

Fundamental Policy for Remuneration of the Company's Directors

1. Basic Approach to Remuneration for Directors and Executive Officers

1. The system aims to secure talented human resources who can contribute to the Company's sustainable development, and appropriately compensate for such efforts.
2. The system aims to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.
3. In offering the incentive for accomplishing consolidated business result targets, the system must be devised with due consideration of the characteristics of each business so that Directors and Executive Officers can fully carry out their roles.
4. In ensuring the objectivity and transparency of judgments regarding remuneration decisions, the Nomination & Compensation Committee deliberates on the state of the remuneration system and the necessity of its reevaluation.

2. Remuneration Framework

1. Based on the resolution at the Ordinary General Meeting of Shareholders, the Board of Directors establishes the Remuneration Regulations for Directors and Executive Officers, Detailed Rules on Remuneration Regulations for Directors and Executive Officers, Performance-Based Compensation Regulations for Directors and Executive Officers, and Stock Benefit Regulations for Directors and Executive Officers, which include the remuneration calculation methods for individual Director/Executive Officer.
2. Remuneration for the Company's Directors and Executive Officers consists of basic remuneration (fixed compensation) based on the remuneration rank determined according to rank and assigned duties, performance-based compensation consisting of the portion linked to division performance and the portion linked to individual evaluation for each fiscal year, and medium- to long-term incentive compensation based on stock compensation with the aim of sharing interest in corporate value enhancement with shareholders. Taking into consideration their duties, Independent Directors and Directors who are Audit & Supervisory Committee Members are not eligible for performance-based compensation and medium- to long-term incentive compensation. The remuneration rank is determined by the President taking account of the level of responsibility of the assigned duties and reported to the Nomination & Compensation Committee and the Board of Directors.
3. Of performance-based compensation, the standard pay amount for the portion linked to division performance will be set at the level of 25-30% of basic remuneration for each rank and remuneration rank, the amount for the portion linked to individual evaluation will be set at the level of -5% to 5% of basic remuneration for each rank and remuneration rank,

and the value of medium- to long-term incentive compensation provided per fiscal year will be set at the level of 25–30% of basic remuneration for each rank and remuneration rank.

4. Limits of remuneration and other benefits based on the resolution at the Ordinary General Meeting of Shareholders:

- Remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members)

The limit of basic remuneration

Within a total of 650 million yen per fiscal year

The limit of performance-based compensation

Within a total of 350 million yen per fiscal year

The upper limit on the number of points granted medium- to long-term incentive compensation

671,400 points per fiscal year

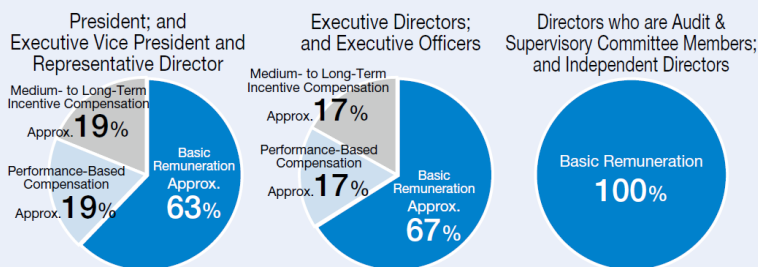
- Remuneration for Directors who are also Audit & Supervisory Committee Members (basic remuneration only)

Within a total of 132 million yen per fiscal year

(Reference)

Percentage of compensation categories by position

The percentages of compensation categories by position are as follows. The percentages of the performance-based compensation and medium- to long-term incentive compensation are higher for the positions that require a higher level of performance and responsibility.



*1 The amounts of the portion linked to division performance of performance-based compensation and medium- to long-term incentive compensation granted vary depending on business results. The range of fluctuation is 0–200% of the base amount for the portion linked to division performance of performance-based compensation and 0–100% of the base amount for medium- to long-term incentive compensation. The percentages of the portion linked to division performance of performance-based compensation and medium- to long-term incentive compensation in the above table are based on each amount being 100% of the base amount. In addition to the above table, the amount for the portion linked to individual evaluation is paid in the range of -5% to 5% of basic remuneration.
 *2 Executive Directors and Executive Officers are based on a standard remuneration rank.

3. Performance-Based Compensation

1. In terms of the portion linked to division performance of performancebased compensation, a performance target will be set based on business management indices as stated in the Medium-Term Management Plan. Each business division also sets a performance target based on performance management indices for each business division. The amount to be paid is determined by multiplying the standard pay amount for each rank and remuneration rank by 0–200% according to the accomplishment of the target. The business management indices, which serve as the basis of calculation, are established by the Board of Directors.

(Reference) Calculation method for the portion linked to division performance of performance-based compensation

$$\text{Performance-based compensation} = \text{Standard pay amount for each rank and remuneration rank*1} \times \text{Coefficient based on evaluation index*2}$$

*1 Standard pay amount for each rank and remuneration rank:

The standard pay amount for each rank and remuneration rank is set forth in Detailed Rules for Executive Remuneration Regulations.

*2 Coefficient based on evaluation index:

Net income attributable to owners of the parent (hereinafter “net income”) over the given period is the indicator used for the coefficient for calculating performance-based compensation, and the calculation method is provided below. The business division used for calculating the portion of compensation linked to division performance is determined based on actual duties assigned to each Director who is scheduled to receive performance-based compensation. Also, if the scope of duties assigned to a Director is the Head Office (including the Technical Development Group) or the electric power business, then said Director’s performance-based compensation does not include the portion of compensation linked to division performance. Rather than the formula directly below, the performance-based compensation for such Directors is calculated using the formula “Portion linked to Companywide performance \times 1.0.”

$$\text{Coefficient based on evaluation index (\%)} = \text{(A) Portion linked to Companywide performance (\%)} \times 0.7 + \text{(B) Portion linked to division performance (\%)} \times 0.3$$

$$\text{(A) Portion linked to Companywide performance (\%)} = \frac{\text{Companywide consolidated net income}}{\text{Net income equivalent to Companywide consolidated ROA of 5\%}} \times 100$$

$$\text{(B) Portion linked to division performance (\%)} = \frac{\text{Net income in each business division}}{\text{Net income in each business division equivalent to consolidated ROA of 5\%}} \times 100$$

* Decimal points are rounded off in the figures for the portion linked to Companywide performance and the portion linked to division performance. In the event that the value falls below 0%, then 0% is established as the value. In the event that the value goes above 200%, then 200% is established as the value.

2. The portion linked to individual evaluation of performance-based compensation is subject to comprehensive evaluation, including the performance of assigned duties and business unit, the accomplishment of the target, and other aspects. The amount to be paid is determined by multiplying the basic remuneration for each rank and remuneration rank by -5% to 5% according to the evaluation results. Evaluation for Executive Officers overseeing business divisions and heads of business divisions is determined by the President, and evaluation for other Executive Officers is determined by the President after primary evaluation by Executive Officers overseeing business divisions and heads of business divisions. The details of evaluation are reported to the Nomination & Compensation Committee.
3. The calculation methods for the standard pay amount and coefficients for each rank and remuneration rank are set forth in the Detailed Rules on Remuneration Regulations for Directors and Executive Officers and the Performance-Based Compensation Regulations for Directors and Executive Officers.
4. Business management indices are disclosed in the Business Report.

Note: Raising the level of profit attained through the steady execution of strategic investments was set as an important management issue, and the Company placed emphasis on how much profit was gained from its total assets including strategic investments leading up to fiscal 2020. Accordingly, the Company adopted “a consolidated ROA of 5% or more” for net income attributable to owners of the parent as stated in the Medium-Term Management Plan as the index. From fiscal 2021, the Company will promote efforts to make efficient use of management resources and strengthen the management foundation with an awareness of capital costs by establishing an evaluation index based on business management indices such as ROIC, etc. which is emphasized in the new Medium-Term Management Plan.

4. Medium- to Long-Term Incentive Compensation

1. For medium- to long-term incentive compensation, a system known as Board Benefit Trust is adopted in order to raise the awareness of contributing to continuous improvements in corporate value. The stock benefit uses a base point number calculated based on the standard pay amount for each rank and remuneration rank, and the number of points determined by multiplying the base point number by 0–100% according to Companywide net income and the state of dividend payment for each fiscal year will be granted. On a fixed date during each trust period of three years, the number of the Company’s shares will be provided according to the number of points granted.
2. The calculation methods for the base point number for each rank and remuneration rank

and coefficients are set forth in the Detailed Rules on Remuneration Regulations for Directors and Executive Officers and the Performance-Based Compensation Regulations for Directors and Executive Officers.

3. As funds for acquisition of shares by the trust, in principle, 1.1 billion yen will be contributed every three years. However, when there are remaining shares of the Company in the trust property as of the last day of the previous trust period, they will be used as funds for the subsequent trust periods, and an amount derived by deducting the amount of the remaining Company shares, etc. from 1.1 billion yen will be contributed.

5. Timing of the Determination and the Payment of Remuneration Amount

1. Basic remuneration will be paid every month from the month of appointment to the position in a monthly amount derived by dividing basic remuneration based on rank and remuneration rank by 12 months. If there is a change to the basic remuneration in the middle of the month due to a change in the assigned tasks and other reasons, the revised remuneration will be paid from the month following the change.
2. Of performance-based compensation, the amount for the portion linked to division performance will be determined based on the calculation formula after the end of each fiscal year and paid lump-sum by the end of the month following the month when the Ordinary General Meeting of Shareholders is convened. The portion linked to individual evaluation will be paid in an amount derived by dividing the amount determined based on the calculation formula according to the results of individual evaluation after the end of each fiscal year by 12 months, together with monthly basic remuneration.
3. In terms of medium- to long-term incentive compensation, the number of points will be determined based on the calculation formula after the end of each fiscal year and granted on June 30 each year. Company shares, etc. will be provided every three years on a fixed date during the trust period.

(Reference) Calculation method for points to grant medium- to long-term incentive compensation

$$\begin{array}{|c|} \hline \text{Number of points} \\ \hline \text{to be provided} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Base point} \\ \text{number for each} \\ \text{rank and} \\ \text{remuneration} \\ \hline \text{rank*1} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Coefficient based} \\ \text{on evaluation} \\ \hline \text{index*2} \\ \hline \end{array}$$

*1 Base point number for each rank and remuneration rank:

The base point number for each rank and remuneration rank is set forth in the Detailed Rules for Executive Remuneration Management.

*2 Coefficient based on evaluation index:

The coefficient based on evaluation index is determined according to actual dividends and net income.

6. Method to Determine Remuneration Standards

Remuneration standards are determined based on the survey data, collected by external specialized agency, concerning the remuneration for directors and executive officers so that the standards are commensurate with the Company's corporate scale and the duties expected of Directors and Executive Officers.

7. Method to Determine and Examine Remuneration Policy

1. The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by resolution of the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined through discussions among all Audit & Supervisory Committee Members.
2. The state of the remuneration system and the necessity for its revision are deliberated by the Nomination & Compensation Committee. If it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors for resolution.

Reference Value and Results for Each Remuneration Category

Remuneration Category	Performance-Based Compensation	Medium- to Long-Term Incentive Compensation
Index	Consolidated ROA	Net income attributable to owners of the parent
Reference value for fiscal 2020	5.0%	73 billion yen
Results for fiscal 2020	0.6%	23.2 billion yen

The Activities of the Board of Directors and the Nomination & Compensation Committee in Recent Fiscal Years

The following items regarding the remuneration of Directors and Executive Officers for fiscal 2020 were deliberated by the Nomination & Compensation Committee and then decided on by the Board of Directors:

Timing	Items deliberated and decided on
February 2020	Reduction of basic remuneration
May 2020	Further reduction of basic remuneration
February 2021	Revision of the remuneration system for Directors and Executive Officers
May 2021	The amounts of performance-based compensation and medium to long-term incentive compensation for fiscal 2020