

Remuneration for Directors and Executive Officers

The policy and process for determining remuneration for directors and executive officers is as follows.

1. The policy for setting remuneration for directors and executive officers:

Principles of Remuneration

- Attract and cultivate superior talent
- Support a competitive remuneration level
- Provide motivation for the execution of business strategies
- Provide motivation for enhancing shareholder value

Setting remuneration

The Company sets remuneration for members of the Board of Directors and executive officers based on the Company's performance results and business size and it is commensurate with roles and the level of responsibilities undertaken. The policy is structured to consider the remuneration levels of other major global companies in Japan which were selected for comparison from the point of view of sales volume, overseas sales ratio, and operating profit ratio.

Remuneration Composition

Item	Description	
Fixed remuneration	Base remuneration	<ul style="list-style-type: none"> Monthly cash remuneration determined based on responsibilities and job description
	Additional allowance for members of the Board of Directors with concurrent duties	<ul style="list-style-type: none"> Monthly cash remuneration for executive officers who serve concurrently as members of the Board of Directors based on their role and responsibilities
	Additional allowance for chairpersons	<ul style="list-style-type: none"> Monthly cash remuneration for an outside director based on their role and responsibilities as chairperson of the Board of Directors
	Additional allowance for committee chairs	<ul style="list-style-type: none"> Monthly cash remuneration for an outside director based on their role and responsibilities as chairperson of a committee
Variable remuneration (performance-based)	Performance-based bonus (Groupwide)	<ul style="list-style-type: none"> Cash remuneration paid at the end of the fiscal year
	Type A (Determined by quantitative evaluation)	<ul style="list-style-type: none"> With adjusted operating profit* used as an indicator, payment amounts are determined according to the degree to which targets are achieved. 80% of Groupwide performance-based bonus If the Compensation Committee sets remuneration for each position at 100% (the standard amount), the actual payout may range from 0% to 150% of the standard amount, depending on business performance.
	Type B (Determined by qualitative evaluation)	<ul style="list-style-type: none"> Remuneration reflecting the degree of contribution to improving corporate value, including Companywide performance and value from a mid-term perspective, as discussed and decided by the Compensation Committee 20% of Groupwide performance-based bonus If the Compensation Committee sets remuneration for each position at 100% (the standard amount), the actual payout may range from 80% to 120% of the standard amount, depending on business performance.
	Performance-based bonus (area of responsibility)	<ul style="list-style-type: none"> Cash remuneration paid at the end of the fiscal year Payment amount is determined according to the degree of achievement within recipient's area of responsibility. If the Compensation Committee sets remuneration for each position at 100% (the standard amount), the actual payout may range from 80% to 130% of the standard amount, depending on business performance in the recipient's area of responsibility.
Performance-based stock compensation	Performance Share Units (PSUs)	<ul style="list-style-type: none"> Remuneration provided for motivation to contribute toward achievement of mid-term performance targets and the improvement of corporate value, in addition to morale and shared value with shareholders Stock-based compensation issued according to business results over a three-year period With consolidated ROIC and consolidated ROE used as indicators, the number of shares given is determined based on the degree to which targets are reached. Remuneration is split 50-50 between monetary payment and shares at time of delivery, with consideration given to income tax amounts borne by the recipient.

* To coincide with the voluntary adoption of IFRS beginning in fiscal 2020, adjusted operating profit has been adopted as an indicator instead of operating income, which is used under JGAAP. Under IFRS, adjusted operating profit is determined by adding or subtracting certain adjustment items to or from pre-adjusted metrics. (Adjusted items)

Business and plant restructuring income and expenses, impairment losses, loss on disaster, insurance claim income, and other gains and losses with huge amounts related to one time event.

The remuneration composition ratio is set with reference to cases overseas, especially in U.S. and European markets, which are of particular importance to the Company's business. However, as a general rule, the ratio of performance-based remuneration within total remuneration is higher for higher-ranking positions, where there is a greater responsibility toward performance and corporate value. The following table represents the composition ratio of remuneration for members of the Board of Directors who concurrently conduct business execution and executive officers when performance-based remuneration is within the standard range, with the exact ratio depending on rank. The percentages may not apply when members of the Board of Directors or executive officers hold concurrent positions as executives of subsidiaries and receive remuneration from those subsidiaries.

Fixed remuneration		Variable remuneration (performance-based)	
<p>Monthly remuneration (base remuneration and additional payment for members of the Board of Directors with concurrent duties)</p> <p>30%–45%</p>	<p>Short-term incentives (Groupwide, performance-based bonus plus performance-based bonus in area of responsibility)</p> <p>31%–39%</p>	<p>Long-term incentives (performance-based stock compensation plan)</p> <p>24%–31%</p>	

Reasons for Selecting Performance Indicators

After discussions and deliberations among the Compensation Committee, it was decided that an appropriate director incentive program would include a performance-based bonus, with adjusted operating profit used as an indicator of short-term performance, in addition to performance-based stock compensation. A combination of consolidated ROE and consolidated ROIC, both of which are performance indicators that comprise the numerical targets for the Mid-Term Business Plan, serve as indicators for performance-based stock compensation. These indicators were chosen for their ability to assess business strategy and compensation incentives, for their continuity as an indicator, and for ease of explanation to stakeholders.

Remuneration for members of the Board of Directors

- Remuneration for members of the Board of Directors who concurrently conduct business execution comprises fixed and variable components.

Fixed remuneration is made up of base remuneration and remuneration for additional duties.

Variable remuneration consists of a Groupwide performance-based bonus and the Performance Share Unit (PSU) plan, which is a performance-based stock compensation plan.

- Remuneration for members of the Board who do not concurrently conduct business execution is fixed and comprises base remuneration plus an allowance for the members of the Board in the position of chairperson or the chair of a committee. The policy is structured to consider the recipient's contributions toward mid- to long-term business performance and the enhancement of corporate value by overseeing the management and operations of the Company without actually being involved in day-to-day operations. "Members of the Board of Directors who do not concurrently conduct business execution" refers to outside directors, as well as internal directors who audit the execution of duties by executive officers and members of the Board of Directors.

Remuneration for executive officers

- Remuneration for executive officers comprises fixed and variable components.

Fixed remuneration comprises base remuneration, whereas variable remuneration is made up of a Groupwide performance-based bonus, a performance-based bonus in the officer's area of responsibility, and the PSU plan.