

[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 pertaining to determining Compensation etc.

The Compensation Committee was established following the 142nd Ordinary General Meeting of Shareholders in June 2008. Its current membership consists of four External Directors of the NSG Group and one Director who concurrently serves as Representative Executive Officer. The incumbent Chairperson is Mr. Yasuyuki Kimoto, an External Director . No member of the Committee is allowed to be present when matters relating to his/her specific compensation are being discussed. The Committee is supported by a secretariat from the Human Resources and may use information from external specialists when necessary. In addition, certain member(s) of the Legal and Administration act as in-house legal adviser for any legal aspects or matters. During the financial year ending March 2018, the Committee met on four(4) occasions.

The Committee is responsible for determining:

- The policy on compensation and perquisites to be offered to the Directors and Executive Officers of the Company
- Individual compensation and perquisites to be offered 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 policy and details with respect to compensations for the Group's senior management other than Directors and Executive Officers in consistent with the policy described in (2) below.

2. 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 world-class caliber 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 elements of the packages of the Executive Officers may vary depending on the market conditions in the countries in which they are directly employed, annual bonus and long-term incentive plans follow a global policy and are structured, designed and coordinated at the Group level.

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

The salaries of Executive Officers are subject to annual review. The policy is to broadly align salaries with market medians for a global business. In determining what constitute the appropriate market rates, such factors as turnover, market capitalization and the complexity and breadth of internationalization are taken into consideration. In reviewing salaries, we look into the scope of the individual's role and responsibilities, performance, the progress the Company is making against its targets and plans, and salary increases planned for other managers.

Each Executive Officer participates in an annual performance-based incentive scheme. The Committee establishes the performance criteria and sets the appropriate bonus parameters. An incentive plan incorporates aggressive financial performance targets in light of an annual budget approved by the Board. The financial performance targets are clearly aligned to the Medium-term Plan of the Group.

Performance indicators for the FY2019 annual incentive plan for Executive Officers include the following:

Indicators	Weight (%)	
	CEO, COO and CFO	Other Executive Officers
Group Management Operating Profit	50	25
Group Free Cash Flow	50	25
Global SBU* Management Operating Profit	—	25
Global SBU* Cash from Operations	—	25

* SBU means each "Strategic Business Unit" of the Group.

No bonus is paid to Executive Officers if they fail to exceed a minimum target, which is set and approved by the Committee to ensure that the Group's business activities have met the minimum level of financial performance. The annual bonus potential payment levels for Executive Officers range between 0 and 125% of each individual's

basic salary dependent upon the management grade.

Each Executive Officer may be invited to participate in a Long Term Incentive Plan (LTIP). This plan is designed to reward the achievement of the Group's longer term objectives over a three-year period. An LTIP may be issued annually. Therefore, at any point in time, there may be up to three concurrent plans in operation. The performance criteria for these plans are defined by key financial indicators.

The performance indicator used in the plans that started in FY2017 and FY2018 is an Aggregate Earnings per Share. The performance indicator used in the plans that started in FY2019 is an Aggregate Earnings per Share and Return on Sales. No payment is made for underperformance. Payments from these plans are in cash. In order to align the interests of Executive Officers with those of shareholders, cash payments earned from these plans are made to fluctuate with the share price movement over the three-year period of each plan. The LTIP's payment levels for Executive Officers range between 0 and 150% of each individual's base salary dependent upon the management grade.

Since FY2017, Malus (reduction after allotment of the right but before such right is finalized) and Claw-back (return after the right is finalized) provisions have been introduced into the entire LTIP (Long Term Incentive Plan). When one of triggering conditions takes place, the Group may exercise these provisions. Such triggering conditions may include false or misrepresentation of financial results based on which an incentive amount is calculated, considerable extent of illegal activity, or material infringement of the Group's Code of Ethics.

The Long Term Incentive Plan starting from 2014 requires Executive Officers and other eligible participants to invest 50% of LTIP proceeds to purchase ordinary NSG shares. The mandatory investment leads to further alignment of Executive Officers with shareholders, allowing Executive Officers to benefit from the share ownership and continue to be motivated to further enhance the shareholder value. The mandatory investment in shares applies to all eligible participants in the Plans including Executive Officers who are non-resident in Japan.

Share retention and alignment with shareholders are further promoted by the introduction of shareholding targets. Shareholding targets are set for each Executive Officer in terms of a percentage of basic salary. Executive Officers are expected to build up their shareholding to meet the targets over a period of several years under the LTIP. Progress towards the shareholding targets will be assessed 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.

3. 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 fulfill 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 Director is set based on comparisons with other companies using benchmark data provided by external specialists.

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

Independent External Directors receive additional reward if they act as Chair at either the Board or one 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 a member of any of three Committees. Also a non-Independent External Director is not eligible for performance-linked incentive and a stock option as is the case with Independent External Director.