Guidelines on Executive Compensation

Summary

February 16, 2005

Japan Association of Corporate Directors

Systemic Infrastructure and Transparency Committee

February 16, 2005

Guidelines on Executive Compensation (Summary)

By Masashi Kaneko, Chairman
Systemic Infrastructure and Transparency Committee
Japan Association of Corporate Directors

In recent years executive compensation has been the subject of fierce debate, with domestic and overseas pension funds and institutional investors some of the most vocal advocates of change. Because such organizations represent the interests of investors and stockholders, it is only natural that their attention has focused on issues such as whether retirement bonuses for directors should be abolished, and the good and bad of the decision-making process of the Compensation Committee.

In drawing up these provisional guidelines, however, we at the Systemic Infrastructure and Transparency Committee, an independent committee established by the Japan Association of Corporate Directors, adopted a multidimensional perspective, considering the issues not just from the viewpoint of domestic and overseas investors, but also from the viewpoint of corporate executives in order to ensure that the guidelines reflect the management culture here in Japan. Based on the fundamental framework of the "Interim Guidelines on Executive Compensation" declared on June 10, 2004, the Systemic Infrastructure and Transparency Committee made a final version of "Guidelines on Executive Compensation," out of consideration of the reviews received in various industries including overseas comments by the Executive Compensation workgroup put in place under the Systemic Infrastructure and Transparency Committee.

The Systemic Infrastructure and Transparency Committee offers these guidelines, dividing them into short-term and long-term goals. The Committee hopes that many Japanese companies will adopt the short-term goals in these guidelines as early as possible, thus enabling the medium and long-term goals to stimulate frank discussions on this topic within society at large.

Although the guidelines are primarily targeted at public companies, nothing could give members of the Committee more pleasure than to know that they will be read and studied also by securities exchanges, pension funds, insurance companies, investment funds and other investors, newspapers, TV stations and other mass media, credit-rating agencies, universities, research institutions, and other organization with a strong interest in the corporate governance of public companies. Thus our purpose is to introduce the guidelines to all who share a common interest with public companies, working together to put transparency in society into practice.

1. The Status Quo and an Overview of the Executive Compensation System

(1) Because there has been little distinction between the day-to-day management of companies and the supervision of that management under the traditional executive compensation scheme, there has existed confusion concerning what constitutes compensation for management activities (executive compensation) and what constitutes compensation for supervisory activities (directors' compensation).

(2) There has been little awareness of the concept of "executive compensation," which has remained just an extension of the compensation systems covering regular employees.

(3) Systems have been inflexible and resistant to change because they cater to the interests of too many stakeholders. They have been designed, for example, to prevent resentment from the general public, ensure that shareholders' meetings go smoothly, and minimize the income gap between executives and ordinary employees.

(4) Decision-making on compensation has not been conducted transparently.

(5) The system favours retirement bonuses over annual compensation, and offers little incentive to base compensation packages on performance-related components.

2. Model for Executive Compensation

As we can see some progress including the amendments to the Commercial Code, maintenance of capital markets, and the growing discussion on the establishment of laws concerning investment services, the infrastructure surrounding public companies has been improving dramatically over recent years. As a result, expectations and pressure on individual managers, especially from stockholders and society, have been growing. The problem is that the evaluation system for management executives who carried out their management tasks earnestly, accepted the risks, achieved good results, and served their stockholders is ambiguous.

The Systemic Infrastructure and Transparency Committee believes that companies should build up the foundations of an assessment system to evaluate management executives and should pay remuneration that matches each individual executive's achievements. Management remuneration in Japan is at an astonishingly low level internationally if we consider the increasing expectations and pressures imposed by shareholders and society. Since management should be regarded as a national resource necessary to achieve the country's performance goals, it is essential that Japan take effective remedial action to reward management amply for substantial contributions both to their own companies and to the economic and social development of the country.

The bulk of executives' compensation should be a consideration paid to them for their role in managing the company. Directors' compensation in Japan has traditionally been characterized by relatively low risks and low returns, with the focus being on basic salaries (including annual bonuses) and retirement bonuses. Compensation systems, however, need to start emphasizing pay for performance, so that they better reflect the risks borne by investors and shareholders (Refer to Data Sheet 2). That is, each management compensation system is requested to enlarge the percentage of performance-based bonuses or long-term incentive bonuses reflecting medium and long-term performance to reward managers with high performance.

The Systemic Infrastructure and Transparency Committee believes that it would be best for each company to establish a "Compensation Policy," to authorize an independent Compensation Committee to monitor the activities of management executives, and to promote more aggressive discussion on the disclosure of individual compensation to management, thus promoting conditions under which individual executives will be able to receive remuneration matching their performance achievements.

The following points should be taken into consideration:

(1) [Quality of Management] International competition is becoming stiffer and the role of executives is becoming more and more important. With this in mind, compensation systems should be designed to nurture executives capable of beating the competition. Each company should establish its own "Remuneration Policies" to offer incentives to meet high performance goals and create corporate value.

(2) [Compensation Suited to the Role of Management] Directors are rewarded for their role as overseers mainly via fixed compensation, while the bulk of executive pay should be contingent on results (both short- and long-term).

(3) [Respect for Management Culture] In light of the strained relations between executives and investors/shareholders, however, attention must also be paid to ensuring that any policy changes are not in conflict with the good aspects of Japan's traditional management culture, and that they reflect the principles of corporate social responsibility (CSR) emphasized both at home and abroad.

(4) [Tax Reforms] To design and introduce a strategic management remuneration plan as part of strengthening corporate competitiveness, the tax regime needs to be reformed to allow companies to deduct non periodical payment (performance related bonuses and stock options) from their taxable income. The non-tax deductivility on high-income executive compensation and high-income executive retirement allowances must be reviewed since the follow-the-leader mentality is the underlying basis of income size. Although executive retirement allowances will be targeted for abolishment, some tax treatments should be taken from the standpoint of individual income tax, especially in the modification of the requirements on individual income taxation and the application of equitable principles between earned income and retirement income received after a certain period of retirement.

(5) [Quality of the Compensation Committee] A Compensation Committee consisting of independent committee members shall be established, and will monitor the determination of executives' compensation from the viewpoint of transparency and objectivity.

(6) [Management's Contribution to Society] When substantial compensation levels are paid to management executives who accept the risks, achieve good results, and serve the interests of their stockholders, such executives should be required to return a portion of their rewards for good performance to society in the form of donations that help pay for setting up and operating institutions such as hospitals, museums, and schools. In this way, management executives are expected to take influential positions in the redistribution of wealth in society, and take leading roles in society both in name and in deed. The contribution taxation system needs to be revised in order to bring about these kinds of changes in society.

3. Guidelines for Executive Compensation (Summary)

	<Short-term Goals> Public companies' goals to be introduced as early as possible	<Medium- and Long-term Goals> Public companies' goals to be introduced in two to four years
1. Policies on Executive Compensation	■ Each company's Policies on Executive Compensation shall be reviewed in order to support the creation of corporate value on a short-term and medium/long-term basis. ■ Executive compensation should be regarded as consideration paid to executives for their role in managing the company, and determined at a level at which the executive receives compensation appropriate to his/her qualifications, ability, and performance, taking global competition into consideration as appropriate. ■ All public companies are required to disclose the following items from their Executive Compensation Policies together with compensation levels under "Corporate Governance" (Compensation Policies mean policies on the purpose of the remuneration system, compensation levels and mixes, and the structure of performance-based bonuses and stock compensation).	■ Same as short-term goals
2. Performance-Based Compensation System	■ The percentage performance-based bonus forms as a component of CEO remuneration should be increased (Refer to Data Sheet 1-1). ■ Measures used to evaluate business performance should be in alliance with corporate strategy, mainly financial indices. ■ Target figures shall be set at the beginning of each fiscal year and no subsequent discretionary adjustments should be permitted except in special circumstances. ■ To ensure both short-term and long-term accountability to shareholders by an increase in the performance-based bonus and stock performance, the Compensation Scheme should be designed to allow a high level of incentive pay in cases of excellent business performance as well as drastic reductions in pay in the case of poor business performance. ■ Payment shall be made as undefined amounts of compensation as stipulated by the Commercial Code (and shall not be made within the framework of defined amounts of compensation).	■ Raise the percentage of performance-based bonus in total CEO remuneration to 30% in the future. ■ The process of determining performance-based compensation shall be described and disclosed in the report of the Compensation Committee. ■ In order to encourage investors to check the business performance objectively, performance comparison charts for the company and peer groups shall be disclosed. ■ The non-tax deductibility must be reviewed so that undefined amounts of compensation can be included under expenses.

	<Short-term Goals> Public companies' goals to be introduced as early as possible	<Medium- and Long-term Goals> Public companies' goals to be introduced in two to four years
3. Stock Compensation	■ Stock Compensation will be introduced to link with mid- and long-term shareholder value creation. ■ The proportion of stock compensation as a component of CEO total remuneration will be increased (Refer to Data Sheet 1-1). ■ Stockholding guidelines requiring board members to hold stocks in the company shall be established, and this will also compel the CEO to hold stock in the company equal to the fixed annual salary they receive within several years.	■ Raise the proportion of the stock compensation in total CEO remuneration to 30% in the future in order to ensure accountability to stockholders. ■ Stockholding guidelines shall be expanded to encourage the CEO to hold stock equal to two or three times the fixed annual salary they receive as a best practice.
4. Retirement Bonuses	■ The policy on the formula used to determine the provision of retirement bonuses and individual executive compensation levels shall be disclosed. ■ Retirement bonuses should not be determined by the term in office alone; a certain percentage must be coupled with the executive's achievements during their term in office.	■ The Systemic Infrastructure and Transparency Committee will recommend public companies to review their non-tax deductibility for high-income executive retirement allowances, which is based on a follow-the-leader mentality, and encourage the performance-based remuneration concept to be brought into retirement bonuses in order to ensure that the difference in amount reflects the competitive difference among companies. ■ The Systemic Infrastructure and Transparency Committee will recommend that the tax system on pension income after retirement should be equal to wage deductions for salary earners. ■ The Systemic Infrastructure and Transparency Committee will recommend that the requirements on individual income taxation aimed at executive retirement bonuses (for example, granting the exercise of a stock option) be modified.
5. Compensation Committee	■ All public companies including traditional companies should set up a Compensation Committee. ■ The Compensation Committee shall be composed of not less than 50% external committee members, and such external committee members are expected to be independent directors.	■ The Compensation Committee should be composed of independent directors, wherever possible. The total number of directors and executive officers appointed as Compensation Committee members must not form a majority, and voting rights shall not be granted to

	<Short-term Goals> Public companies' goals to be introduced as early as possible	<Medium- and Long-term Goals> Public companies' goals to be introduced in two to four years
	■ Sufficient information shall be provided to the committee members to enable them to make informed decisions. ■ The opportunity to discuss CEO remuneration shall be afforded only to external committee members. ■ The Compensation Committee will make decisions using examples from the Guidelines for Executive Compensation and submit a statement of activities to both the Board of Directors and the Board of Auditors.	such director(s) and executive officer(s). ■ The Compensation Committee shall disclose their annual statement in the company's annual report.
6. Request for Revision of the Regulations/ Tax System	■ Request for revision of the Commercial Code, Securities and Exchange Law and Taxation System is set forth on page 19 of the Guidelines on Executive Compensation.	■ Same as short-term goals

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February 16, 2005

Japan Association of Corporate Directors

Systemic Infrastructure
and Transparency Committee

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Greetings from the Chairman

In recent years executive compensation has been the subject of fierce debate, with domestic and overseas pension funds and institutional investors some of the most vocal advocates of change. Because such organizations represent the interests of investors and stockholders, it is only natural that their attention has focused on issues such as whether retirement bonuses for directors should be abolished, and the good and bad of the decision-making process of the Compensation Committee.

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Masashi Kaneko, Chairman
Systemic Infrastructure and Transparency Committee
Japan Association of Corporate Directors

I Executive Compensation – The Status Quo

Executive compensation in Japan is in need of a massive overhaul, and the key topics shaping the debate are:

1) Voting by domestic and overseas pension funds and institutional investors on motions concerning executive compensation and retirement bonuses, and their announcement and establishment of new investment vehicles such as funds that invest in firms with strong governance
2) Changes at the director/executive level with, for example, management teams becoming more multinational and executives switching companies more often
3) Whether retirement bonuses should be abandoned
4) How the compensation committees that must be established by firms that have adopted the Committee System should be set up and run

A major difficulty for many Japanese companies is rethinking their principles and strategies on executive compensation in such a way that changes reflect both the changes in the global environment and their own unique characteristics. Compensation committees at firms that have introduced the Committee System must describe in their statutory disclosures their policies for determining executive compensation. Moreover, management remunerations are often returnable to society through charitable donations which are tax deductable in Europe and America. We believe that the current Japanese taxation system does not support such activities.

The time has now come for Japan to respond to the changes that surround us and conduct a comprehensive debate on executive compensation, a debate that must also cover problems with the tax regime. To put it another way, we should look upon corporate executives as a valuable resource for maintaining and further developing the strength of Japan Inc. and urgently start thinking about how we should reward those executives whose hard work and efforts achieve results.

These guidelines are one of the proposed solutions involving executive compensation issues. The Systemic Infrastructure and Transparency Committee plans to implement activities aiming at regulatory reforms and tax system revisions so that the short-term goals of these guidelines as well as medium and long-term goals will be adopted by all Japanese companies as early as possible, and also plans to make a periodical review of the contents.

II Overview of Executive Compensation in Japan

1. Meaning of Executive Compensation

Before any discussion of executive compensation can begin, it is necessary to reconsider the meaning of the Japanese term “yakuin” [translated variously as “director”, “officer” or “executive”]. In Japan up until now, a clear distinction has been lacking between executives, whose main responsibility is the day-to-day running of the company, and directors, who play a mainly supervisory role. For this reason, there has also been little distinction between compensation for day-to-day management activities and compensation for supervisory activities. From a corporate governance standpoint, compensation and evaluation schemes need to be recast to reflect the contrasting roles of executives and directors.

2. Appointment of Young Executive Officers

Executive compensation in the past was based on the assumption that economic growth would continue indefinitely and that people would remain with the same company for life, and was little more than an extension of the pay structures governing regular employees. Employees promoted to the boards of companies have typically been around the age of 55. The new executive officer would receive his final employee salary and the full retirement package before taking his seat, for which he would receive compensation only slightly higher than that of a regular employee at the top of the pay scale. At most companies, the executive officer would go on to receive gradual increases in his compensation as he advanced up the executive hierarchy.

These days, however, it is not unusual for an employee around the age of 40 to be singled out for promotion to the board (or an executive officer position), and there are cases where the executive resigns after serving only four years (at 44, for example). It is therefore necessary to ensure that compensation systems function in such a way that executives who have been promoted early bear minimal career risk and are motivated to achieve results. The traditional framework for directors’ compensation, which uses the salaries of regular employees between the ages of 22 and 55 as a reference point, is no longer up to the task. A radical rethink is essential.

3. From the Viewpoint of Corporate Value

Current compensation systems tend to be inflexible because they pay too much attention to the interests of a wide and disparate group of stakeholders. They tend to be designed, for example, to prevent jealousy emerging in other corners of society, to ensure shareholders’ meetings go smoothly, and to maintain a narrow gap between the remuneration of executives and ordinary employees. If corporate value is to be increased over the medium and long term, compensation systems need to be redesigned so that they not only continue to emphasize the welfare of employees, something that is one of the defining strengths of the Japanese management culture, but also provide suitable reward to management professionals.

4. Traditional Companies

Although the ceiling on compensation at traditional companies without a committee system (hereinafter “traditional companies”) requires a resolution at the general meeting of shareholders, it is in boardrooms, dominated as they are by inside directors, where the decisions are really made by the CEO. The decision-making process is therefore lacking in objectivity and transparency. With more and more committees generally and advisory committees on compensation in particular being established, attention needs to be paid to ensuring that their decision- making processes are transparent.

5. Tax Incentives

(1) A major factor behind the development of the compensation systems presently in use is the individual and corporate tax regime. When the effect of tax deductions is included, the Japanese progressive taxation rates for individuals cannot be regarded as being as high as those of other developed nations. However, it is expected that the current non-deductible corporate tax system on bonus allowances to company executives, high-income executive compensation, and high-income executive retirement allowances not only provides inefficient treatment under the double corporate and individual income tax systems but also presents a big hurdle when it comes to Japanese companies introducing strategic compensation systems (for example, performance-based compensation systems or attractive remuneration systems in comparison with their competitors).

The current non-deductible corporate tax system on high-income executive compensation and high-income executive retirement allowance should be directed to affiliated family corporations where ownership and management are not separated. And when it comes to public companies, we believe that it should be entirely up to the decision of the shareholders whether the amount is high or not, and this kind of issue should not be imposed by the tax function.

On the other hand, the tax system on retirement bonuses is accorded more privileged treatment than a wage deduction for salary earners, and this has provided an incentive to firms to emphasize retirement payouts in their compensation packages. However, the tax system on pension income after retirement (miscellaneous income) is somewhat disadvantageous compared to wage deductions for salary earners. We request a revision of income tax on income to be received after a certain period of retirement in terms of corporations' burden of funds (in the case of payment of retirement lump sum grants) and out of respect for the individual tax system.

6. Problems with the Commercial Code

Because directors of companies employing the traditional Japanese governance structure have been permitted to combine both executive and supervisory roles, there has been little debate on making a distinction between compensation for management and compensation for supervision. Both have been lumped together under the title of compensation for directors.

At companies that have introduced the Committee System, however, there is a statutory distinction between executive officers and directors, (following the principle of the separation of management and supervision) and there is now a need for frank debate aimed at defining exactly what should constitute executive compensation and supervisory compensation. The need to address this issue is particularly urgent, for without it firms that have opted for the Committee System will be unable to satisfy the disclosure requirements pertaining to their compensation policies.

III Model for Executive Compensation

As we can see from progress including amendments to the Commercial Code, maintenance of capital markets, and the growing discussion on the establishment of the law concerning investment services, the infrastructure surrounding public companies has been improving dramatically over recent years. As a result, expectations and pressures on management, especially from stockholders and society, have been growing. The problem is that the evaluation system for management executives who carried out their management tasks earnestly, accepted the risks, achieved good results, and served their stockholders is ambiguous.

[Remuneration System Matched to Risk]

The Systemic Infrastructure and Transparency Committee believes that companies should build up the foundations of an assessment system to evaluate management executives and should pay remuneration that matches each individual executive's achievements. Management remuneration in Japan is at an astonishingly low level internationally if we consider the increasing expectations and pressures imposed by shareholders and society. Since management should be regarded as a national resource necessary to achieve the country's performance goals, it is essential that Japan take effective remedial action to reward management amply for substantial contributions both to their own companies and to the economic and social development of the country.

[Shift to Performance-related Pay Schemes]

The bulk of executives' compensation should be a consideration paid to them for their role in managing the company. Directors' compensation in Japan has traditionally been characterized by relatively low risks and low returns, with the focus being on basic salaries (including annual bonuses) and retirement bonuses. Compensation systems, however, need to start emphasizing pay for performance, so that they better reflect the risks borne by investors and shareholders (Refer to Data Sheet 2). That is, each management compensation system is requested to enlarge the percentage of performance-based bonuses or long-term incentive bonuses reflecting medium and long-term performance to reward managers with high performance.

[Disclosure of Individual Executive Compensation]

The Systemic Infrastructure and Transparency Committee believes that it would be best for each company to establish a "Compensation Policy", to authorize an independent Compensation Committee to monitor the activities of management executives, and to promote more aggressive discussion on the disclosure of individual management compensation, thus promoting conditions under which individual executives will be able to receive remuneration matching their performance achievements.

The following points should be taken into consideration:

1. Quality of Management

International competition is becoming stiffer and the role of executives is becoming more and more important. With this in mind, compensation systems should be designed to nurture executives capable of beating the competition. Each company should establish its own

"Remuneration Policies" to offer incentives to meet high performance goals and create corporate value.

2. Compensation Suited to the Role of Management

Directors are rewarded for their role as overseers mainly via fixed compensation, while the bulk of executive pay should be contingent on results (both short- and long-term).

3. Respect for Management Culture

In light of the strained relations between executives and investors, however, attention must also be paid to ensuring that any policy changes are not in conflict with the good aspects of Japan's traditional management culture, and that they reflect the principles of corporate social responsibility (CSR) emphasized both at home and abroad.

4. Tax Reforms

To design and introduce a strategic management remuneration plan as part of strengthening corporate competitiveness, the tax regime needs to be reformed to allow companies to deduct non periodical payment (performance related bonuses and stock options) from their taxable income.

The non-tax deductibility on high-income executive compensation and high-income executive retirement allowances must be reviewed since the follow-the-leader mentality is the underlying basis of income size. Although executive retirement allowances will be targeted for abolishment, some tax treatments should be taken from the standpoint of individual income tax, especially in the modification of the requirements on individual income taxation and the application of equitable principles to earned income and retirement income received after a certain period of retirement.

5. Quality of the Compensation Committee

A Compensation Committee consisting of independent committee members shall be established, and will monitor the determination of executives' compensation from the viewpoint of transparency and objectivity.

6. Management's Contribution to Society

When substantial compensation levels are paid to management executives who accept the risks, achieve good results, and serve the interests of their stockholders, such executives should be required to return a portion of their rewards for good performance to society in the form of donations that help pay for setting up and operating institutions such as hospitals, museums, and schools. In this way, management executives are expected to take influential positions in the redistribution of wealth in society, and take leading roles in society both in name and in deed. The contribution taxation system needs to be revised in order to bring about these kinds of changes in society.

IV Guidelines on Executive Compensation

The Systemic Infrastructure and Transparency Committee takes into consideration the present conditions of management remuneration in Japan and the direction to be followed, and proposes the following Guidelines on Executive Compensation. The Committee offers these guidelines divided into short-term and long-term goals. Although the guidelines are primarily targeted at public companies, the Committee believes that these guidelines will be equally effective within other corporations and organizations.

The Committee plans to carry out appropriate annual reviews of the contents of the Guidelines on Executive Compensation, taking into account opinions from a wide range of interested parties, both domestically and internationally.

Public Companies:

(1) The Committee hopes all public companies will introduce the short-term goals proposed in the Guidelines on Executive Compensation as early as possible.

(2) The Committee hopes that many public companies will introduce both the medium- and long-tem goals proposed in the Guidelines on Executive Compensation within a period of two to four years.

Other Corporations and Organizations:

(3) In view of their implicit power to influence society and the economy, the Committee also expects that the Guidelines on Executive Compensation will be read and studied by securities exchanges, pension funds, insurance companies, investment funds and other investors, newspapers, TV stations and other mass media, credit-rating agencies, universities, research institutions, and other organization with an strong interest in corporate governance of public companies, to stimulate discussion on the rights and wrongs of such guidelines.

1. Executive Compensation Policies

■ Short-term Goals

（1）Executive Compensation Policies adopted by individual companies (hereinafter “ Compensation Policies”) and shall be reviewed from both corporate and management points of view in order to support the creation of corporate value on both a short-term and a medium/long-term basis.

（2）Executive compensation should be regarded as consideration paid for executives’ role in managing the company, and determined at a level at which the executive receives compensation appropriate to his/her qualifications, ability, and performance results, taking global competition into consideration where appropriate.

（3）Attention should be paid to increasing performance-based compensation (annual incentive compensation) and stock compensation (long-term incentive compensation) to ensure the executive’s accountability by linking his/her compensation with corporate business performance both on a short-term and medium/long-term basis. The Compensation Scheme should be designed not only to allow a high degree of incentive to return good business performance, but also to decrease the level of payment for poor performance, with a view to avoiding any conflict of interest with stockholders.

（4）Non-executive directors with roles as overseers shall receive fixed compensation rather than performance-based compensation in principle. However, the provision of stock compensation (especially restricted stocks as discussed below) shall be made available. Moreover, someone who performs interlocking roles as both executive officer and director shall be paid a remuneration mainly for their role as a business executive.

（5）All public companies are required to disclose the following items from their Executive Compensation Policies under “Corporate Governance” in the company’s annual report:

(a) Policies on the purpose and levels of remuneration for executives in each category (fixed remuneration, performance-based bonuses, stock compensation, retirement allowances, etc.)

(b) Total compensation levels (Aggregate amount on consolidated basis, separated into internal and external directors and executive officers).

(c) The ratio used to combine components such as fixed remuneration, performance-based bonuses, stock compensation and retirement allowances, etc. and company policy on deciding the ratio and mix

(d) Measures used to evaluate performance-based bonuses, target levels, and units of payment that are linked to business performance

(e) Policy regarding total stock compensation and how this is allocated to individuals

(f) Equation used to determine retirement allowances and policy for allocating these to individuals

■ Medium- and Long-term Goals

（1）Same as short-term goals. Compensation Policies with strong linkage to performance should be adopted immediately, and the disclosure of such policies should also be given priority rather than discussion on the disclosure of compensation levels for individual managers.

（2）Especially in public companies, the non-tax deductibility that applies to high levels of executive compensation must be reviewed since the system cannot account for individual companies' strategic planning on competitiveness and remuneration.

☐ Comments

Compensation Policies for management refer to the following fundamental principles under which each company will determine their own executive compensation system:

□ Purpose of each company's own compensation system
□ Policy on compensation levels and mix
□ Policy on performance-based compensation system and structure of stock compensation

Compensation Policies should be linked to short-term and medium/long-term corporate performance, reflecting each company's mission, corporate culture, and corporate strategy, and with a central focus on corporate value and management. Each company should be characterized by industry, region, scale, growth ratio, teamwork, and other factors relating to the typical Japanese management style and long-term perspectives.

Currently many companies are discussing disclosure of individual executive's compensation levels. However, this information will be of little use to investors and stockholders if the amounts are disclosed individually under the present compensation system that was not based on a clear-cut compensation policy. What is worse, there is a risk that companies will just disclose individual compensation amounts without revealing the basis of their compensation scheme. That may be like putting the cart before the horse. We therefore recommend that companies disclose their Compensation Policies as one of their short-term goals.

Although companies with the Committee System are required to disclose their Compensation Policies, such disclosure will be also useful in establishing compensation governance even in traditional companies.

2. Performance-based Compensation Systems

(Short-Term Goals

（1） Measures used to evaluate performance-based bonuses, target levels, and units of payment should be linked to business performance (Same as above 1. Executive Compensation Policies).

（2） The percentage comprising performance-based bonus, one component of remuneration, should be increased. The percentage comprising performance-based bonus for the average CEO among Japanese public companies is low in comparison with public companies in Europe and the US (Refer to Data Sheet 1-1; From a total remuneration of 100%, fixed salary comprises 65%, performance-based bonus 12%, and stock compensation 23%). From now on, the percentage comprising performance-based bonus should be increased in order to enhance accountability, and the amount of compensation for CEOs and other executives should also be raised accordingly.

（3） The measures used to evaluate business performance should be in agreement with the corporate strategy and consist mainly of financial indices rather than qualitative measurements.

（4） Target figures shall be set at the beginning of each fiscal year. Except in special circumstances, subsequent discretionary adjustments will not be allowed and the compensation shall be paid based on a predetermined formula. Business targets must be set to reflect corporate competition and the expectations of investors as a precondition for achievement.

（5） The Compensation Scheme should be designed to allow high incentive levels with a view to ensuring accountability to shareholders as well as enhancing management incentives; for example, several times the targeted performance-based bonus where achievements exceeded the target to a significant extent. .

（6） Where achievements were much lower than the target, the Compensation Scheme should be designed to reduce drastically the amount or to cut payment of compensation to management in order to share downside risks with shareholders.

（7） The remuneration of executive officers specializing in a specific business group must be linked to the performance of their individual business departments as well as the overall company-wide business performance.

（8） The long-term incentives listed below, including stock compensation and cash-based mid-term performance bonuses, shall also be paid to executive officers so that long-term corporate value will not deteriorate due to management's focusing on short-term business achievements.

（9） For the purpose of clarifying accountability to stockholders for performance-based results, defined levels of compensation shall be classified and paid as fixed salaries and undefined ("variable") levels of compensation shall be paid for performance-based results (and no additional undefined levels of compensation shall be paid together with the fixed salaries within the framework of the defined level of compensation).

(Medium- and Long-term Goals

(1) The risk & reward relationship shall be strengthened from the viewpoints of both performance achievement by management and accountability to stockholders by raising the percentage of performance-based bonuses to total CEO remuneration to about 30% (Refer to Data Sheet 1-1). The percentage of the performance-based compensation for managers other than the CEO shall be also raised to a similar level as for the CEO.

(2) Target business figures, actual achievements at the end of each fiscal year, and amounts of compensation actually paid to management shall be presented in the report of the Compensation Committee, and are required to be disclosed with Compensation Policies in the "Executive Compensation" item under "Corporate Governance" in the company's annual report.

(3) In order to encourage investors to make objective checks on business performance, performance charts showing a comparison against a stock index and a peer group for a single fiscal year, five fiscal years, and ten fiscal years are required to be disclosed with Compensation Policies in the "Executive Compensation" item under "Corporate Governance" in the company's annual report.

(4) Especially in public companies, the non-tax deductibility must be reviewed to allow for the inclusion under expenses of variable amounts of compensation (performance-based compensation and bonuses).

(Comments

The current general executive performance-related bonus limits upside potential, since the maximum performance-based bonus is around 12% of total compensation even if the business performance is good (Refer to Data Sheet 1-1). Measures for evaluating performance are also ambiguous and center on discretion or qualitative evaluation. The general executive performance-related bonus is a downside risk and cannot be regarded to have sufficient accountability to stockholders if we judge from its prescribed structure, since the compensation can be reduced by 20% at the management's discretion to reflect business circumstances when the business performance deteriorates.

The criticism that high-income bonuses cannot act as an incentive in Japan has been made and it is also true that the present remuneration system is becoming more ambiguous in terms of accountability since it results in a cumulative amount of compensation over the long term. The performance-based bonus should be reformed as described above, to reflect management's risk-taking on compensation, both the downside risk and the upside potential, irrespective of business circumstances and in line with stockholders' risk exposure, with a view to achieving a win-win relationship between stockholders and management.

Although some are of the opinion that performance-based compensation is not appropriate for a mature company, growth or expansion cannot be the sole function of any public company. The designation of performance-based bonuses on a consolidated basis coupled with a mid- and long-term dividend-payout ratio will also allow for a performance-based bonus having an accountability characteristic suited to a mature company.

3. Stock Compensation

(Short-term Goals

(1) The policy on the total amount of stock compensation and individual executive compensation levels should be disclosed (Same as above 1. Executive Compensation Policies).

(2) The following long-term incentive compensation system linked with mid- and long-term shareholder value (hereinafter “Stock Compensation”) should be introduced.

(a) Stock Options (Subscription Rights)

(b) Restricted Stocks (These are similar to or a derived form of granting the right to buy new underlying shares at an exercise price of ¥ 1in order to correspond to Japanese law and tax systems, and are often called stock compensation-type stock options).

(c) A mid- to long-term cash-based alternative performance bonus with a two- to four-year performance evaluation period.

(3) The percentage that stock compensation forms of total remuneration should be increased together with the performance-based bonus percentage. The percentage that stock compensation forms of the total remuneration will be further increased in order to enhance accountability.

(4) A stockholding guideline requiring board members to hold stock in the company shall be established, and will also compel the CEO to hold a number of the company’s shares equal in value to the fixed salary received, within a period of several years. In this case, the above-mentioned restricted shares may be included in the number of shares held. All executive officers other than the CEO will also have to hold similar number of shares as the CEO.

(Medium and Long-term Goals

(1) The risk & reward relationship shall be strengthened from the viewpoints of both performance achieved by management and accountability to stockholders by raising the percentage that stock compensation the performance-based bonus forms of the total CEO remuneration to about 30% in future (Refer to Data Sheet 1-1). The percentage the stockperformance-based compensation forms of the total compensation for managers other than the CEO shall be also raised to a ratio similar to that for the CEO.

(a) When raising the long-term incentive ratio in the future, a condition must be set up for exercising the subscription rights so that it does not become self-approving (For example, when the company’ s business performance exceeds that of a peer group after three years).

(2) The stockholding guideline shall be expanded to encourage the CEO to hold stock equal to two to three times the fixed salary received as best practice.

(3) A call should be made for Call for a review of the treatment of stock options, which are treated as capital transactions under the corporate tax law and regarded as a disallowable expense.

☐ Comments

Stock compensation is typically medium- to long-term incentive remuneration and is usually paid in stock. The typical stock compensation is a stock option. Globally, there has been some progress resulting from scandal in the US and the new accounting standards which require an appropriation of the accounting costs of options; for example, cutting the traditional stock option which is only effective at upside opportunities and combining it with restricted stocks. Moreover, some are of the opinion that stock options cannot function well in Japan due to the irrational nature of the Japanese stock market and the limited growth opportunities in a mature economy.

On the other hand, the creation of shareholder value, one of the most important roles of a listed company, is evaluated by the market as an increase in the share price and/or growth in the dividend payout ratio. It is also true that without stock compensation, the current Japanese executive compensation system does not have any remuneration linked directly to shareholder value either in terms of downside risk or upside potential.

Therefore, like performance-based bonus, stock compensation is essential to assure management accountability. In addition to the stock option, companies can adopt restricted stocks (granting the right to buy new underlying shares at the exercise price of ¥1) in order to add downside risk, or companies may substitute a performance-based bonus linked to medium- to long-term corporate value. In other words, it is difficult to find a reason why the old remuneration system with its strong focus on fixed salaries should be maintained since it does not have any medium- or long-term incentives and is lacking in accountability.

The extremely low ratio of executive officers in Japan who hold shares in their company in comparison with public companies in Europe and the US should also be improved immediately. It is important for all executive officers to hold a certain number of shares and to share both the upside potential and downside risk with their shareholders.

4. Retirement Bonuses

(Short-term Goals

(1) The policy on the formula for determining the provision of retirement bonuses and individual executive compensation levels shall be disclosed (Same as above 1. Executive Compensation Policies).

(2) Retirement bonuses should not be determined by term in office alone; a certain percentage must be linked to the executive's achievements during his/her term in office.

(Medium and Long-term Goals

(1) While encouraging the performance-based remuneration concept to be brought into retirement bonuses in order that the difference in amount can reflect the competitive difference among companies, the Systemic Infrastructure and Transparency Committee will recommend that public companies review the non-tax deductibility for high-income executive retirement allowances which is based on a "follow-the-leader" mentality.

(2) The Systemic Infrastructure and Transparency Committee will recommend that the tax system on pension incomes after retirement should be made equal to wage deductions for salary earners.

(3) The Systemic Infrastructure and Transparency Committee will recommend that the income tax requirements for executive retirement bonuses (e.g. income tax on stock options) should be modified.

□ Comments

Currently whether retirement bonuses should survive or be abolished has been the subject of fierce debate. Some companies have already abolished retirement bonuses. However, a certain allowance to support their life is also vital for executive officers. Even in advanced nations in Europe and the US, retirement incomes for managers are usually paid as a lump-sum retirement allowance or as regular pension income. As a result, discussions which conclude that retirement allowances be abolished immediately sound rather premature.

However, since in many cases no clear calculation method is shown for current executive retirement bonuses and the amounts are generally based on fixed remuneration, they are in effect only determined by term in office. As a result, the amounts are generally bigger irrespective of the business performance during the executive's term in office. Moreover, in traditional companies the decision process is entirely up to board (where decisions are really made by the CEO), and is therefore lacking in objectivity and transparency. Therefore, in these guidelines, given that the provision of remuneration to support life in retirement is indispensable, the Systemic Infrastructure and Transparency Committee requests public companies to disclose their policies on retirement bonuses as short-term goals from the viewpoint of objectivity and transparency, and to ensure that the performance-based remuneration concept is brought into the calculation of retirement bonuses.

As medium- and long-term goals, we request companies to review the non-tax deductibility on high-income executives (in the case of public companies, non-deductible tax should not apply) and we also request a revision of the tax on income received after a certain period of retirement. By doing so, companies can avoid uncertainty, allowing their stockholders to identify such retirement bonuses as a cost.

5. Compensation Committee

■ Short-term Goals

(1) All public companies must set up a Compensation Committee, not only companies who have the new committee system, but also traditional companies.

(2) At least 50% of the members of the Compensation Committee shall be external members, and these members should be independent directors.

(3) The chairman of the Compensation Committee must be an external committee member and should be an independent director, wherever possible.

(4) Full and objective internal and external information shall be provided to external committee members so that they are able to make informed decisions.

(5) The opportunity to discuss CEO remuneration shall be given only to external committee members.

(6) The purpose, authority, and regulations of the Compensation Committee shall be stipulated. The relationship between the Compensation Committee and the Board of Directors is left to the discretion of each company.

(7) The Compensation Committee will make decisions on suitable compensation levels for individual executives when they achieve good business performance using examples from the Guidelines on Executive Compensation in conformity with the creation of corporate value in the medium- and long-term.

(8) The Compensation Committee will submit a statement of activities for each fiscal year (what, when, and how they were determined) to both the Board of Directors and the Board of Auditors.

■ Medium and Long-term Goals

(1) The Compensation Committee should be composed of independent directors, wherever possible. The overall number of directors & executive officers who are appointed as Compensation Committee members must not form a majority of the committee and voting rights shall not be granted to director(s) & executive officer(s). Compensation Committee members shall not be in office for an extended term (for example, longer than four years).

(2) The chairman of the Compensation Committee shall be selected from among those members who have been active on the committee for two or more years (except for the first chairman after inauguration).

(3) The Compensation Committee is required to release an annual statement that discloses the following items on Executive Compensation under "Corporate Governance" in the annual report.

(a) Particulars of the Committee

(b) Authority and regulations of the Compensation Committee stipulated in the text of the company books

(c) Statement of activities for each fiscal year (what, when, and how they were determined).

☐ Comments

The role of the Compensation Committee is to prevent any conflict of interest within management and to monitor whether or not management is receiving sufficient incentive to create corporate value. In making decisions, the Compensation Committee must check and determine among other things whether or not management's creation of value in the medium- to long-term is consistent with executive compensation levels. As a short-term goal, the Systemic Infrastructure and Transparency Committee will recommend public companies – including traditional companies – to set up a Compensation Committee that includes external members as more than half the total number of committee members from the point of view of corporate value creation.

Simultaneously, we think it very important to ensure that the chairman of the Compensation Committee is an external member (and an independent director, wherever possible). We require companies to provide objective information to Compensation Committee members and to stipulate the authority and regulations in the text of the company books, and to require the Compensation Committee to submit a report to the Board of Directors, with the aim of guaranteeing the independence of the Compensation Committee. On a mid- to long-term basis, the Compensation Committee should consist of only external directors and should have the authority to make the final decision on executive compensation. We believe that independence, objectivity, and transparency with regard to deciding executive compensation levels can only be guaranteed if the Committee is required to disclose the above report.

While some people are of the opinion that the Compensation Committee will not work without internal director(s), this is a misunderstanding of the facts. Internal directors will be able to attend meetings of the Committee as reporters to express their views.

6. Request for Revision of Regulations/Tax System

(Commercial Code

(1) Compensation Policies

(a) Traditional companies shouldmust also establish Compensation Policies.

In the past, the ceiling on executive compensation at traditional companies requiresd a resolution at a general meeting of shareholders so that it diddoes not become self-approving. However, the most important task with regard to executive compensation at public companies (compensation for executive officers and+ compensation for supervisorsmanagers) is to establish an effective compensation system to enable executives to fulfill their responsibilities. Compensation Policies must be established since they form the basis for establishing such a compensation system, regardless of any difference in the form of corporate governance. Although companies with a Committee System are required to disclose their Compensation Policies under the current laws, traditional companies should be also required to make the same disclosure.

Items to be determined in the Compensation Policies are described under the Enforcement Regulations in the Commercial Code (Refer to Articles 193 of the Enforcement Regulations in the Commercial Code, which defines the requirements for implementation of the Audit Committee's duties).

(2) Compensation Determination Process

(a) In order to enhance the independence of the Compensation Committee, companies should adopt the concept of independent directors.

Every company is required to enhance the independence of the Compensation Committee and increase the dependability of the compensation determination process. Under the current laws, at companies that have a Compensation Committee System, the majority of the members of the Compensation Committee must be outside directors. However, the concept of outside directors merely focuses on the adoption of people from outside the company as directors, and there is no guarantee that outside directors will therefore be substantially independent of executive officers including the CEO. Public companies should introduce the concept of independent directors to improve the overall quality of corporate governance. All companies should also ensure that the chairman of the Compensation Committee is an independent director.

(b) The method of calculating performance-based compensation should be clearly determined in advance, with or without a ceiling on the maximum compensation.

One interpretation of the current law is that performance-based compensation with an upper limit can be regarded as a defined amount of compensation rather than an undefined amount of compensation, and as a result a method of calculating undefined amounts is not necessary. This kind of argument not only blurs the distinction between fixed compensation and performance-based compensation but also has a bad impact on corporate governance. It is necessary to improve the conditions for performance-based compensation, including tax issues which will be discussed later.

(c) All companies should disclose their stock options, not only to regulate the issuing of new subscription rights on advantageous terms, but also to regulate the amount of compensation being granted.

The general understanding is that the current laws governing stock options only apply to issuing new subscription rights on advantageous terms, and that regulations governing such kinds of compensation do not apply, and as a result business practices also follow this interpretation. This understanding would seem to be based on the importance of a resolution at a general meeting and from this issuing new subscription rights on advantageous terms can become more important than the regulations governing compensation.

However, since stock options are offered to executives as a form of compensation, it is only natural that the regulations on compensation apply to these too. Without applying the regulations governing compensation, the board of directors might approve their agenda on stock options (agenda on issuing new stock subscription rights in advantageous terms) irrespective of any decision made by the Compensation Committee on policies and details of performance-based compensation. This would distort the compensation system and structure across the board.

The issuing of new subscription rights on advantageous terms and the regulations governing compensation are different systems and have different effects. As a result, the former system can at no time be considered to cover the latter system. Therefore, for stock options, it should be clearly embodied in the text of the law that it applies to the issuing of new subscription rights on advantageous terms as well as to the regulations governing compensation.

(3) Disclosure of Compensation

(a) Traditional companies should be required to disclose their Compensation Policies in their financial report.

Although companies with the Committee System already disclose their Compensation Policies in their financial reports, the importance of Compensation Policies would not change irrespective of changes in the structure of corporate governance. Traditional companies should be also required to make the same disclosure.

(b) The Compensation Committee should be required to disclose its activities in the financial report.

The most basic way to improve the transparency of the compensation determination process is to enhance the quality of disclosure. The Compensation Committee should not only inform the board members of its concrete activities but also disclose them to shareholders via the business report.

* Disclosure of Individual Executive's Compensation

Since the disclosure of individual executive's compensation is an important theme to be considered, the Systemic Infrastructure and Transparency Committee is actively pressing the argument. The Systemic Infrastructure and Transparency Committee believe that the remedy shown in the guidelines should be implemented first. We believe that it would introduce confusion to investors and stockholders or cause them puzzlement if the amounts were disclosed individually with insufficient application of the processes in the Compensation Policies and Compensation Determination Process. Such a state of affairs can never result in appropriate executive compensation or improvements in corporate governance.

Although some are of the opinion that disclosure of individual executive's compensation should be implemented further when there are limitations on the responsibilities of directors and executive officers, the Systemic Infrastructure and Transparency Committee considers that it is too early to disclose individual executive's compensation. We believe that it is better to leave it to each individual company's position on disclosure to their investors rather than providing legal provisions on the disclosure of individual executive's compensation.

(4) Others

(a) The Systemic Infrastructure and Transparency Committee recommends deletion of the provision that "The company may not define a rule that a director shall be a stockholder of the company even if the company amends the Articles of Incorporation." (Article 254-2 of the Commercial Code).

The Systemic Infrastructure and Transparency Committee considers that stock compensation is one effective method of management remuneration, and that each company should formulate their own management guidelines on holding stock in the company. While any company can formulate management guidelines on holding stock in the company despite the regulation in Article 254-2 of the Commercial Code, we firmly believe that such an irrational provision should be done away with. Whether a director is required to become a stockholder in the Articles of Association is entirely left to the discretion of each company, and the Commercial Code should never uniformly disallow such activities.

(Securities and Exchange Law

(1) All public companies should strengthen the items on compensation disclosed in their annual reports.

In the current laws on disclosing individual executive's compensation, there is a written note saying "For example, the details of executive compensation (classified description for each internal and outside director) should be clearly and specifically described." Some consider that this is given merely as an example. However, given that strengthening corporate governance is an important task for the Japanese economy, and that the above note is written on the basis of this background, the note should be taken as a minimum requirement.

With regard to Disclosure of Executive Compensation, all public companies should first disclose their Compensation Policies. The Systemic Infrastructure and Transparency Committee has repeatedly explained the importance of Compensation Policies.

Secondly, all public companies should disclose the process used to determine compensation levels. Specifically, such disclosure includes the establishment of a Compensation Committee, its activities, etc.

Thirdly, all companies should disclose details of their compensation systems classified into executive officers, internal directors, and external directors. In this case, companies should not only classify according to individual directors and officers, but also sort the contents of compensation into fixed remuneration and performance-based compensation (short-term and long-term), etc.

(Taxation (Same as 4. Retirement Bonuses - Medium and Long-term Goals)

（1）By encouraging the performance-based remuneration concept to be brought into retirement bonuses so that that the difference in amount can be made to reflect the competitive difference among companies, the Systemic Infrastructure and Transparency Committee will recommend public companies to review the non-tax deductibility for high-income executive retirement allowances which is based on a “follow-the-leader” mentality.

（2）The Systemic Infrastructure and Transparency Committee will recommend that the tax system on pension income after retirement should be equal to wage deductions for salaried earners.

（3）The Systemic Infrastructure and Transparency Committee will recommend that the requirements on individual income taxation to be aimed at executive retirement bonuses (for example, granting the exercise of stock options) should be modified.

（4）The Systemic Infrastructure and Transparency Committee will recommend that the non-tax deductibility be reviewed so that undefined amounts of compensation (performance-based compensation and bonuses) may be included in expenses.

Currently whether retirement bonuses should survive or be abolished has been the subject of fierce debate. Some companies have already abolished retirement bonuses. However, a certain allowance to support their living standards is also vital for executive officers. Even in Europe and America, retirement incomes for management are usually paid as a lump-sum retirement allowance or as regular pension income. As a result, opinions stating that retirement allowances should be abolished immediately sound rather premature.

However, since no clear calculation method is shown for current executive retirement bonuses in many cases and the amounts are generally on fixed remuneration basis, they are in effect only determined by term in office and as a result, the amounts are generally bigger irrespective of the business performance during the term in office. Moreover, in the case of traditional companies, since the decision process is entirely up to the board meeting (where the decisions are really made by the CEO), it is therefore lacking in objectivity and transparency. Therefore, in these guidelines, given that the provision of remuneration to support life after retirement is indispensable, The Systemic Infrastructure and Transparency Committee requests public companies to disclose their policies on retirement bonuses from the viewpoint of objectivity and transparency as short-term goals and to ensure that the performance-based remuneration concept is brought into the calculation of retirement bonuses.

As medium- and long-term goals, we request companies to review the non-tax deductibility on high-income executives (in the case of public companies, non-deductible tax should not apply) and we also request a revision of the tax on income received after a certain period of retirement. By doing so, companies can avoid uncertainty, allowing stockholders to identify such retirement bonuses as a cost.

(Systemic Infrastructure and Transparency Committee

Chairman	Masashi Kaneko	Chairman, Nikko Cordial Corporation
Vice Chairman	Akio Okuyama	Representative Partner and Certified Public Accountant, Chuo Aoyama Audit Corporation
	Hisashi Yamaura	Professor, School of Business Administration, Meiji University
	Tatsuo Uemura	Professor, School of Law, Waseda University
Members	Chairpersons and Presidents of Public Companies	
	Hiroyuki Yanai	Executive Director, Japan Association of Corporate Directors

(Executive Compensation Working Group

Chairman	Naohiko Abe	Managing Principal, Tokyo Branch, Towers Perrin
Vice Chairman	Hiroo Kato (Until August 2004)	Representative Partner and Certified Tax Accountant, Zeirishi-Hojin ChuoAoyama
	Kan Hayashi (Since Sept 2004)	Representative Partner and Certified Tax Accountant, Zeirishi-Hojin ChuoAoyama
	Kenji Kawamura	Assistant Professor, College of Economics, Kanto Gakuin University
Member	Ken Iwase	Nikko Cordial Corporation
	Yasushi Okada	Eisai Co., Ltd.
	Shigeru Komatsu	Japan Tobacco, Inc.
	Kiyoshi Wada	AEON Co., Ltd.
	Yasuhiro Itoh	
	Yoshihiro Ohtake	
	Hiroaki Sano	
	Hiroyuki Tsubota	
	Hiromasa Yamamoto	
	Shigeru Matsumoto	Japan Association of Corporate Directors
Guest	Yoshihiro Saijo	Fidelity Investments Japan Ltd.
	Mark Goldstein	Institutional Shareholder Services, Inc.
	Yumiko Arai	Zeirishi-Hojin ChuoAoyama
	Taku Yamamoto	Pension Fund Association

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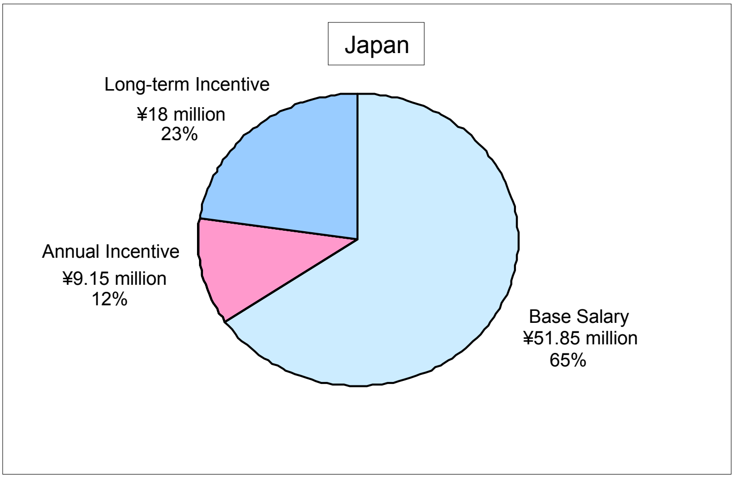
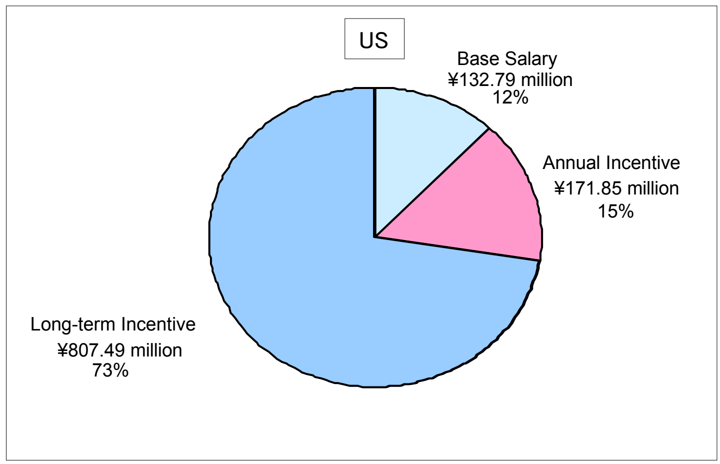
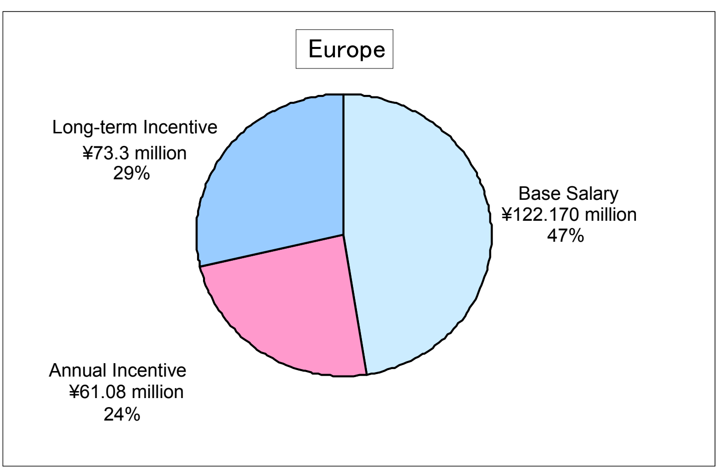
Data Sheet (1-1)
Comparison of CEO Compensation





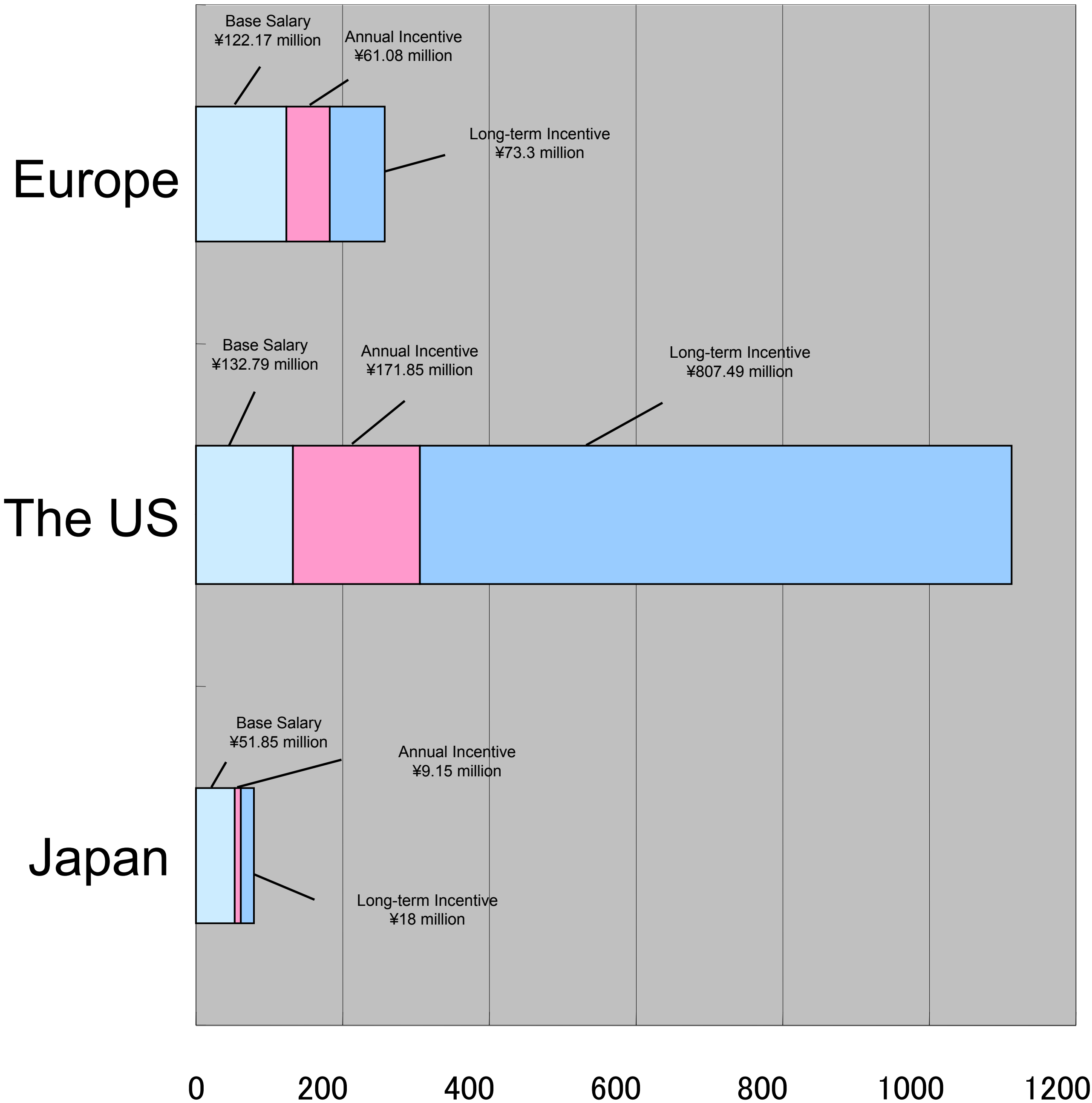


Units: ¥1 million

Data: Japan: List of high-income taxpayers in fiscal 2003 & notice of ordinary general meeting of shareholders; subject to gross cash compensation of top 100 aggregate value of listed stocks (fixed compensation + performance-related bonuses), selected companies issuing stock options (36 companies)

US & Europe: US Towers Perrin Databank companies with sales of 1 trillion or more in fiscal 2003 (US: 275 companies; Europe: 236 companies)

Data Sheet (1-2)
Comparison of CEO Compensation



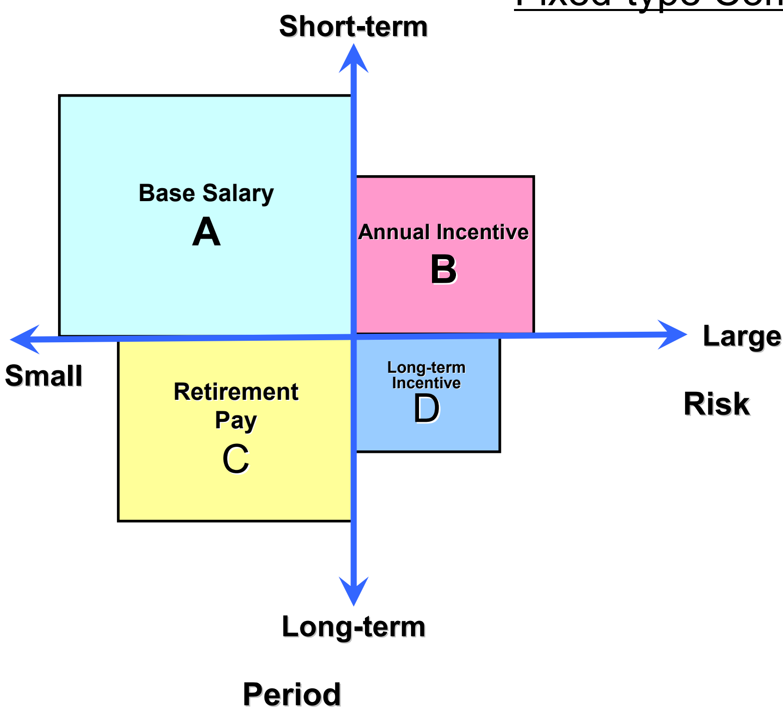
Unit: ¥2 million

Data: Japan: List of high-income taxpayers in fiscal 2003 & notice of ordinary general meeting of shareholders; subject to top 100 aggregate value of listed stocks

US & Europe: US Towers Perrin Databank companies with sales of 1 trillion or more in fiscal 2003 (US: 275 companies, Europe: 236 companies)

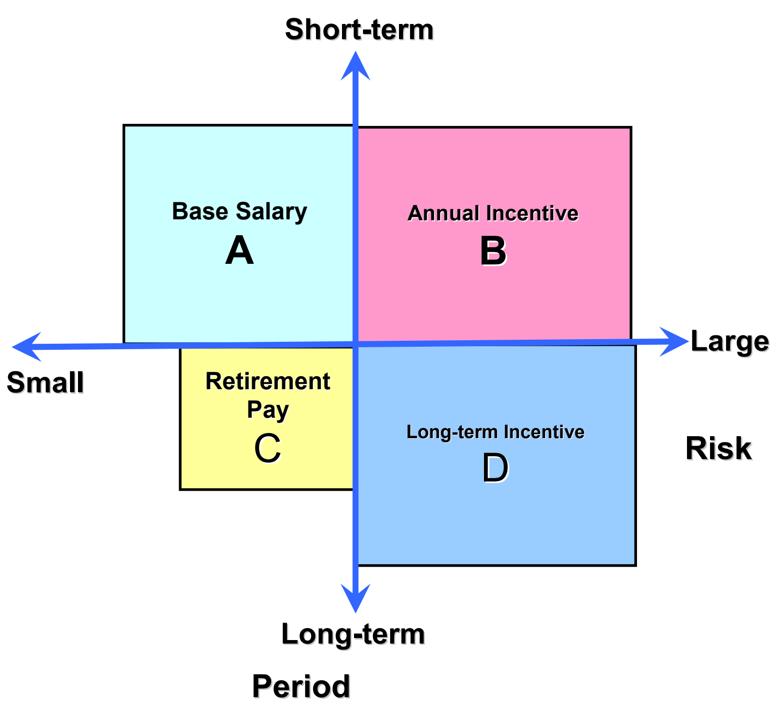
Fixed-based Compensation vs. Performance-based Compensation

Fixed-type Compensation



Fixed-based portion (A+C)
> Performance-based portion (B+D)

Performance-driven Compensation



Fixed-based portion (A+C)
< Performance-based portion (B+D)

Data Sheet (3): Comparison of Tax Regimes in Japan, the US, and Europe

	Japan	US (NY)	UK	Germany
Comparison of Tax and Social Insurance Rates		Note 0		
With a salary of 10 million yen				
National tax	635,300	1,102,506	2,441,520	1,729,736
Local tax	441,100	732,298		
Total tax	1,076,400	1,834,804	2,441,520	1,729,736
Total tax as a percentage of income	10.76%	18.35%	24.41%	17.30%
Social insurance	1,038,804	765,004	724,936	1,525,905
Total tax and social insurance	2,115,204	2,599,808	3,166,456	3,255,641
Total tax and social insurance as a percentage of income	21.15%	26.00%	31.66%	32.56%
With a salary of 50 million yen				
National tax	13,265,000	14,165,333	18,441,520	21,189,126
Local tax	5,296,900	5,552,658		
Total tax	18,561,900	19,717,991	18,441,520	21,189,126
Total tax as a percentage of income	37.12%	39.44%	36.88%	42.38%
Social insurance	1,402,596	1,350,587	1,124,936	1,525,905
Total tax and social insurance	19,964,496	21,068,578	19,566,456	22,715,031
Total tax and social insurance as a percentage of income	39.93%	42.14%	39.13%	45.43%
With a salary 100 million yen				
National tax	30,710,500	31,665,324	38,441,520	45,981,732
Local tax	11,426,400	11,916,133		
Total tax	42,136,900	43,581,457	38,441,520	45,981,732
Total tax as a percentage of income	42.14%	43.58%	38.44%	45.98%
Social insurance	1,752,600	2,075,578	1,624,936	1,525,905
Total tax and social insurance	43,889,500	45,657,035	40,066,456	47,507,637
Total tax and social insurance as a percentage of income	43.89%	45.66%	40.07%	47.51%
With a salary of 500 million yen				
National tax	170,133,900	171,665,361	198,441,520	233,923,589
Local tax	60,419,500	60,544,344		
Total tax	230,553,400	232,209,705	198,441,520	233,923,589
Total tax as a percentage of income	46.11%	46.44%	39.69%	46.78%
Social insurance	4,552,596	7,875,622	5,624,939	1,525,905
Total tax and social insurance	235,105,996	240,085,327	204,066,456	235,449,494
Total tax and social insurance as a percentage of income	47.02%	48.02%	40.81%	47.09%
Directors' bonuses tax deductible?	Yes	No	No	No
Retirement income subject to preferential tax treatment?	Yes	No	No (Note 1)	No (Note 3)
Stock options tax deductible?	No	Yes	Yes (Note 2)	No (Note 4)

Note 0: US data is for New York, and tax burdens vary depending on where you live in the United States. Some states, for example, levy a state income tax, while others don't (Texas etc.). In addition, New York City levies a city tax, while Chicago, for example, doesn't.

Note 1: In the UK, tax is not imposed on the portion of pension benefits received as a lump sum, although there are some restrictions related to the recipient's age and the value of the sum received.

Note 2: In the UK, the difference between the share price at exercise and the exercise price is recognized for accounting purposes as an expense.

Note 3: In Germany, lump-sum retirement payments are rare, with retirement benefits normally paid as annuities. If, however, an individual receives a portion of his/her company pension as a lump sum, the money is taxed at a flat 20% (rather like the tax on variable income in Japan), leaving some scope for the mitigation of progressive tax rates.

Note 4: When options are exercised in Germany, accounting and tax regulations require firms to report on their income statements the difference between the acquisition cost of the treasury stock sold and the exercise price of the options. If the latter figure is lower, the loss is tax deductible.

Source: Survey by Zeirishi-Hojin (Tax Accounting Corporation) Chuo Aoyama

Data Sheet (4): Compensation Policy

(Note) Abstracts from each company's business report for fiscal 2004

(4-1) Orix Corporation

6. Policy on Individual Compensation for Directors and Executive Officers Determined by the Compensation Committee

The Company's Compensation System for Directors and Executive Officers is intended to function effectively as an incentive to improve mid- and long-term shareholder value.

Specifically the compensation system consists of a fixed remuneration determined on the basis of duties, performance-based compensation in parallel with the results for each business term, and stock-based compensation linked with the mid- and long-term stock value.

(4-2) Sony Corporation

[Basic policy regarding remuneration for Directors and Corporate Executive Officers]

Basic policy regarding remuneration for Directors and Corporate Executive Officers determined by the Compensation Committee is as follows:

(1) Basic policy of Director remuneration

Taking into account that the main duty of the Directors is to supervise the performance of business operations of Sony and that the fact that Sony is a global company, in order to improve such function, the following two elements shall constitute the basic policy to determine the remuneration of Directors:

- Attracting and retaining an adequate talent pool of Directors possessing the requisite abilities to excel in the global marketplace;
  and
- Ensuring the effectiveness of the supervisory function.

Based upon the above, remuneration of the Directors shall consist of the following three components:

- Fixed remuneration;
- Remuneration linked to share price; and
- Retirement allowance.

The schedule for the amount of each component and its percentage of total remuneration shall be determined in line with the above basic policy.

Remuneration of Directors who concurrently serve as Corporate Executive Officers shall be determined in accordance with the basic policy of Corporate Executive Officers provided below and the basic policy of Director remuneration shall not apply to such Directors.

(2) Basic policy of Corporate Executive Officer remuneration

Taking into account that Corporate Executive Officers are the key members of management responsible for executing the business of Sony, in order to further improve the business results of Sony, the following two elements shall constitute the basic policy to determine the remuneration of Corporate Executive Officers:

- Attracting and retaining an adequate talent pool of Corporate Executive Officers possessing the requisite abilities to excel in the global marketplace; and
- Providing effective incentives to improve business results on a short, medium and long term basis.

Based upon the above, remuneration of Corporate Executive Officers shall consist of the following four components:

- Fixed remuneration
- Bonus linked to business results;

- Remuneration linked to share price; and
- Retirement allowance

The schedule for the amount of each component and its percentage of total remuneration shall be determined in line with the above basic policy with an emphasis on linking remuneration to business results and shareholder value. Specifically, the amount of bonus linked to business results shall be determined based upon the level of achievement in respect of the business area(s) for which the relevant Corporate Executive Officer is responsible.

(4-3) Nikko Cordial Corporation

(9) Compensation Schemes for Directors and Auditors

(1) Outline of compensation scheme for directors

Our compensation scheme for directors derives from the following three basic policies, adopted from the viewpoint of emphasizing investor-oriented management.

- Appropriate scheme planning and compensation levels to increase shareholder value

Compensation for directors must be set with the objectives of enhancing morale and appreciating efforts for higher performance of the management, in addition to the employment of people talented for shareholder value increase.

- Compensation scheme including maximum efforts from directors

A director is not given any assurance to keep his or her position up to a certain age, or to serve as director of a related company after retirement. Accordingly, the compensation scheme strictly reflects his or her performance in the service period, including maximum dedication and service while in director's position.

- Objectivity monitored by an ad-hoc advisory board including external expert members

In 1999, the Directors' Nominating and Compensation Committee (reorganized as the Group Personnel Committee in March 2004) was established. Its members were directors in charge of the matter, external auditors, and consultants specializing in managers' compensation. The committee has been working on fundamental reforms on personnel reshuffle, compensation and treatment of directors. The committee also serves to secure objectivity in determining the compensation of respective directors. Following adoption of the statutory committee system, which is subject to the approval of shareholders at the 63rd General Annual Shareholders' Meeting to be held in June 2004, the Nominating and Compensation Committee required under the Japanese Commercial Code will take over the functions of the Group Personnel Committee.

The gist of the current compensation schemes for directors and auditors is as follows:

［Monthly compensation (fixed compensation)］

Monthly compensation of up to Y80 million for directors and up to Y15 million for auditors was approved by the 58th General Annual Shareholders' Meeting held on June 29, 1999.

Monthly compensation for directors is determined by position. The compensation amount allotted for each position is discussed at the Nominating and Compensation Committee.

Monthly compensation for respective auditors is determined by agreement among auditors.

［Bonus (performance-linked compensation)］

Based on our view that the total bonus amount for directors should be linked to the corporate performance, it is determined in line with the total amount of dividend corresponding to the dividend payout ratio calculated from the consolidated net income. Payment is subject to appropriation of earnings approval at the General Annual Meeting of Shareholders. If, however, there are no consolidated earnings for a fiscal year, no bonus for the correspondent fiscal year will be paid to the directors.

The allocation for each director is determined by the Nominating and Compensation Committee, taking into account each director's contribution to the performance.

No bonus is paid to auditors.

［Stock option scheme for a stock-linked compensation plan (Shareholder value-linked compensation)］

To link directors' compensation more to corporate performance and shareholder value, in

June 2003 the retirement bonus system for directors (formerly comprising part of their fixed compensation) was abolished and a new scheme was introduced, where Stock Acquisition Rights will be issued free of charge to certain directors, subject to approval at the General Annual Meeting of Shareholders.

A Stock Acquisition Rights will be allocated to the directors of Nikko Cordial Corporation and the directors with special titles and officers with special titles of Nikko Cordial Securities Inc. The number of shares to be allocated will be determined based on their monthly compensation.

(2) Compensation and other benefits as compensation for performance of directors and auditors

Category	Compensation		Bonuses from appropriation of earnings		Stock option scheme for a stock-linked compensation plan	
	Number of Payees	Amount paid	Number of Payees	Amount paid	Number of persons allocated	Units allocated
Director	11	Y million 380	-	Million yen -	7	397
Auditor	6	119	-	-	-	-
Total	17	499	-	-	7	397

Notes:

1. Directors and auditors as of the end of the fiscal year numbered 10 and five, respectively.
2. No payment was made as employee salary (including bonus) in respect of employee-directors during the fiscal year.
3. In addition to the amounts indicated above, retirement bonuses of Y130 million were paid to retiring auditors. There was no retirement bonus payment to directors during the fiscal year as covered by the resolution of the 62nd General Annual Meeting of Shareholders held on June 26, 2003 concerning presentation of retirement bonuses to directors prior to abolishment of the then-existing retirement bonus system for directors.
4. Stock option scheme for a stock-linked compensation plan represents Stock Acquisition Rights issued free of charge in July 2003 and allocated to directors this fiscal year. The number of shares for a unit of the Stock Acquisition Rights is 1,000, and the amount to be paid in on exercise of the Right is Y1 per share. For other terms and conditions, see "(10) Stock Acquisition Right" below.
5. The payments and the numbers of Stock Acquisition Right units allocated to four representative directors this fiscal year are as follows. In addition, compensation of Y16 million was paid by Nikko Cordial inc. to Mr. Junichi Arimura as its president.

Positions as of the end of this fiscal period	Name	Compensation	Bonus from appropriation of earnings	Stock option scheme for a stock-linked compensation plan
		Amount paid	Amount paid	Units allocated
		Y million	Y million	
Chairman & Co-Chief Executive Officer (Representative Director)	Masashi Kaneko	71	-	81
President & Co-Chief Executive Officer (Representative Director)	Junichi Arimura	70	-	81
Executive Deputy President	Tadakatsu Hironaka	58	-	64
Executive Deputy President (Representative Director)	Hiroaki Sugioka	40	-	64

[Reference] Compensation paid to directors and auditors at the consolidated entities

Category	Compensation		Remarks
	Number of Payees	Amount paid	
Director	68	Y million 1,690	1. The amounts shown here are the numbers of payees and amounts paid as indicated in (9) above, plus those paid at 25 consolidated subsidiaries (as registered under the Japanese Commercial Code as of March 31, 2004) during the term. 2. Directors and auditors as of the end of the fiscal year numbered 74 and 33, respectively.
Auditor	23	320	
Total	91	2,011	

Notes:

1. In addition to the amounts indicated above, there are salaries (including bonuses) of Y47 million to employee-directors, bonuses of Y12 million to directors from the appropriation of earnings, retirement bonuses of Y518 million to retiring directors, and retirement bonuses of Y192 million to retiring auditors.
2. During this fiscal year, there were stock option scheme allocations issued free of charge under a stock-linked compensation plan in July 2003 and also #2 Stock Acquisition Rights (stock option) issued free of charge. For terms and conditions, see (10) Stock Acquisition Rights below.