employees was maintained and promoted.

3. System for ensuring that the execution of duties of Executive Officers and employees is in line with laws and ordinances and the Articles of Incorporation (compliance)

(a) Compliance Committee and compliance activities

During the 2020 Fiscal Year, the Company regularly held meetings of the Compliance Committee and performed deliberations and countermeasures at the Committee meetings with respect to Group-wide compliance themes, such as compliance education in the Group, appropriate information management, labor management, harassment-free workplace creation, etc.

(b) Training for Directors and Executive Officers

During the 2020 Fiscal Year, the Company provided training to the Directors of the Board and the Executive Officers in connection with the importance of ESG.

(c) Compliance dissemination, education, and system maintenance

During the 2020 Fiscal Year, in addition to face-to-face (including online training) training and workplace-specific training using compliance guidebooks, as a form of compliance awareness and educational activities for Group employees, the Company distributed, in principle, the e-mail newsletter to all domestic employees once a month, and adopted a new e-learning system, which can evaluate efficiency and penetration, and conducted compliance comprehension tests for Group officers and employees.

(d) Expansion of the internal reporting system

During the 2020 Fiscal Year, the Company enhanced the internal reporting system of the Group for the purpose of having the officers and employees of the Group and their families trust and use the internal reporting system.

Specifically, we reviewed the company regulations concerning the internal reporting system, strived to strengthen the secretariat system of the internal reporting system and enhance investigation response, etc., and performed thorough dissemination with respect to the existence and use of the internal reporting system through the above-mentioned e-mail newsletter. In addition, the name of the internal reporting system was changed to “NPHD Group Hotline” from the perspective of the ease of understanding for the employees. In recognition of these initiatives, we obtained a certification for our whistleblowing compliance management system from the Consumer Affairs Agency (WCMS certification).

(e) Break relationships with antisocial forces

The Company is taking the initiative to break relationships with the antisocial forces throughout the organization and maintains a system for the elimination of the antisocial forces, such as organized crime groups, persons related to organized crime groups, etc., and provides education to the employees, to ensure the safety of the employees.

4. System for the preservation and management of information concerning the execution of duties by the Executive Officers (information management)

The Company has created a system to enable the minutes and approval system of important meetings, such as the General Meeting of Shareholders, the Board of Directors, the Executive Committee, etc., electromagnetic records within the approval system, the technical information database system with thorough technical information management, and other documents and electromagnetic records relating to the execution of duties by the Executive Officers to be properly preserved and managed according to their importance and to be kept available for inspection by Directors of the Board as necessary.

5. System to ensure proper business operations in the Group (Group management system)

Under the holding company system, the Company has established the authority rules of the Company and Rules of Administration and Delegation for Partner Companies that prescribe the authority of important domestic and overseas Partner Companies. In addition, by dispatching Directors of the Board, Audit & Supervisory Board Members, etc. to important Group companies in Japan and overseas, we are performing sound and proper management of the entire Group in order to maximize shareholder value.

Furthermore, pursuant to the above-mentioned Rules of Administration and Delegation for Partner Companies, the Company's domestic and overseas groups make reports to the Company with respect to certain projects, and important matters are deliberated by the Board of Directors and the Executive Committee of the Company.

6. Matters relating to organizations that should assist with the duties of the Audit Committee

The Company has established the Audit Department as an organization that should assist the duties of the Audit Committee. The Audit Department shall serve as secretary of the office of the Audit Committee together with Board of Directors Office, and furthermore, based on the instructions of the Audit Committee, investigate, analyze and report on matters subject to auditing, and conduct on-site audits as necessary. In addition, the Audit Department itself also engages in audit activities.

Furthermore, in order to ensure independence from the Executive Officers of organizations that should assist the duties of the Audit Committee, the authority to consent to the Audit Committee concerning the necessary matters (matters

related to the personnel rights of the General Manager of the Audit Department, basic policy of the Audit Department, audit plan, budget, etc.), and the priority authority over the Representative Executive Officer, President & CEO of the Audit Committee's instructions concerning audits are prescribed in the Company's "Audit Committee Rules."

7. System for reporting to the Audit Committee

The Audit Committee attends meetings of the Executive Committee and other important meetings, and exchanges opinions with the Director of the Board, Executive Officers, etc. and confirms the issues that should be dealt with by the Company and the status of the execution of duties, etc. In addition, the Audit Committee regularly hold the meeting with three audits where the Accounting Auditor and the General Manager of the Audit Department participate and meetings with the Audit & Supervisory Board Member of domestic Partner Companies, share information and exchange opinions with respect to problems, etc. identified through audits. Furthermore, with respect to the content reported through the Group's internal reporting system and the status of the response thereto, they receive monthly reports from the department responsible for the internal reporting system.

8. Other systems to ensure the effectiveness of the audits that are regularly performed by the Audit Committee

The Audit Committee has regular meetings with the Representative Executive Officer, and exchanges opinions on the issues that should be dealt with by the company, the status of the audit environment, important audit issues, etc. In addition, it convenes the Group Audit Committee, which brings together the heads of the Audit Department and the internal audit departments of domestic and overseas Partner Companies, and endeavors to improve the effectiveness of audits by establishing a Group audit system centered on the Company, such as sharing information and exchanging opinions, etc. Furthermore, with respect to the expenses necessary for the execution of the duties of the Audit Committee, as soon as there is a request for reimbursement, we promptly respond to the request so that its activities are conducted without restriction.

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