

**[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) ]**

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. Yasuyuki Kimoto, 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 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. 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.

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Category of compensation		Summary of compensation system
Fixed salary	Basic salary	<ul style="list-style-type: none"> <li>Set a market competitive levels compared to local markets in which the executive is employed.</li> </ul>
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>

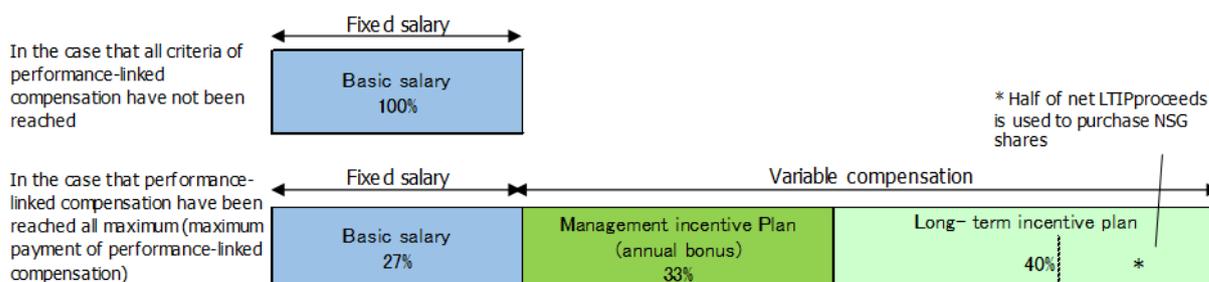
Note: In addition to the above-mentioned compensation, restricted shares are issued annually to some Executive Officers under Japanese employment terms as a retirement

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
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	<ul style="list-style-type: none"> <li>· Set at the appropriate level based on comparisons with other companies using benchmark data provided by specialist external advisers.*</li> </ul>
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.