

[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. No member of the Committee is allowed to be present when matters relating to their specific compensation are being discussed.

| | |
|---------------------|---|
| Role | Compensation Committee is responsible for making decisions on a compensation policy for Directors and Executive officers as well as individual elements of compensation for Directors and Executive Officers. 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. |
| Composition | <ul style="list-style-type: none">• 5 Independent External Directors and 1 Director who concurrently serves as Representative Executive Officer• Chaired by Dr. Jörg Raupach Sumiya, Independent External Director |
| Secretariat | Company Secretary Department(After January 2022) |
| Remuneration Expert | Human Resources Department |

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

- During FY2021, the Committee met on six occasions, and Attendance rate was 100%, all members attended all Compensation Committee meetings. The Committee resolved the individual amount of basic salary, 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. And also the Committee resolved a plan to allot restricted shares to certain qualified Executive Officers under Japanese employment terms and the number of restricted shares to be allotted as a retirement benefit in May 2020. Restricted shares have been introduced in place of Stock Options which was established with the abolition of the retirement bonus. Restricted shares are designed to provide the same level of stock compensation as Stock Options by also utilizing benchmark data. Accordingly, the number of restricted shares to be issued to the relevant, individual Executive Officers is determined.

- The Compensation Committee gave its final approval to the individual compensation for

Directors and Executive Officers for the year ended in March 2021 after confirming that it is consistent with the basic policy on compensation as detailed in 3) and 4).

3) Compensation Policy for Executive Officers

<A> Compensation System and Compensation Composition Ratio

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.

(a) Compensation System

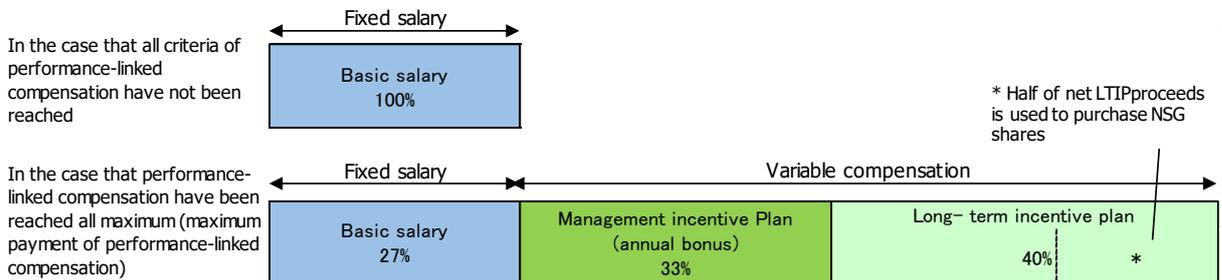
| | | | |
|-------------------------|--|--|---|
| Objectives | <ul style="list-style-type: none"> • To ensure that packages of employment terms and conditions are market competitive and designed in such a way as to attract, retain and motivate Executive Officers of the highest calibre on a worldwide basis in an international business. • 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. | | |
| Composition and Details | Fixed salary | Basic salary | <ul style="list-style-type: none"> • Salaries are reviewed annually and are broadly aligned 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. |
| | Performance-linked compensation | Management Incentive Plan (annual bonus) | <ul style="list-style-type: none"> • Assessed against the achievement of annual performance indicators which are mainly financial. • Aligned to NSG Group's Medium-Term Plan • Payment levels: Ranging between 0% and 125% against each individual's basic salary dependent upon the management grade |

| | | | |
|--|--------------------|---------------------------|---|
| | | Long- term Incentive plan | <ul style="list-style-type: none"> • Assessed against the achievement of long-term performance indicators over a three-year period • Issued annually • Payment levels: Ranging between 0% and 150% against each individual's basic salary dependent upon the management grade • Require the purchase of NSG Shares by using part of the cash award from the plan to lead to further alignment of the Executive Officers with shareholders, allowing Executive Officers to continue to be motivated to help build shareholder value • Shareholding targets set for Executives :Ranging between 25% and 100% against each individual's basic salary dependent upon the management grade • 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). 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. |
| | Stock Compensation | | <ul style="list-style-type: none"> • Restricted shares are issued annually to some Executive Officers under Japanese employment terms as a retirement saving plan. |

(b) 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.

< B > FY2022 Management Incentive Plan (annual bonus)

(a) Group Performance measures and weight

| Element | Ratio |
|-----------------------------|-------|
| Management Operating Profit | 50% |
| Free Cash Flow | 50% |

(b) Reasons for selected the measures

| Measures | Reasons |
|-----------------------------|--|
| Management Operating Profit | 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 annual budget |
| Free Cash Flow | |

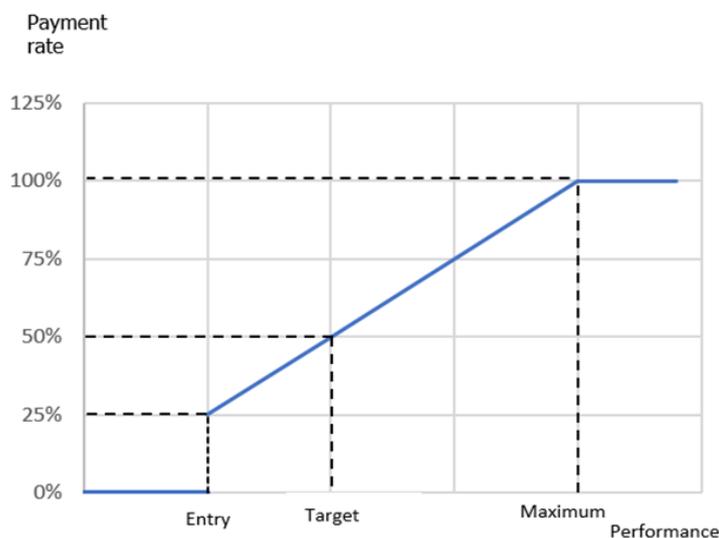
(c) Determination of Management Incentive Plan (annual bonus) Payment Level

• $\text{Payment Level} = \text{Maximum payment amount} \times \text{Achievement rate of Performance measures}$

• A Gate mechanism operates for the plan, which is based on a minimum level of Net Income that must be reached, as an affordability threshold before considering payment based on achievement against the different performance measures.

- If the Gate is not met, no payment is made
- If the Gate is met, payment is made based on achievement against the performance measures

• For each performance measure the minimum performance level ("Entry") of performance is set in line with the annual budget for the financial year. Appropriate stretch to "Target" level is identified, as is the stretch to the performance level that would equate to the maximum payment level ("Max").



Achievement rate of performance measures = Payment rate of Management Operating Profit measure x 50% + Payment rate of Free Cash Flow measure x 50%

<C> Long-term incentive

(a) Group Performance measures and weight of plans currently in operation

① Plan commencing in FY2020 (Target period : FY2020, FY2021 and FY2022)

② Plan commencing in FY2021 (Target period : FY2022 and FY2023)

* For the plan commencing in FY2021 only, due to the uncertainty in numbers resulting from the impact of Covid-19 on the business, the aggregate EPS scale is based on the 2 years FY2022 and FY2023.

Performance Measures of Plans commencing in FY2020 and FY2021

| Performance Measures | Ratio |
|-------------------------|-------|
| EPS (Earning per Share) | 50% |
| ROS (Return on Sales) | 50% |

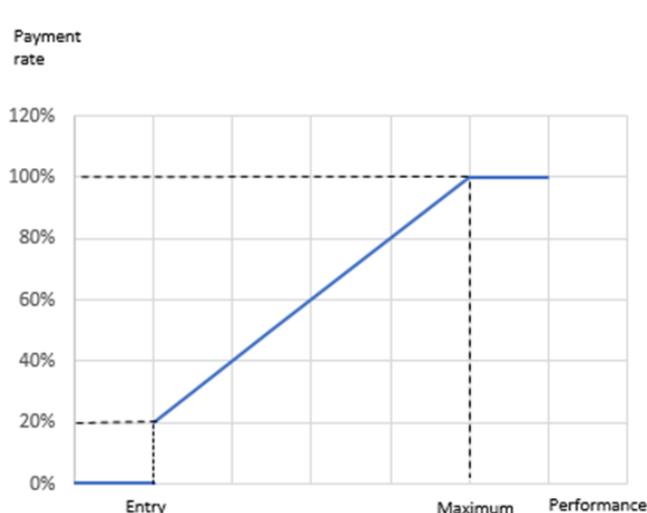
(b) Reasons for selected the measures

| Performance Measures | Reasons |
|----------------------|---|
| EPS | Two performance measures ensure clear link with the Medium-Term Plan, incentivising executives to further strengthen earning power and enhance shareholder value. |
| ROS | |

(c) Determination of LTIP Payment Level

$$\text{LTIP Payment} = \text{Maximum payment amount} \times \text{Achievement rate of Performance measures} \times \text{Share price movement rate}$$

• For each measure, "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.



Achievement rate of performance measures= Payment rate of "EPS measure" x 50% +
 Payment rate of "ROS" measure x 50%

- The share price movement rate is a coefficient that is linked to the price movements of the Company's share price for the three-year period covered by each plan, and 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.

4) Compensation Policy for Independent External Directors

| | |
|------------------------|---|
| Objectives | <ul style="list-style-type: none"> • To ensure that independent external directors can adequately and effectively fulfill their supervisory roles • To ensure that they have the capability and experience required to fulfill this role |
| Compensation level | <ul style="list-style-type: none"> • 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"> • Only Basic salary • Not eligible for Management incentive plans (annual bonuses) and Long-term incentive plans • Independent External Directors receive additional payment if they act as Chair at either the Board or any of the Committees. |

* 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.