

Director remuneration

Policy on deciding remuneration for directors and officers

The remuneration system for directors, and that for corporate executive officers shall be different. Remuneration is determined by the Compensation Committee based on the following concepts.

Basic policy for deciding remuneration for directors

- In view of supervising and auditing our management from an independent and objective standpoint, we have only established basic remuneration (fixed remuneration).
- In order to secure human resources suitable for fulfilling our responsibilities as a director, the level of remuneration will be determined by taking into account trends in other companies, expected roles, and functionals, etc.

(Note) For a director concurrently serving as a corporate executive officer, the remuneration for a corporate executive officer shall apply.

Basic policy for deciding remuneration for corporate executive officers

- The remuneration system shall strongly encourage the integrated practice of the three axes of KAITEKI Management (MOS: Management of Sustainability, MOT: Management of Technology, and MOE: Management of Economics) in an aim to realize KAITEKI as the Group's vision.
- The remuneration system shall effectively function as an incentive to promote improvements in short- and medium-term performance as well as sustainable corporate and shareholder value.
- The level of remuneration shall be competitive in order to ensure the retention and acquisition of excellent management personnel to drive the Group's sustainable growth.
- A fair and reasonable remuneration determination process shall be implemented to ensure accountability to all stakeholders, including shareholders, customers, and employees.

Composition of the remuneration of corporate executive officers

In light of the basic policy, the remuneration of corporate executive officers was reviewed in fiscal 2019, and from fiscal 2020, we have decided to increase the ratio of performance-linked remuneration and stock-based remuneration for corporate executive officers to more effective ratios, and have introduced a new restricted stock remuneration plan. We have also decided to add an individual evaluation (non-financial evaluation) to the cash bonus evaluation.

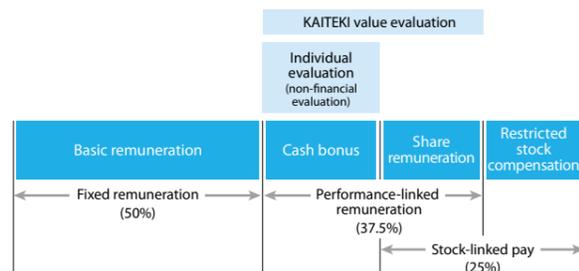
Remuneration level

The remuneration level for corporate executive officers is set at a competitive level and an appropriate remuneration

composition ratio every year by the Compensation Committee, using data from an external specialist organization's survey on executive remuneration for each position and responsibility and after conducting a comparative evaluation of remuneration levels and the linkage with performance for other companies of the same size in terms of domestic sales.

Performance-linked remuneration consists of a cash bonus and stock remuneration, and is designed to motivate management to maintain a balance between short-, medium-, and long-term performance and improvement in corporate and shareholder value.

The remuneration composition ratio for fiscal 2020 for the president was 50% for basic remuneration, 25% for performance-linked remuneration as a cash bonus (standard amount), 12.5% for performance-linked remuneration as stock remuneration (standard amount), and 12.5% for restricted stock (base amount). Remuneration is set for other corporate executive officers in the same manner as the president, with a higher percentage of variable remuneration for higher positions.



(Note) The remuneration composition ratio is calculated based on the standard amount (amount paid if 100% of the target is achieved with respect to performance-linked remuneration).

How performance-linked remuneration is determined

The Compensation Committee deliberates and decides on performance-linked remuneration based on the following formula.

Cash bonus

In principle, the amount paid varies between 0% and 200% of the standard amount set for each position, depending on the status of achievement of annual targets (KAITEKI value evaluation) and individual evaluation in the three management axes of KAITEKI Management.

$$\text{Cash bonus payment for each individual} = \text{Standard amount by position} \times \text{KAITEKI value evaluation (0\% to 200\%)} \times \text{Individual evaluation (\pm 20\%)}$$

Remuneration composition		Overview
Fixed remuneration	Basic remuneration	Basic remuneration for the performance of duties, set according to the role and responsibility of each corporate executive officer (such as their role and whether they have representative rights)
Variable remuneration	Performance-linked remuneration	Cash bonus Cash is paid each fiscal year based on the KAITEKI value evaluation and individual evaluation (including the status of achievement of goals in the medium- to long-term management plan and demonstration of leadership).
		Share remuneration Points are awarded according to the KAITEKI value evaluation each fiscal year, and common shares of the Company equivalent to the number of accumulated points are provided upon retirement.
	Restricted stock compensation Remuneration to further promote the creation and enhancement of medium- to long-term sustainable corporate value and the sharing of value with shareholders. Restricted stock equivalent to a standard amount determined by position are issued each fiscal year and the restrictions on transfer will be lifted upon retirement.	

Share compensation

This is a framework in which common shares of the Company are distributed through the Board Incentive Plan (BIP) trust. Points are awarded every year depending on the status of achievement of annual targets (KAITEKI value evaluation). Common shares of the Company and dividends from those common shares equivalent to the number of points accumulated are then provided to corporate executive officers at the time of retirement.

$$\text{Number of points granted to individuals} = \text{Base points by position} \times \text{KAITEKI value evaluation (0\% to 200\%)}$$

KAITEKI value evaluation

The remuneration system is designed to make employees strongly aware of KAITEKI Management as a means of achieving KAITEKI, the Company's vision by using the management indices of MOS, MOT, and MOE in the KAITEKI Management program promoted by the Company as the evaluation basis for performance-linked remuneration.

The specific evaluation indices and evaluation ratios for KAITEKI value evaluation are as follows.

Indices	Details	Ratio
MOS Indices	Indices related to matters such as the reduction of global environmental impact, contribution to health and medical care, contribution to social issues, compliance, and prevention of accidents and fires	10%
MOT Indices	Indices related to R&D efficiency, technological advantages, and consistency with social needs	10%
MOE Indices	Indices related to matters such as core operating income, ROE, ROIC, and free cash flow	80%

The KAITEKI value evaluation is based on the achievement of target values for each fiscal year, which are determined after deliberation by the Corporate Executive Officers Meeting and verified as appropriate by the Compensation Committee.

The Compensation Committee also works with the Nominating Committee to confirm the fairness and reasonableness of the level of achievement compared to the targets declared at the beginning of the relevant fiscal year.

Individual evaluation

The targets for the president are determined at the start of the fiscal year for evaluation, after deliberation by the Compensation Committee and Nominating Committee regarding the targets declared by the president. The evaluation is deliberated and determined by the Compensation Committee and Nominating Committee at the end of the fiscal year for evaluation, based on a self-evaluation by the president.

Targets for corporate executive officers other than the president are determined at the start of the fiscal year for evaluation through interviews with the president and each corporate executive officer, and are deliberated and approved by the Compensation Committee. The evaluation is determined through interviews with the president and corporate executive officer at the end of the fiscal year under review, subject to deliberation and approval by the Compensation Committee. The Compensation Committee works together with the Nominating Committee to confirm the fairness and reasonableness of the targets and evaluation of each corporate executive officer.

Return of remuneration

As necessary, the Company may utilize other temporary remuneration or benefits, after separate discussions by the Compensation Committee. In the event of a serious case of misconduct or violation by a director or corporate executive officer, the Company may request that the director or corporate executive officer in question forfeit the beneficial interest in the executive officer's remuneration (based on a malus clause) or return the remuneration (clawback).

Total amount of executive remuneration

The total amount of remuneration by executive category for fiscal 2019 is as follows.

Category	No. of persons	Amount of remuneration paid, etc. (Millions of yen)		
		Basic remuneration	Performance remuneration	Total
Directors (inside)	6	212	15	227
Directors (outside)	7	71	—	71
Corporate executive officers	7	287	91	378
Sum total	20	570	106	676

- (Notes) 1 The total amount of remuneration, etc. MCHC and its subsidiaries paid to officers is shown as the amount of remuneration, etc. paid above.
 2 The amount of remuneration, etc. the Company paid is ¥296 million to thirteen directors (of which, ¥71 million to seven outside directors) and ¥371 million to seven corporate executive officers.
 3 The Company remunerates directors who concurrently serve as Corporate Executive Officers for their services as corporate executive officers.
 4 Performance remuneration to directors (inside) is stock remuneration with a BIP trust paid to directors who concurrently served as corporate executive officers in the previous fiscal year as performance remuneration at the time of standing as corporate executive officers.
 5 Performance remuneration to corporate executive officers is remuneration paid by the Company based on cash bonus and stock remuneration with a BIP trust.

Board Incentive Plan (BIP) trust

Under this incentive plan set for five consecutive fiscal years (including the three fiscal years beginning with the fiscal year ended March 31, 2019 and ending with the fiscal year ending March 31, 2021) corresponding to the period of the Company's medium-term management plan, corporate executive officers will be given points according to their titles and achievement level for the fiscal year targets and the targets set in the medium-term management plan. This is an incentive plan under which the Company's shares and dividends generated from the Company's shares that are equivalent to the number of accumulated points calculated after the retirement of the corporate executive officer are provided as executive remuneration.

