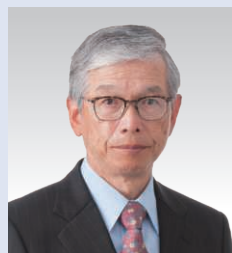


Board of Directors

The Board of Directors, which holds a meeting once a month in principle, is comprised of nine (9) Directors, including five (5) independent Outside Directors, aiming to achieve sustainable growth and an increase in corporate value of the Group over the medium to long term as a decision-making body. To achieve these goals, considering its initiatives for sustainability as an important management issue, the Board of Directors shall determine the general direction of the Group, including corporate strategies, while improving profit-earning capability and capital efficiency. Also, in addition to monitoring and supervising the execution of business by management, including directors and officers, the Board of Directors shall develop provisions related to the execution of duties by directors and establish a framework to take supervision responsibility related to the execution of business. (Fiscal Year 2022: Held 14 times)

Examples of Agenda Items Discussed by the Board of Directors in Fiscal Year 2022

- Medium- to long-term growth strategy and important management issues
- Sustainability
- Governance concept



Chairman of the Board
Shiro Sugata

Fiscal Year 2023, A Milestone Year: Solidifying Our Achievements and Preparing for the Future

It was an honor to be appointed Chairman at the meeting of the Board of Directors that was held after the Annual General Meeting of Shareholders in June 2023. Fiscal year 2023 is a significant milestone year for Yokogawa. First, it is the final fiscal year under the Accelerate Growth 2023 medium-term business plan that commenced in 2021, and the attainment of its goals will be examined. Under this plan, we are proceeding with four major corporate transformation projects, and will move forward with their concrete implementation under a new setup. Second, in fiscal year 2023, the next medium-term business plan will be formulated and put in place. We are also deepening our discussions on a new organizational design, a topic that has been under consideration for several years now. The Board of Directors therefore, expects to handle an even broader range of issues, as it strives to operate efficiently and ensure quick and effective decision-making.

In fiscal year 2022, we launched the Energy & Sustainability, Materials, and Life business for subsegment of control business, and produced results in a broad range of industries. Our product business also grew substantially. As a result, company-wide results significantly exceeded initial targets, with some divisions taking just two years to achieve the targets that had been set for the three-year medium-term business plan. However, this took place under circumstances that included an unpredicted rise in oil and gas demand triggered by the conflict in Ukraine and an unprecedented depreciation of the yen. We have made it only part way down the road in our efforts to improve profitability. Taking current circumstances into account, we will aim to secure good results in the final fiscal year of the current medium-term business plan, formulate a new medium-term business plan that is in line with our aspiration to reach net sales of one trillion yen by 2030, and make solid progress in discussions on measures that will allow us to begin the next fiscal year in good shape.

For a company to enhance corporate value and grow, it is vital to provide services and products that are useful to society and in demand, and to establish mechanisms that allow this to continue. Past evaluations of the Board of Directors have indicated that its scale, composition, and operations are appropriate. Ultimately, the effectiveness of the Board of Directors can be judged based on the company's corporate value, as indicated by its achievements and share price, and by the correctness of the decisions that led up to this. However, that can only be evaluated in retrospect. We will, therefore, make arrangements that will facilitate our consideration of what actions should be taken. Specifically, we will select matters that should be decided by the Board of Directors, ensure the provision of all necessary information, discuss matters sufficiently, make decisions swiftly, and follow up on any decisions that are made. Until now, Yokogawa has gone about these tasks in a relaxed manner; without being disruptive, we will seek to operate more efficiently.

Regarding the provision of information and the efficiency of discussions, we will continue to make use of practices, such as advance explanation of agenda for Board meetings and observing management meetings, which have also been improved in 2022. I think that visits to business sites and informal discussions with executives and/or the members of the Audit & Supervisory Board could also be effective. Meanwhile, the new organizational design and the decision-making process that are currently under consideration to speed up decision-making and business operations will involve the delegation of authority to the executive team. Therefore, it will become even more crucial to reinforce the supervisory and monitoring functions of the Board of Directors, a need for which was identified some time ago. From the shareholder's viewpoint, it is often said that the role of the Board of Directors is to provide "supervision," but I feel this has a somewhat supercilious nuance and think the word "evaluation" may be more appropriate. From the standpoint of all stakeholders, we evaluate and judge in a fair and dispassionate manner. I think that this will help to enhance corporate value and be in the interest of our shareholders, and will endeavor to make sure that fiscal year 2023 serves as a runup period for this.

With an eye on the future development of our management ranks, I will work with the Nomination Advisory Committee to discuss and promote a succession plan for top management.

I believe the role of an outside director is to "check" that the executive team is working correctly and efficiently to achieve Yokogawa's goals, and to be a "catalyst" who can capitalize on experience in different industries to bring new ideas to the executive team. The Board of Directors will proceed with its operations based on these two functions and the "evaluation" function mentioned above.

For the policy and procedure for the appointment and dismissal of Directors, Audit & Supervisory Board Members and officers, please refer to page 14 of the Notice of 2023 Annual General Meeting Shareholders.

<https://www.yokogawa.com/about/ir/reports/meeting/>

Board of Directors Evaluation

Based on the evaluations of each Director and Audit & Supervisory Board Member, each year the Board of Directors shall identify issues for further boosting the strengths and effectiveness of the Board of Directors, and use analysis and evaluations in order to clarify the points that should be emphasized when working on each issue. To conduct evaluations, the Board of Directors has used third-party evaluation organizations, as appropriate.

Board Evaluation Process for Fiscal Year 2022

In fiscal year 2022, the Board of Directors conducted a self-evaluation.

- All Directors and Audit & Supervisory Board Members responded to questionnaires, the creation of which was led by the Chairman of the Board.
- The questions included fixed-point observations related to the evaluation of the size, composition, and operation of the Board of Directors, as checks on the status of activities aimed at bringing about improvements and other items. An open text box was also provided to encourage the identification of new issues.
- An analysis of these responses was reported to the Board of Directors and discussed by Board members before the forming of the final evaluation.
- Based on this evaluation, etc., the Board of Directors held discussions to identify issues to further enhance the effectiveness of the Board of Directors, then passed a resolution to implement action plans for their improvement.



Summary of the Fiscal Year 2022 Board of Directors Evaluation Results

It was confirmed that the Board of Directors, as it stands is highly effective.

Size and composition of the Board of Directors

- In relation to size and composition, the assessment of the Board of Directors, as it is currently constituted, is that it is well-balanced, with the presence of independent Outside Directors, who make up a majority of members, ensuring an appropriate mix of independence and objectivity, as well as expertise, experience, and diversity.
- Multiple people expressed the opinion that the elements of expertise and experience that are important for the Board of Directors of the Company are corporate management and internationality/global experience.

Roles and functions of the Board of Directors and state of its operations

- With the business environment undergoing drastic change, the Group is working to transform itself with a strong sense of crisis. The Board of Directors has a shared awareness of the particular importance of setting medium- to long-term management strategy, and of exercising its supervisory and monitoring function in relation to management, and has fulfilled this role and function appropriately.
- Due to appropriate setting of the agenda and operations of meetings by the chairperson, as well as efforts by the lead independent Outside Director to facilitate communication between officers, the Directors and Audit & Supervisory Board Members have been able to leverage their individual expertise and experience to carry out open-minded and active discussions.
- The frequency of Board of Directors meetings, and the timing of the same, are considered appropriate.
- On the subject of further strengthening supervision in order to achieve medium- to long-term improvements in corporate value, the Board of Directors enhanced the supervisory function through substantive discussions based on the selection of agenda items pertaining to important issues affecting management across the Company, such as sustainability matters, improving profitability, and human capital management.
- With regard to enhancing discussions on the Nomination Advisory Committee and the provision of information to the Board of Directors, the Nomination Advisory Committee discussed succession plans, as well as institutional design and other matters, and shared the content on an appropriate and timely basis with the Board of Directors.
- Although improvements in the content of proposals and the quality of explanations were confirmed, further enhancement to information provided for supervisory purposes is required from the perspective of narrowing the focus of discussions and in other areas.

Efforts for Future Improvement

In order to further accelerate the transformation of the Group based on the results of the Board of Directors evaluation, the Board of Directors will work to enhance effectiveness by bolstering the supervisory function further through the following initiatives:

Enhancing discussions on medium- to long-term management strategy and bolstering the monitoring function

- In fiscal year 2023, from the perspective of further strengthening the supervisory function, the Board of Directors will confirm the state of progress toward the goals of the medium-term business plan AG2023, which has reached its final year, and identify ongoing problems, as well as selecting priority agenda items, such as the formulation of the next medium-term business plan and important issues that affect management across the Company. By also focusing on the key discussion points for proposals and reports, and ensuring adequate time for deliberation by providing fuller explanations at prior meetings, the Board of Directors will work to conduct more substantial and effective discussions.

Investigating institutional design

- The Company's current institutional design as a company with Audit & Supervisory Board is appropriate, but in order to accelerate the transformation of the Group, in fiscal year 2023, we will continue to investigate the optimal institutional design and decision-making process, speeding up decision-making by delegating more authority to the executive, and with the aim of further bolstering the supervisory function through the composition of the Board of Directors, in which Outside Directors account for a majority of the members.

Audit & Supervisory Board

The Audit & Supervisory Board is comprised of five (5) members in total, which consist of two (2) standing members and three (3) outside members, and its meeting is held once a month in principle. In order to ensure the Group’s sustainable growth and corporate soundness, the Audit & Supervisory Board shall make appropriate decisions and express its opinions from an independent and objective standpoint. Also, based on laws and regulations as well as the Auditing Standards for Audit & Supervisory Board Members and the Rules Governing the Audit & Supervisory Board, the Audit & Supervisory Board shall receive reports from each Audit & Supervisory Board member on important matters related to audits, deliberate, and pass resolutions as necessary. Audit & Supervisory Board members perform Audit & Supervisory Board member audits in accordance with the annual audit plan that specifies priority audit items. Audit & Supervisory Board members attend meetings of the Board of Directors and the Management Board and other important meetings, and hold regular meetings with departments that are in charge of internal audits, legal affairs, and business ethics which promote the compliance framework, and exchange and share information about the activities of each, as well as proactively offering opinions. In addition, Audit & Supervisory Board members deepen mutual cooperation with the accounting auditor and exchange information with the accounting auditor regularly and as needed to improve the quality of audits by both sides and make the audits more efficient. (Fiscal Year 2022: Held 16 times)

Priority audit items for Fiscal Year 2022

- Progress of the medium-term business plan AG2023
- Establishment and operation of Yokogawa’s Internal Control System

Audit activity results in Fiscal Year 2022

- Audits of group subsidiaries
- Attending important meetings, auditing business execution, and viewing important documents
- Meeting with directors, executive officers, and other key employees
- Cooperation with accounting auditors and internal audit departments
- Cooperation with Outside Directors and Group full-time corporate auditors

Management Board

The Board of Directors delegates decision-making related to the execution of business to the Management Board to promote swift decision-making. The Management Board meets once a month in principle and comprises the President and CEO, officers, and standing members of the Audit & Supervisory Board. In addition, matters regarding the resolution of the Management Board and other matters shall be reported to the Board of Directors. (Fiscal Year 2022: Held 12 times)

For the policy and procedure for the appointment and dismissal of Directors, Audit & Supervisory Board Members and officers, please refer to page 14 of the Notice of 2023 Annual General Meeting Shareholders.

<https://www.yokogawa.com/about/ir/reports/meeting/>

Skill Matrix

The expertise and experience of the Company’s Directors and Audit & Supervisory Board Members are shown below.

		Corporate management	Internationality / Global experience	Treasury / Finance	Technology / Development	IT / Digital	Sales / Marketing	Human resources, Human resources development	Legal Risk management	Sustainability ESG
Directors	Hitoshi Nara	●	●				●			
	Junichi Anabuki			●					●	●
	Yu Dai	●	●		●	●				
Outside Directors	Shiro Sugata	●	●		●		●			
	Akira Uchida		●	●						●
	Kuniko Urano							●		●
	Takuya Hirano		●			●	●			
	Yujiro Goto	●			●					●
Audit & Supervisory Board Members	Hajime Watanabe		●	●					●	
	Kenji Hasegawa				●	●	●			
Outside Members, Audit & Supervisory Board	Yasuko Takayama								●	●
	Makoto Ohsawa		●	●						
	Masaru Ono		●						●	●

Reasons for Setting Expertise and Experience

Corporate Management: In order to achieve the transformation set out in the long-term business framework and in the medium-term business plan AG2023 amid major changes in the business environment, such as structural changes in the energy industry and advances in digital technology innovation, a wealth of experience, and knowledge in the field of corporate management in general is required, including leading the transformation as head of the corporate headquarters of a major company.

Internationality, global experience: A wealth of experience and knowledge in global business and overseas culture and environments is required to develop and implement medium- to long-term growth strategies for the Company, which operates globally (ratio of overseas sales: approximately 70%, ratio of overseas employees: approximately 65%), and to properly supervise global management.

Treasury / Finance: Solid experience and knowledge in the fields of treasury and finance are required to build a strong financial base to support sustainable growth of the Company and to develop a financial strategy to promote aggressive investment in growth, including M&A and alliances, and to realize appropriate shareholder returns.

Technology / Development: To further evolve and develop the Company’s strengths in technology and development in the fields of measurement, control, and information to achieve growth through innovative solutions incorporating new technologies, it is necessary to have solid experience and knowledge in the fields of innovation, technology, development, quality, and the environment.

IT / Digital: Achieving new solutions through integration, autonomy, and digitization and creating new value through OT/IT convergence and the System of Systems connecting multiple systems require extensive experience and knowledge in the fields of business operations and business model transformation using advanced IT and digital technologies.

Sales / Marketing: To achieve growth by solving customers’ real problems through innovative solutions, it is essential to transform business models and to plan and develop new solutions that meet market needs, as well as to develop a strategy to expand orders and sales, which require extensive experience and knowledge in the sales and marketing fields.

Human resources, Human resources development: As the importance of human capital management increases, in order to transform the company into what it aims to be in the medium to long term, it is important for the Company to develop and implement human resources strategies, such as securing, developing, and utilizing management personnel, DX personnel, and consultant personnel, in conjunction with management strategies, which require solid experience and knowledge in the fields of human resources and human resources development.

Legal, Risk management: Achieving sustainable corporate value growth requires risk management that can accurately and quickly address rapidly changing and diversifying risk factors in a rapidly changing business environment and requires solid experience and knowledge in the fields of risk management, compliance, and law.

Sustainability, ESG: Under Yokogawa’s Purpose of “Utilizing our ability to measure and connect, we fulfill our responsibilities for the future of our planet,” to sustainably increase corporate value, it is necessary to achieve both growth through ESG-focused management and the creation of social and environmental value, and it is necessary to have extensive experience and knowledge in the fields of sustainability and ESG.

Reasons for Election as Outside Directors and Outside Audit & Supervisory Board Members and Attendance

They meet the requirements of an independent officer pursuant to Article 436, Paragraph 2 of the Securities Listing Regulations of the Tokyo Stock Exchange, and the standards of independence in the Company. The Company nominated them as independent officers.

For the Company’s independence standards, please refer to our website.


<https://www.yokogawa.com/about/ir/governance/officer/>

Name		Reasons for Election and Status of Attendance in Fiscal Year 2022
Outside Director Shiro Sugata	Mr. Shiro Sugata properly supervises management as an Outside Director. He was appointed as an Outside Director so that he can achieve greater operational fairness, objectivity, and transparency with respect to supervising the management of the Company based on his wide knowledge as a corporate manager, his abundant experience in the development and marketing of industrial instruments, and his extensive expertise in global business. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings.	
Outside Director Akira Uchida	Mr. Akira Uchida properly supervises management as an Outside Director. He was appointed as an Outside Director so that he can achieve greater operational fairness, objectivity, and transparency with respect to supervising the management of the Company based on his wide knowledge as a corporate manager and extensive experience in the corporate administration field centered on the Finance and Controller’s Division. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings.	
Outside Director Kuniko Urano	Ms. Kuniko Urano properly supervises management as an Outside Director. She was appointed as an Outside Director so that she can contribute to greater operational fairness, objectivity, and transparency with respect to supervising the management of the Company based on her wide knowledge as a corporate manager and extensive experience in the divisions of production, personnel/education, public relations/CSR, etc., in major manufacturing companies. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings.	
Outside Director Takuya Hirano	Mr. Takuya Hirano properly supervises management as an Outside Director. He was appointed as an Outside Director so that he can contribute to greater operational fairness, objectivity, and transparency with respect to supervision of management of the Company based on his wide knowledge as a corporate manager and wide-ranging practical experience in the business divisions of a global IT firm. Attendance at meetings of the Board of Directors: present at 11 of the 11 meetings.	
Outside Director (New) Yujiro Goto	Mr. Yujiro Goto has a wealth of experience and expertise in leading production strategies in the field of production and production engineering at a major global manufacturing company for a long time, and as CEO, he has worked on corporate transformation, human resource reform, new business development, and M&A. He was appointed as an Outside Director so that he can contribute to greater operational fairness, objectivity, and transparency with respect to supervising management of the Company based on his experience.	
Outside Audit & Supervisory Board Member Yasuko Takayama	Ms. Yasuko Takayama worked for a major company in the consumer market where she gained extensive practical experience, including responsibility for CSR, and acting as a full-time Audit & Supervisory Board Member. She also has a wealth of experience as an outside executive at various companies. Accordingly, she was appointed as an Outside Audit & Supervisory Board Member because she is expected to execute effective auditing that reflects this experience. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings and attendance at meetings of the Audit & Supervisory Board: present at 16 of the 16 meetings.	
Outside Audit & Supervisory Board Member Makoto Ohsawa	Mr. Makoto Ohsawa has wide knowledge based on his perspective as an experienced corporate manager and his extensive range of business activities, and also has a wealth of experience acting as an outside executive at various companies. Accordingly, he was appointed as an Outside Audit & Supervisory Board Member because he is expected to execute effective auditing that reflects such experience. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings and attendance at meetings of the Audit & Supervisory Board: present at 16 of the 16 meetings.	
Outside Audit & Supervisory Board Member Masaru Ono	Mr. Masaru Ono is a lawyer with wide knowledge of the corporate legal affairs and finance fields. Accordingly, he was appointed as an Outside Audit & Supervisory Board Member because he is expected to execute effective auditing that reflects such extensive knowledge from his extensive range of business activities in economic and educational circles. Attendance at meetings of the Board of Directors: present at 14 of the 14 meetings and attendance at meetings of the Audit & Supervisory Board: present at 16 of the 16 meetings.	

* For Outside Director Takuya Hirano, we have described his attendance at meetings of the Board of Directors convened since he assumed the position on June 22, 2022.

Nomination Advisory Committee

The Nomination Advisory Committee shall provide recommendations to the Board of Directors regarding subjects such as the nomination of candidate Directors and Audit & Supervisory Board Members; the evaluation, appointment, or dismissal of the President and Chief Executive Officer; the appointment or dismissal of executive officers; proposals for the dismissal of Directors and Audit & Supervisory Board Members and the criteria (qualities, achievements, etc.) required of candidates for directors, Audit & Supervisory Board Members, and executive officers, following deliberations in accordance with the standards and procedures prescribed to ensure optimal placement for the Group's sustainable growth and corporate governance from the perspective of all stakeholders.



Chairperson of the Nominating Advisory Committee
Akira Uchida

My name is Akira Uchida, and this year I am the chairperson of the Nomination Advisory Committee. A majority of the members of this committee are outside directors, and this is the second year in a row that it has been chaired by an outside director. The committee is now structured to conduct discussions with even greater independence. And thanks to steps that have been taken to reinforce the committee secretariat, the committee now receives better support.

One of the focus points for this fiscal year is CEO succession planning. We will proceed with interviews and assessments to narrow down the list of potential candidates and discuss the direction to be taken with their career development. As the role of the CEO can have a significant impact on our corporate value, we intend to devote sufficient time to this process. And following on from last year, we will continue a deep discussion of the direction the Board of Directors should ideally take, and move forward in these deliberations.

Looking ahead, we must face up to the challenge of enhancing both growth potential and profitability while responding to changes in the business environment. To accomplish this, we need strong executive leadership in transforming the business structure and mindset, and a Board of Directors that is able to closely oversee these efforts. While carefully considering matters such as the ideal form that the Board of Directors should take and the appropriate selection of officers from both within and outside the Group, I and the other members of the committee will strive to address the aforementioned challenge in a highly effective manner.


Activity Reports

Deliberations were held 14 times in total and the following matters were discussed:

- How the Board of Directors should function, the direction it should pursue in the future, and the makeup of the Board of Directors
- Evaluation and reappointment of the President and Chief Executive Officer
- Structure of Executive Officers for fiscal year 2023
- Recommended Director candidates and Audit & Supervisory Board Member candidates to be proposed for election at the Annual General Meeting of Shareholders in June 2023

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 promote the appropriate aggressive attitude toward the Group's growth, enable the hiring and retention of excellent human talent, and foster a common perspective held by all stakeholders.



Chairperson of the Compensation Advisory Committee
Kuniko Urano

My name is Kuniko Urano, and this fiscal year I am serving as the chairperson of the Compensation Advisory Committee. As an advisory body to the Board of Directors, this committee has discussed how the compensation of Directors and Executive Officers should be structured to ensure that Yokogawa experiences sustained growth, and has continued to make revisions to the compensation system and other enhancements. Based on the compensation policy shown on the right side of this page, and with the aim of providing appropriate incentives and ensuring that Yokogawa, a company that operates globally, takes the risks that are necessary to implement its medium- and long-term management strategies, we discuss and report our recommendations to the Board of Directors on matters such as the ideal compensation level, the breakdown of compensation into its basic short- and medium-term performance-linked components, the stock compensation plan, and the methods for quantitative and qualitative evaluation, and in addition verify the appropriateness of the compensation system.

I believe that continuity is necessary with the compensation system. It is also important to be able to make whatever revisions are needed to adapt to business changes and changing social trends. So that we do not miss out on opportunities, we take continual care to look ahead and discuss at an early stage what changes could be made and how they could be implemented. This includes matters such as keeping pace with globalization, shifting toward solutions business or accelerating activities such as business alliances or responding to changes in the competitive landscape, and the relationship between initiatives that contribute to sustainability and those that contribute to business growth.

Through discussions that draw on the diverse knowledge and experience of the committee's members, we will endeavor to realize a compensation system that promotes corporate growth while ensuring transparency and fairness for stakeholders.

Activity Reports

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

- Performance-linked compensation paid in July 2022
- Determination of performance indicators and formulas for performance-linked compensation paid in July 2023
- Confirmation of executive compensation levels by comparison with benchmark companies to verify the appropriateness of current levels of executive compensation

Composition

as of June 27, 2023

Outside director	Shiro Sugata
Outside director	Akira Uchida ◎
Outside director	Kuniko Urano
Outside director	Takuya Hirano
Outside director	Yujiro Goto
President and CEO	Hitoshi Nara

◎ Chairperson

Composition

as of June 27, 2023

Outside director	Shiro Sugata
Outside director	Akira Uchida
Outside director	Kuniko Urano ◎
Outside director	Takuya Hirano
Outside director	Yujiro Goto
President and CEO	Hitoshi Nara

◎ Chairperson

Executive Compensation

Basic Policy for the Compensation, etc., of Directors

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

- (a) A plan that promotes the sustainable, medium- and long-term improvement of corporate value
- (b) A plan that reflects the medium- to long-term management strategy and strongly motivates the achievement of medium- to long-term management objectives
- (c) A plan that prevents a bias toward short-term thinking
- (d) A plan and monetary amount that secures and maintains excellent human resources
- (e) 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.

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.

- i) Members of the Compensation Advisory Committee
The committee comprises three or more Directors, the majority of whom are Outside Directors.
- ii) 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.
- iii) 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 non-executive Directors.

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

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.

The following chart shows how composition is structured for each executive category.

Executive category	(a) Base compensation	(b) Performance-linked compensation (b)-2 including non-monetary compensation		Remarks
		(b)-1 Annual Incentive	(b)-2 Medium- 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:

1. Increase the ratio of performance-linked compensation to total compensation.
2. 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%.
3. 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 1:0.5 (Figure 1). This ratio may vary between 1:0 and 1:1, depending on the degree to which performance targets are achieved.

Figure 1



(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 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 payment 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.

*The ratio of annual incentives and medium- to long-term incentives to basic compensation when the performance targets for each of the annual incentive and the medium- to long-term incentive are achieved in the fiscal year in which the medium- to long-term incentive is paid shall be set as the higher the position, the higher the ratio to the basic compensation, and as the position falls from 1:0.75 for the representative director, the overall average including executive officers shall be approximately 1:0.5:0.5 (Figure 2).

This ratio may vary from 1:0:0 to 1:1:0.5, depending on the degree of achievement of the performance objectives for each of the annual incentives and the medium- to long-term incentives.

Figure 2



Note 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). Performance objectives and results in the fiscal year ended March 31, 2022, one of the determinant factors for performance-linked compensation, are as follows:

Performance objectives set for the fiscal year ended March 31, 2022	Results in the fiscal year ended March 31, 2022
Consolidated sales	¥370.0 billion
Consolidated return on sales	6.8%

Note 2. The Company believes the performance objectives for the medium- to long-term incentive are connected to the medium-term business plan. Among the business objectives set in the medium business plan, 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%	(25 + (Actual ROE × 100 − 8) / 3 × 25)%
From 11% to less than 14%	(50 + (Actual ROE × 100 − 11) / 3 × 50)%
14% or higher	100%

Initiatives Related to Cross-Shareholdings

■ Method of Verifying Shareholding Policy and Rationality (Reduction Efforts)

The Group shall strategically hold shares of other companies' stock, provided the shares that are held are determined to contribute to maintaining and increasing corporate value. Regarding all cross-holding shares, the Board of Directors shall uphold a policy of keeping the minimum necessary number of cross-holding shares and decide every year if the holding of the shares is appropriate by individually examining the purpose and economic rationale, etc., for holding each stock from medium- and long-term perspectives. Any strategically held shares that are deemed to be no longer appropriate to hold as a result of the examination shall be sold with the goal of reducing the number of shares held. In the examination, the stocks held are classified into the following three categories, and transaction status, share price and dividends, and capital costs are designated to be the KPIs in the determination of the appropriateness of the holding of the stock:

- a. Business partners (for the purpose of maintaining and strengthening business transaction and partner relationships)
- b. Financial institutions (for the purpose of conducting financial transactions smoothly)
- c. Others (those which do not fall under the above categories)

Specifically, the appropriateness of holding each stock is individually assessed and determined through the process of a to d below:

- a. Quantitative assessment of share price (market value, cost, and carrying amount after impairment)
- b. Quantitative assessment of ROIC, which is calculated on the basis of market value and cost, compared with the share price assessed in a. (After-tax gross income from sales and dividend income are used in the calculation of ROIC.)
- c. Qualitative assessment of the purpose of holding, transaction results, an estimate of future transactions, and other factors for each share held.
- d. Assessments a. to c. are comprehensively evaluated from perspectives, including medium- to long-term economic value, business expansion, and the strengthening of relationships.

■ Voting Rights

The Group shall make decisions regarding the exercise of the voting rights of strategically held shares based on a sufficient examination from the standpoint of increasing the corporate value of the Company and the companies that the Company has invested in over the medium to long term.

In the following cases in particular, the Company shall exercise its voting rights based on a careful examination of whether or not the voting rights should be exercised:

- 1) Cases where any violation of law, misconduct, or anti-social behavior has occurred at the companies in which the Company has invested
- 2) Proposals that are considered to be likely to undermine the Company's corporate value, for organizational restructuring including mergers, acquisitions, or business transfers, the advantageous issuing of shares to third parties, etc.