

[Principle 3.1 Full Disclosure]

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

[Supplementary Principle 4.2.1 Roles and Responsibilities of the Board(2)]

(i) Organization & Responsibilities

The company has in place the statutory Compensation Committee (the "Committee") as adopting a "Company with Committees" structure. Its current membership consists of the four Independent External Directors of NSG Group, and one Director who concurrently serves as Representative Executive Officer. The current chairman is Mr. Yasuyuki Kimoto, an External Director. No member of the Committee is allowed to be present when matters relating to his 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 as the Committee approves of acts as in-house legal adviser for any legal aspects or matters. During the year 2018/19, the Committee met on five occasions.

The Committee has formal authorities 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 (iii) below.

(ii) Activities of the Committee in Compensation related Decision-Making Process

In the meetings held in March, May and June 2018, 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 compensations), and the actual payment amount based on the achievement against the previous year's indicators. It monitored the progress against the relevant indicators of the running incentives in the meeting held in October 2018.

(iii) Compensation Policy for Executive Officers

NSG Group is a global business, operating in around 30 countries worldwide. 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 individual's 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. Based on this perspective, the ratio of basic salary and incentives is, rather than specifically and equally applied, set

according to individuals' management grades (which will be given by reference to the factors such as knowhow, issues and the level of accountability relevant to the responsibilities assigned). The compensation package for the Executive Officers consist of basic salary, incentives and other benefits. 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 compensations) follow a global policy and are structured, designed and co-ordinated at Group level.

Salary and benefit packages are set at market competitive levels and annual performance-related payments are assessed against the achievement of key targets which are mainly financial.

The salaries of Executive Officers 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.

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. The main focus in these plans is then first to ensure alignment with delivery of the target numbers assigned to Group operating profit and cash flow which are the financial performance indicators specifically important to the said budget but in relation to some of the Executive Officers of the Company those indicators such as the main four specific SBU operating profit and cash flow within the Group, either totally or individually by regions, also operate as target to be achieved. The Company ensures that such financial performance targets are clearly aligned to the overall medium term strategy of the Group. These performance indicators are also weighted as relative to and according to the duties and responsibilities had by each Executive Officer.

Performance measures for the FY2019 and FY2020 annual incentive plan for Executive Officers are mainly based on the following:

Element	Weight (%)		
	CEO, COO and CFO	Executive Officers other than CEO, COO and CFO, who are mainly responsible for specific Global SBUs	Executive Officers other than CEO, COO and CFO, who are mainly responsible for specific group functions
Group Management Operating Profit	50%	25%	25%
Group Free Cash Flow	50%	25%	25%

Global SBU Management Operating Profit	—	In relation to the results of specific SBUs they are responsible for, constituting 25% in total	In relation to the results for each and every of SBUs of the Group, constituting 25% in total
Global SBU Cash Flow from Operations	—	In relation to the results of specific SBUs they are responsible for, constituting 25% in total	In relation to the results for each and every of SBUs of the Group, constituting 25% in total

*Note: SBU means each "Strategic Business Unit" of the Group

No bonus is paid to the Executive Officers if a minimum entry level of performance is not achieved. This minimum entry level is set and approved by the Committee to ensure that the business is meeting the minimum standard of financial performance, hence ensuring adequacy of such payment along with absence of occurrences of non-financial nature having significant level of magnitude. A 'Gate' mechanism also operates for the plan, the Gate is set as an affordability threshold to allow access to payment based on achievement against the different performance measures. It is possible to achieve the Gate and still not achieve a payment, as "Entry" on the relevant performance scales have not been met. The annual bonus potential payment levels for Executive Officers range between 0 and 125% against each individual's basic salary according to the respective management grade. Individual payment amount of the annual bonus will be decided according to the level of achievement against the pre-set performance indicators.

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 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. The performance criteria for these plans are in financial measures that should be strategically important for the Group on a longer-term basis.

The performance measure used in the plans that are in operation for FY2017 and FY2018 is an Aggregate Earnings Per Share Measure. For FY2019 plan, the performance is measured by both Aggregate Earnings Per Share and Return on Sales. The Company has commenced the use of these two indicators from FY2019, in that given the current situations and environment surrounding the Company they are believed as more appropriate with a view to increasing the linkage with the Medium-term Management Plan, seeking further strengthening of the earning power and thus enhancing the shareholders' value generally. No payment is made if the entry point is not met. 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. The LTIP's award levels for Executive Officers range between 0 and 150% against each individual's basic salary dependent upon the management grade. Individual award amount of the LTIP will be

decided according to the level of achievement against the pre-set performance indicators.

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.

Further, 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. 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. The mandatory investment in shares applies to all eligible participants including Executive Officers who are non-resident in Japan.

Share retention and alignment with shareholders is further achieved by the use of shareholding targets. Shareholding targets are set for each Executive Officer and are expressed as a percentage of basic salary. It is expected that over a period of time via the LTIP Executive Officers will build their shareholding to meet the targets. Assessment of progress towards the shareholding targets will be reviewed annually. The shareholding target for Executive Officers is currently between 50 and 100% of basic salary dependent upon the management grade. The target levels will continue to be reviewed by the Compensation Committee in line with market practice.

(iv) Compensation Policy for Independent External Directors

The role of Independent External Directors is to supervise all Group business from their independent and objective standpoint as well as to engage in the material decision-makings as members of the Board of Directors. In order for them to fulfil this role adequately and effectively, and for the Group to retain individuals with the capability and experience required, the appropriate compensation level of Independent External is set based on comparisons with other companies using benchmark data provided by specialist external advisers.

Independent External Directors receive fees for the performance of their duties. They are not eligible for performance-related bonuses or awards under long-term incentive plans.

Independent External Directors receive additional reward if they act as Chair at either the Board or any of the Committees.

Meanwhile in the case that a Non Independent External Director is elected, such Non Independent External Director will receive the level of compensation adequate for his/her duties in a way commensurate with the duties discharged by Independent External Directors including in terms of whether or not to be appointed as member of any of three Committees and so forth. Also, as with Independent External Directors, Non Independent External Directors are not eligible for performance-related bonuses or awards under long-term incentive plans.