

Corporate Governance

Remuneration for Directors, Executive Officers, and Accounting Auditor

1 Basic Approach to Remuneration for Directors and Executive Officers

- The system aims to secure talented human resources who can contribute to the Company's sustainable development, and appropriately compensate for such efforts.
- The system aims to share values widely with stakeholders and promote not only short-term growth, but also medium- to long-term growth.
- In offering the incentive for accomplishing consolidated business result targets, the system shall be devised with due consideration of the characteristics of each business so that directors and executive officers can fully carry out their roles.
- 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.

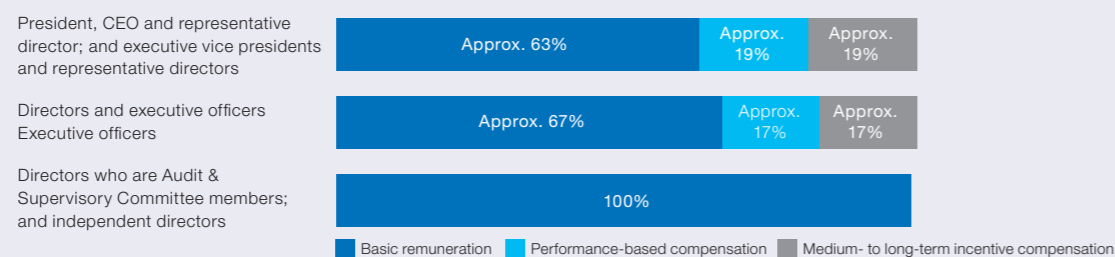
2 Remuneration Framework

- 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.
- 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.
- 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.
- Limits of remuneration and other benefits based on the resolution at the Ordinary General Meeting of Shareholders are as follows.
 - Remuneration for directors (excluding directors who are Audit & Supervisory Committee members)
 - The limit of basic remuneration: Within a total of 460 million yen per fiscal year
 - The limit of performance-based compensation: Within a total of 240 million yen per fiscal year
 - Maximum points to be granted for medium- to long-term incentive compensation: Within a total of 424,100 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

Composition of Remuneration for Directors and Executive Officers

The graph below shows the composition of remuneration. 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.



Notes:

- 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 graph represent the case where each pay amount is 100% of the base amount. In addition to the above amount, the amount for the portion linked to individual evaluation is paid in the range of -5% to 5% of basic remuneration.
- Executive directors and executive officers are based on a standard remuneration rank.

3 Performance-Based Compensation

- In terms of the portion linked to division performance of performance-based compensation, a performance target will be set based on business management indices as stated in the Medium-Term Management Plan. Each business division will also set 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.
- 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.

Note: The portion linked to individual evaluation is determined by comprehensively taking into account the status of ESG-related initiatives in the commissioned duties of each director and executive officer.

- 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.
- Business management indices are disclosed in the Business Report.

Note: From fiscal 2021, return on invested capital (ROIC) is used as an evaluation indicator to promote the efficiency of management resources and strengthen the business foundation with an awareness of cost of capital. The base value for calculation is set at a ROIC of 5%, based on the targets set forth in the Medium-Term Management Plan.

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

$$\text{Performance-based compensation (portion linked to division performance)} = \text{Standard pay amount for each rank and remuneration rank}^1 \times \text{Coefficient based on evaluation index}^2$$

- The standard pay amount for each rank and remuneration rank is set forth in the Detailed Rules on Remuneration Regulations for Directors and Executive Officer.
- The ROIC for the evaluation period is used as an evaluation index. Coefficient is calculated based on a certain formula. The applicable business division for the portion linked to division performance is determined for each prospective recipient based on his/her commissioned work. In addition, in the case where the assigned duties to a Director are performed in the Head Office divisions (including the Technical Development Group) or the electric power business division, the said Director's performance-based compensation does not include the portion of compensation linked to division performance and is calculated by multiplying the portion linked to Companywide performance by a factor of 1.0 [Portion linked to Companywide performance \times 1.0] regardless of the following formula.

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

$$\text{(A) Portion linked to Companywide performance (\%)} = \left[\frac{100/3}{\text{Companywide consolidated ROIC}} - \frac{2/3}{100} \right] \times 100$$

$$\text{(B) Portion linked to division performance (\%)} = \left[\frac{100/3}{\text{Consolidated ROIC for each business division}} - \frac{2/3}{100} \right] \times 100$$

Note: 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%, it will be defined as 0%. In the event that the value goes above 200%, it will be defined as 200%.

4 Medium- to Long-Term Incentive Compensation

- 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 consolidated net income attributable to owners of the parent 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.

Note: Since the Company considers the return of profits to shareholders as an important issue for management, it uses net income attributable to owners of the parent (hereinafter "net income") as the evaluation indicator. The base value for the calculation is net income of 79.4 billion yen, which is based on the dividend payout ratio set forth in the Company's dividend policy.

- 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.
- 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 the Company will contribute an amount derived by deducting the amount of the remaining Company shares, etc., from 1.1 billion yen.

Calculation method of points granted for medium- to long-term incentive compensation

$$\text{Number of points to be granted} = \text{Base point number for each rank and remuneration rank}^1 \times \text{Coefficient based on evaluation index}^2$$

- Stipulated in the Detailed Rules on Remuneration Regulations for Directors and Executive Officers.
- Determined based on the results of dividends and net income.

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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 determined according to the results of individual evaluation based on the calculation formula after the end of each fiscal year, together with the portion linked to division performance.
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.

6 Method to Determine Remuneration Standards

Remuneration standards are determined based on the survey data, collected by an 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 commissioned duties 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 committee will present a revised remuneration plan at a meeting of the Board of Directors for resolution.

Reference

Base Value and Actual Value for Each Remuneration Category

Remuneration Category	Performance-Based Compensation	Medium- to Long-Term Incentive Compensation
Index	ROIC	Net income attributable to owners of the parent
Base value for fiscal 2021	5.0%	79.4 billion yen
Actual value for fiscal 2021	4.7%	60.0 billion yen

[The Remuneration System for Directors and Executive Officers](#)

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

The following items regarding the remuneration for directors and executive officers in fiscal 2021 have been deliberated by the Nomination & Compensation Committee and then decided on by the Board of Directors.

Timing	Items Deliberated and Decided on
Aug. 2021	Lifting of reduction to basic remuneration
Feb. 2022	Review of the remuneration system for directors and executive officers (evaluation indicators for performance-based compensation and performance levels for medium- to long-term incentive compensation)
Apr. and May 2022	Review of the officer remuneration system (payment timing of performance-based compensation)
May 2022	Amounts of performance-based compensation and medium- to long-term incentive compensation in fiscal 2021

Fiscal 2021 Remuneration for Directors

Category	Number of Directors (Persons)	Amount (Millions of yen)	Breakdown of Total Remuneration (Millions of yen)			Remarks
			Basic remuneration	Performance-based compensation	Medium- to long-term incentive compensation	
Directors excluding Audit & Supervisory Committee members (of whom are independent directors)	11 (3)	480 (40)	321 (40)	84 (—)	74 (—)	The number of payees and the amount of payment include three internal directors (who are not Audit & Supervisory Committee members) who resigned during fiscal 2021.
Directors who are Audit & Supervisory Committee members (of whom are independent directors)	5 (3)	109 (44)	109 (44)	— (—)	— (—)	
Total	16	589	430	84	74	

Note: Taking seriously the large net loss attributable to owners of the parent and the forgoing of the annual dividend in fiscal 2019, the Company has reduced the basic remuneration for directors (excluding independent directors and directors who are Audit & Supervisory Committee members) by 8–20% from February to April 2020 and by 13–25% from May to August 2021.

Remuneration for Accounting Auditor

In fiscal 2021, remuneration and other amounts payable to the Accounting Auditor by the Company totaled 159 million yen, and the total amount of money and other financial interests payable by the Company and its subsidiaries was 477 million yen.