

Compensation Advisory Committee

The Compensation Advisory Committee shall provide recommendations to the Board of Directors, in accordance with the standards and procedures, to ensure that the compensation system and the compensation of directors and officers promotes the appropriate aggressive attitude toward the Group's growth, enables the hiring and retention of excellent human talent, and fosters a common perspective held by all stakeholders.



Chairperson of the Compensation Advisory Committee
Shiro Sugata

My name is Shiro Sugata, and this fiscal year I am the chairperson of the Compensation Advisory Committee. The role of this committee is to present appropriate and reasonable executive compensation proposals to the Board of Directors. For this purpose, we obtain a variety of information, such as the status of similar companies, and determine systems and standards that take into consideration duties, responsibilities, performance, and motivation. The recent trend is to lower the ratio of basic compensation and increase the ratio of variable compensation based on short- and medium- to long-term performance. The higher the position, the greater the proportion accounted for by variable compensation. One issue here is the time lag between decisions and actions and results. Executives may benefit from the good performance of their predecessors, or they may forgo short-term results in favor of improving their medium- to long-term performance. Therefore, while calculating executive compensation solely on the basis of result figures is strongly supported from the perspective of transparency and persuasiveness, a qualitative evaluation is also an important factor. In addition, with the globalization of our business and increasing diversity, we now have executives of different nationalities who are working from locations all around the world, and there is the issue of how to align our company's system with the different compensation levels in each country. Recently, there has also been a movement to reflect sustainability efforts and achievements in compensation. While considering all these factors, the ultimate goal of the committee's activities is to benefit all stakeholders.

Activity Reports

The Compensation Advisory Committee held a total of six deliberations, which included the following matters:

- Performance-linked compensation paid in July 2021
- Determination of performance indicators and formulas for performance-linked compensation paid in July 2022
- Confirmation of executive compensation levels by comparison with benchmark companies to verify the appropriateness of current levels of executive compensation, and following the results, increasing the base amount of fixed compensation and performance-linked compensation and reviewing the role of the executive

Basic Policy for the Compensation, etc. of Directors

The basic policy on the compensation of Directors shall be as follows:

- A plan that promotes the sustainable, medium- and long-term improvement of corporate value
- A plan that reflects the medium- to long-term management strategy and strongly motivates the achievement of medium- to long-term management objectives
- A plan that prevents a bias toward short-term thinking
- A plan and monetary amount that secures and maintains excellent human resources
- A plan that is transparent, fair and rational for all stakeholders, decided through an appropriate process to ensure these factors

Policy for Determining the Compensation, etc. of Officers

1) Compensation of Directors

The amount of compensation of Directors shall be determined individually within the limits approved at the General Meeting of Shareholders.^{*1} Compensation for Audit & Supervisory Board Members shall also be determined through discussion among the Audit & Supervisory Board members within the limits approved at the General Meeting of Shareholders.^{*2}

^{*1} At the 142nd Ordinary General Meeting of Shareholders held on June 26, 2018, it was resolved that the maximum amount of compensation for Directors would be 1.6 billion yen per business year (excluding salaries for employees).

^{*2} At the 128th ordinary general meeting of shareholders held on June 25, 2004, it was resolved that the maximum amount of compensation for Corporate Auditors would be no more than 150 million yen per fiscal year.

Composition

as of June 22, 2022

Outside directors	Nobuo Seki
Outside directors	Shiro Sugata ©
Outside directors	Akira Uchida
Outside directors	Kuniko Urano
Outside directors	Takuya Hirano
Chairman	Takashi Nishijima
President and CEO	Hitoshi Nara

© Chairperson

2) Composition, Roles and Responsibilities of the Compensation Advisory Committee

The Compensation Advisory Committee, comprising at least three Directors, the majority of whom are Outside Directors, shall be established as an advisory body to the Board of Directors with the aim of enhancing the objectivity and transparency of the process for determining the compensation of Directors and Executive Officers.

- Members of the Compensation Advisory Committee
The committee comprises three or more Directors, the majority of whom are outside directors.
- Roles and Responsibilities of the Compensation Advisory Committee
The Compensation Advisory Committee, in consultation with the Board of Directors, deliberates on the compensation system and decision-making policies regarding Directors and Executive Officers, and reports to the Board of Directors. In addition, the Compensation Advisory Committee, in accordance with the compensation system, determines the details of compensation for individual Directors and Executive Officers.

Measures to ensure that the Committee's Powers are Properly Exercised

The members of the Compensation Advisory Committee, which comprises a majority of independent Outside Directors, will elect a Chairperson, and the amounts of individual officers' compensation are determined based on the compensation system approved by the Board of Directors, thereby ensuring decisions that conform with the aforementioned purpose.

Composition of Officers' Compensation

Compensation for internal Directors and executive officers consists of (a) basic compensation, which is a fixed component, and (b) a performance-linked component ((b)-1 annual incentive and (b)-2 medium-to long-term incentive).

Directors and executive officers, excluding Outside Directors, Audit & Supervisory Board Members and non-executive Directors are given performance-linked compensation. This is because variable compensation such as performance-linked compensation is not appropriate for Outside Directors and Audit & Supervisory Board Members, who maintain positions independent from the performance of duties, and as such only fixed compensation is paid to them. This is the same for nonexecutive Directors.

The levels of the compensation of executives are set through a comparison with companies in the same industry

Executive category	(a) Base compensation	(b) performance-linked compensation (b)-2 including non-monetary compensation		Remarks
		(b)-1 Annual Incentive	(b)-2 Mid- to Long-Term Incentive	
Directors (excluding Outside Directors and Non-executive Directors)	○	○	○	Executive compensation and employee salaries
Outside Directors and Non-executive Directors	○	—	—	Executive compensation
Audit & Supervisory Board Members	○	—	—	Executive compensation
Outside Audit & Supervisory Board Members	○	—	—	Executive compensation
Non-Director officers	○	○	○	Employee salaries

(a) Basic Compensation

Basic compensation shall be fixed monthly compensation and shall be determined based on the criteria established by the Compensation Advisory Committee in accordance with the roles and positions of the Directors and Executive Officers.

(b) Performance-Linked Compensation

Performance-linked compensation shall be determined by the Compensation Advisory Committee in order to raise awareness of the improvement of business performance in each fiscal year and the enhancement of corporate value in the medium term. It shall be paid in the amount or number calculated according to the degree of achievement of the target (KPI).

- The concept underlying performance-linked compensation is as follows:
- Increase the ratio of performance-linked compensation to total compensation.
 - The higher the position, the higher the ratio of performance-linked compensation to total compensation, with the ratio for the Representative Director set at 60%.
 - Stock-based compensation as a percentage of total compensation shall be at least equal to that of other companies in the same industry or of the same scale.

(b-1) Annual Incentive

The annual incentive in performance-linked compensation shall be calculated by the Compensation Advisory Committee on the basis of the company-wide performance evaluation and individual performance evaluations for a single fiscal year, and shall be paid once a year. The amount to be paid shall be designed to vary from 0% to 200%, based on a value of 100% when the performance target is achieved.

* The ratio of basic compensation to annual incentive when performance targets are achieved is designed so that the higher the position is, the higher the ratio of the annual incentive is set. The lower the position is, the lower the ratio of the annual incentive will be, with the Representative Director's annual incentive being set between 0.75 and 1. The overall average including the Executive Officers is generally 1 to 0.5. This ratio may vary between 1 to 0 and 1 to 1, depending on the degree to which performance targets are achieved.

Figure1 (image)

Base compensation 1	Annual incentive 0.5 (0~1)
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(b-2) Medium-to Long-Term Incentive

Regarding the medium-to long-term incentive, at the 142nd Annual General Meeting of Shareholders convened on June 26, 2018, the Company introduced the performance share unit plan (the "PSU Plan"), a performance-based stock compensation plan, under which the Company's shares and cash are paid in accordance with the extent to which the Company's consolidated return on equity (ROE) target and other targets have been achieved in the final fiscal year of the medium-term business plan.

Subject to the performance targets and other requirements established in advance by the Board of Directors during the period of the Medium-Term Business Plan, the Company determines the amount of compensation based

and of the same scale, both domestically and internationally, based on the results of surveys conducted by external organizations, and the Company's financial condition.

Compensation levels for each position are based on the 50th percentile level of peer companies. From the viewpoint of flexible management in response to changes in the environment and the acquisition and retention of talented management personnel, compensation levels shall generally be between the 25th and 75th percentile.

Compensation for personnel hired overseas may be determined individually based on a compensation benchmark analysis that takes into account the responsibilities of each position based on executive compensation survey data in that overseas region.

on the medium-to long-term incentive for each eligible Director and Executive Officer by multiplying the base amount of stock compensation established by the Compensation Advisory Committee for each Director and Executive Officer to which compensation will be paid by a coefficient established in advance by the Board of Directors in accordance with the conditions for achieving performance targets (the "payment rate"). Of the amount of compensation, 60% shall be paid in the form of shares of the Company and 40% in monetary terms. The payout rate is designed to vary from 0% to 100% depending on the degree of achievement of the performance target.

Performance targets for medium-to long-term incentive are linked to the medium-term business plan, and are considered to be important indicators in terms of both corporate value and shareholder value. Accordingly, the Company shall use return on equity (ROE), which is an indicator of management efficiency.

The PSU Plan establishes a clawback provision under which, in the event of material fraud accounting or a large loss, it can be requested that all or a portion of the compensation paid as compensation related to the PSU Plan be reimbursed free of charge.

Notes: 1. Based on the idea that the performance objectives that are a part of the evaluation of the entire company's results for the individual year for the annual incentive are significant indicators for the Group to measure sustained growth, the performance objectives have been set for consolidated sales and consolidated return on sales (ROS).

Figure2 (image)

Base compensation 1	Annual incentive 0.5 (0~1)	Mid- to long-term incentive 0.5 (0~0.5)
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Performance objectives and results in the fiscal year ended March 31, 2021, one of the determinant factors for performance-linked compensation, are as follows:

Performance objectives set for the fiscal year ended March 31, 2021	Results in the fiscal year ended March 31, 2021
Consolidated sales	¥413.7billion / ¥374.2 billion
Consolidated return on sales	9.9% / 8.4%

Notes: 2. The Company believes the performance objectives for the medium-to long-term incentive are connected to the mid-term business plan. Among the business objectives set in TF 2020, the Company has currently chosen return on equity (ROE), an indicator showing the efficiency of management, as the performance objective based on the idea that it is a significant indicator of an increase in both corporate value and shareholder value.

Actual ROE Payment	Rate
Less than 8%	0%
From 8% to less than 11%	$(50 + (\text{Actual ROE} \times 100 - 8) / 3 \times 25)\%$
From 11% to less than 14%	$(50 + (\text{Actual ROE} \times 100 - 11) / 3 \times 50)\%$
14% or higher	100%

* The actual ROE for the fiscal year ended March 31, 2021 was 6.5%, and the payment rate was 0%.