

Enhancing Corporate Governance

Nihon Kohden strives to strengthen its corporate governance with the aim of continually enhancing its corporate value.

Message from Operating Officer

As the operating officer in charge of strengthening governance and promoting the development of a risk management framework, I believe that my role is to build a management structure that aims to improve the soundness, transparency, and efficiency of management, and to prevent the occurrence of fraud and reduce risk by continuously strengthening corporate governance.

I will also work to realize a sustainable society and enhance mid- to long-term corporate value of the Company by strengthening dialogue with our stakeholders and building a solid and trusting relationship with them.

It is important for us to continue to raise compliance awareness, upgrade our risk management framework, and strengthen internal controls. We will continue to make company-wide efforts to transform ourselves into a global organization centered on operational excellence*.

We appreciate your continued support.



Fumio Izumida
Operating Officer,
General Manager of Corporate
Strategy Division

* Operational excellence: Building and thoroughly refining a company's competitive advantage by increasing the effectiveness and efficiency of business activities to create its corporate value.

Basic Views on Corporate Governance

To realize the Company's Management Philosophy, Nihon Kohden aims at achieving sustained growth and establishing reliance as a company that is highly evaluated by the customers, shareholders, clients, and society in all aspects including products, sales, service, technology, financial strength, quality of employees, and other points.

In order to realize this management basic policy and increase corporate value over the mid- to long-term, the Company recognizes that enhancing corporate governance, by establishing a management structure aiming at improving the soundness, transparency, and efficiency of management, is an important management issue.

Corporate Governance Structure

Nihon Kohden has adopted a Company with an Audit & Supervisory Committee structure to achieve the following: enhancement of supervisory functions, improvement of soundness and transparency of management, and acceleration of management decision making. The Company currently has four independent outside directors, who comprise over one-third of the Board of Directors. The Company takes measures such as appointment of independent outside directors and introduction of an operating officer system as well as cooperation among the Audit & Supervisory Committee, the Internal Auditing Department, and the Accounting Auditor. The Company believes the management monitoring functions work sufficiently.

The Company registered four outside directors as independent directors, who have no conflict of interest between general shareholders and them, to the Tokyo Stock Exchange. Outside directors attend the important meetings such as the Management Council as necessary. They also provide opinions from an objective and neutral standpoint if necessary and supervise the Company's management.

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■ Board of Directors

The Board consists of a total of eleven directors (including one female director), eight directors excluding Audit & Supervisory Committee members (including two outside directors) and three Audit & Supervisory Committee members (including two outside directors). The Board has monthly meetings to resolve matters pursuant to the Companies Act and makes decisions on the conduct of important business for the Nihon Kohden Group as well as supervises directors' performance of their duties.

■ Audit & Supervisory Committee

The Audit & Supervisory Committee consists of three directors, including two outside directors and one full-time member. Each Audit & Supervisory Committee member conducts audit activities in accordance with the audit policy, audit plan, and division of duties established by the Audit & Supervisory Committee. Each Audit & Supervisory Committee member attends the important meetings such as the Management Council and audits the performance of duties by directors by investigating the conduct of business operations and status of assets at the Company's main offices as well as reports on audit results from the Internal Auditing Department. The Audit & Supervisory Committee cooperates with the Accounting Auditor and the Internal Auditing Department. The full-time member of the Audit & Supervisory Committee has many years of experience in finance and accounting departments and possesses a considerable degree of knowledge about finance and accounting.

■ Management Council

The Management Council, at which directors and operating officers attend, are held once or twice a month in order to undertake the management activities based on the policy approved by the Board as well as aiming at prompt decision making and flexible business operation. The Company has introduced an operating officer system that provides a clear segregation between managerial decision making and supervisory functions on the one hand and the execution of operations on the other, and there are sixteen operating officers (including two female operating officers) who are not serving concurrently as directors.

■ Nomination & Remuneration Committee

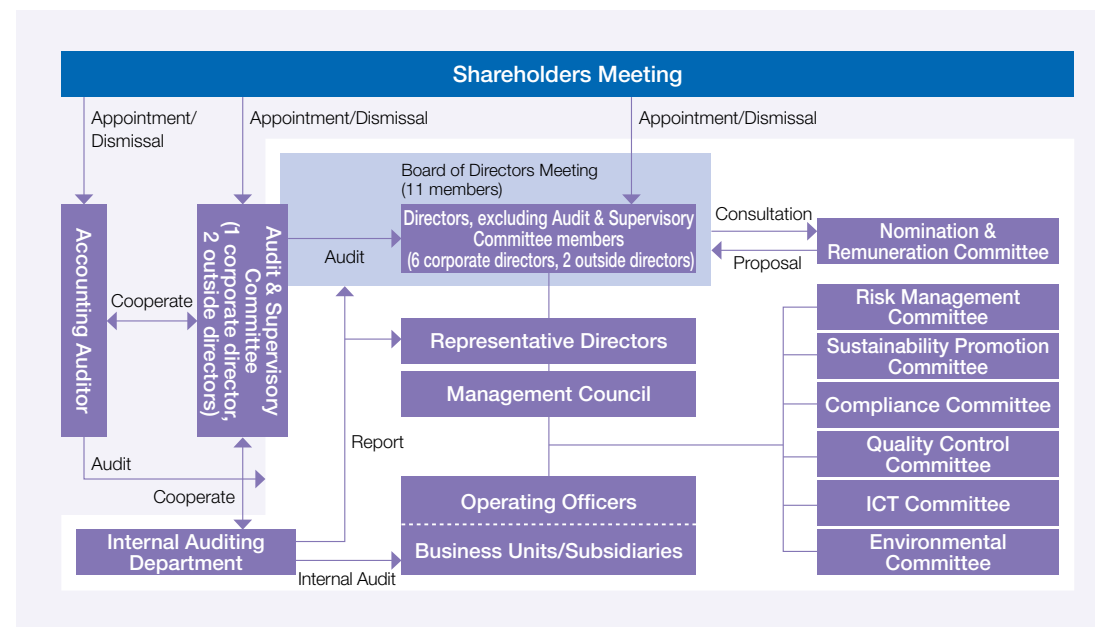
The Company has established a Nomination & Remuneration Committee, which is a voluntary advisory committee under the Board, to ensure the transparency and objectivity of the management. All three committee members and the committee chair are appointed from outside directors. The Nomination & Remuneration Committee deliberates on the proposal of the candidates, remuneration of directors, and succession plans in response to requests from the Board, and submits the proposals to the Board.

For further details on the corporate governance, please refer to our website.

https://www.nihonkohden.com/information/philosophy/governance/governance_structure.html



Corporate Organization and Internal Control System



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Board of Directors Evaluation

Nihon Kohden conducted self-evaluations of all directors in an anonymous survey related to the size and composition of the Board and its operations. The Company also discussed the results of evaluation and issues for further improvements.

As a result of the evaluation, it was confirmed that the structures necessary to enable appropriate performance of the Board's supervisory functions have been established in terms of size, composition, and operations of the Board. It was also concluded that the Board operates effectively with an open atmosphere that enables inside and outside directors to engage in candid discussions.

In FY2022, based on the results of the FY2021 evaluation results, the Company reviewed its operation methods of Meetings and has held Meetings of the Management Council and the Board of Directors on different dates to ensure sufficient time for deliberation at the Board. The Company also strengthened support for outside directors by increasing the number of free discussion meetings for the exchange of opinions among outside directors. At the same time, the Board members shared the following issues: the need for further discussion on corporate governance, risk management, and succession planning as well as further reinforcement of the support systems for outside directors.

In addition to continuing past improvement measures, the Company will continue to consider appointing female and foreign directors on the Board. Based on FY2022 evaluation results, the Company will develop a company-wide sophisticated risk management framework in FY2023. The Board of Directors will discuss important risks and response policies which will be identified by the newly established Risk Management Committee. The Company will also strengthen support for outside directors by enhancing and improving provision of information such as product and business presentations. In addition, the Company will strengthen its implementation of sustainability management and disclose of information to further enhance dialogue with each stakeholder.

The Company will continue to improve overall effectiveness of the Board aiming at sustained growth of corporate value and for an enhancement of corporate governance.

Audit & Supervisory Committee Evaluation

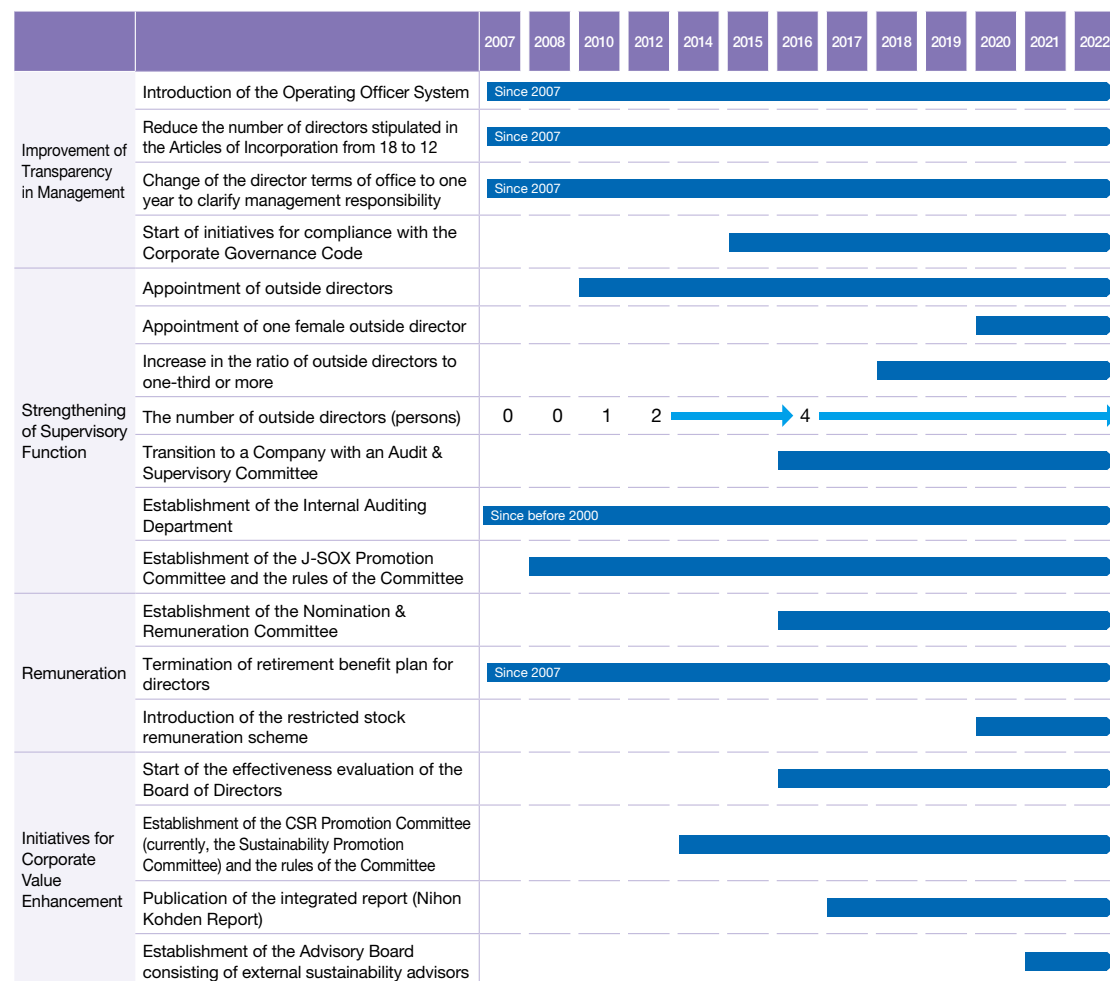
To improve the reliability and quality of the Audit & Supervisory Committee's activities, Nihon Kohden started analyzing and evaluating the overall effectiveness of the Committee in FY2022. The aim is to identify issues and areas for improvement, leading to initiatives to improve the Committee's effectiveness. A summary of the results of the first year's evaluation is as follows. The results confirm that the Committee has been effective overall.

After the items and contents of the evaluation were explained to all directors serving as Audit & Supervisory Committee members, their evaluations and opinions were collected through discussions, and they discussed the evaluation of the Committee's effectiveness, as well as any other issues and future improvement measures.

As a result of the evaluation, it was confirmed that the structures necessary for the appropriate performance of the Audit & Supervisory Committee's functions have been established, in terms of the size, composition, and operations of the Committee, and also that the effectiveness of audits has been ensured. It was also concluded that the Audit & Supervisory Committee operates effectively, with an open atmosphere that enables inside and outside members to engage in candid discussions. On the other hand, regarding audits of the effectiveness of IT governance and information systems, while it was observed that the full-time Audit & Supervisory Committee member participates in important meetings such as ICT Committee meetings and conduct monitoring through reports at Board of Directors meetings, the Committee has not fully verified company-wide IT strategies, investment plans, or measurements of the effectiveness of investment results. Therefore, the Committee members shared the need to deepen the Committee's involvement in strengthening IT governance as an issue going forward. In FY2023, based on the FY2022 evaluation results, the Committee will consider taking actions such as conducting interviews with divisions in charge of IT systems and information security, verifying the risk management framework and the status of IT investments and their effects. The Company will make ongoing efforts to improve the overall effectiveness of the Audit & Supervisory Committee to enhance audit reliability and audit quality with the goal of continuously increasing corporate value and strengthening corporate governance.

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Changes in Corporate Governance Structure



Process of Nominating and Dismissing Directors

Director nomination is considered based on the following matters: the Board is well balanced in knowledge, experience, and abilities as a whole; the Board can make appropriate and quick decisions; and individual directors have excellent character, insight, and high ethical standards. The nomination policy of directors (excluding Audit & Supervisory Committee members) is stipulated in the Corporate Governance Guideline and of Audit & Supervisory Committee members is stipulated in the Auditing Standards conducted by the Audit & Supervisory Committee. The dismissal policy of directors is stipulated in the Corporate Governance Guideline.

Nomination and Dismissal of Directors

In accordance with the policy above, nominations and dismissals of directors, which are submitted to a general shareholders meeting, are proposed by the Nomination & Remuneration Committee, which is a voluntary advisory committee under the Board, and are approved by the Board.

Nomination of Outside Directors

The Company appoints outside directors who meet the independence criteria set by the Tokyo Stock Exchange and have a wealth of knowledge and experience in their fields, and can provide advice and supervise the management from their objective and neutral position.

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Remuneration of Directors

Nihon Kohden has established the policy on determining the amounts and methods of calculation of directors' remuneration which would further link with performance and shareholder value as well as aiming at the transparency in management and ensuring growth and profitability in mid- to long-term. The method for determining the policy is established through resolution by the Board of Directors based on a report of the Nomination & Remuneration Committee, which is a voluntary advisory committee under the Board.

Remuneration of directors shall be linked to shareholder value so as to function effectively as an incentive for continuously improving the Company's corporate value. Remuneration of each director shall be determined at an appropriate level based on their respective responsibilities.

Remuneration of directors (excluding Audit & Supervisory Committee members and outside directors) shall consist of a base salary as fixed monthly compensation, bonuses as performance-based compensation reflecting short-term business performance, and restricted stock remuneration as an incentive to continuously improve the Company's corporate value over the mid- to long-term.

Remuneration of Audit & Supervisory Committee members and outside directors, who are responsible for supervisory functions, shall consist of the fixed monthly compensation only.

■ The fixed monthly compensation

The fixed monthly compensation shall be determined based on the director's position, responsibilities, and years served as director, comprehensively taking into consideration the level of other companies, the Company's business performance, and the level of employee salaries.

■ Performance-based bonuses

Performance-based bonuses shall reflect key performance indicators (KPI) to raise awareness of the need to improve the Company's business performance in each fiscal year. The target performance indicators and their values shall be in line with the medium-term business plan and set at the time of the formulation of the plan. The target values shall be reviewed as appropriate in accordance with the report of the Nomination & Remuneration Committee in response to environmental changes. The degree of achievement of the target values shall be used as a common evaluation index for all directors. Individual evaluations shall be conducted according to each director's area of responsibility. The amount of bonuses shall be calculated based on a variable payment rate of 0% to 200% and the bonuses shall be paid at a fixed time each year.

■ Restricted stock remuneration

As regards restricted stock remuneration, the Company shall, in principle, allot shares of the Company's common stock every year, after concluding an agreement on allotting restricted stock between the Company and each director (excluding Audit & Supervisory Committee members and outside directors). The number of shares of restricted stock to be allotted shall be determined based on the position of the allottee. To encourage the sharing of value with shareholders over the mid- to long-term, the transfer restriction period shall be from the grant date of the restricted stock to the date when each director retires from the position of director or operating officer.

■ The ratio by types of compensation for directors (excluding Audit & Supervisory Committee members and outside directors)

The ratio by types of compensation for directors shall be reviewed by the Nomination & Remuneration Committee, based on the remuneration levels of benchmark companies whose business scale is similar to the Company. The weighting of performance-based compensation shall be higher for the higher positions. While respecting the report by the Nomination & Remuneration Committee, the Board of Directors shall determine the details of remuneration for each director within the range of the ratio by types of compensation indicated in the report. The amount of remuneration shall be determined by resolution of the Board of Directors, which shall have the authority to determine the amount of basic salaries for each director as well as the evaluation and allocation of performance-based compensation based on the performance of the business for which each director is responsible. The Board of Directors shall consult the Nomination & Remuneration Committee on the draft remuneration plan and obtain a report from the Committee to ensure that the Board exercises its authority appropriately. The Board of Directors shall also resolve the number of shares to be allocated to each director as restricted stock remuneration based on the report of the Nomination & Remuneration Committee.

■ The remuneration of Audit & Supervisory Committee members

The remuneration of Audit & Supervisory Committee members shall consist of fixed monthly compensation only from the perspective of placing importance on the independence and objectivity of management. The amount of remuneration for each Audit & Supervisory Committee member is determined by consultation among the Audit & Supervisory Committee members.

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Total Amount of Remuneration of Directors in FY2022

Category	Total amount of remuneration (million yen)	Total amount of remuneration by type (million yen)			Number of directors (persons)
		Fixed monthly compensation	Performance-based compensation	Restricted stock remuneration	
Directors (excluding Audit & Supervisory Committee members and outside directors)	340	221	84	35	8
Directors (Audit & Supervisory Committee members excluding outside directors)	25	25	—	—	1
Outside directors	43	43	—	—	5

(Note) The number of directors receiving restricted stock remuneration is six. (One non-resident of Japan is not eligible for payment).

The 65th general shareholders meeting held on June 28, 2016 approved the following:

- i) with respect to the amount of remuneration to directors of the Company excluding directors serving as Audit & Supervisory Committee members, total amount shall be within the limit of 400 million yen (including the amount of remuneration to outside directors which shall be within the limit of 30 million yen),
- ii) with respect to the amount of remuneration to directors serving as Audit & Supervisory Committee members, total amount shall be within the limit of 80 million yen.

The 69th general shareholders meeting held on June 25, 2020 approved the following:

The maximum amount of monetary compensation receivables to be paid to directors (excluding directors serving as Audit & Supervisory Committee members and outside directors) in respect of restricted stock shall be within the limit of 100 million yen.

Director Skills Matrix

All eleven directors utilize their knowledge, experience, and abilities to make decisions and supervise the business executions in order to realize the Long-term Vision and the Three-year Business Plan.

In addition to the expertise and experience of each director, all directors are engaged in management from the perspective of sustainability. The Company will continue its efforts to further strengthen sustainability.

Name	Title	Corporate Management	Global Experience	Sales/Marketing	Production/R&D	Legal/Risk Management	Finance/Accounting/M&A	Human Resources/Human Resource Development	ESG/SDGs
Hirokazu Ogino	Representative Director, President and CEO	●	●	●			●		●
Takashi Tamura	Representative Director, Executive Operating Officer	●		●					
Tadashi Hasegawa	Corporate Director, Executive Operating Officer		●			●	●	●	●
Eichi Tanaka	Corporate Director, Senior Operating Officer	●	●	●	●			●	
Yasuhiro Yoshitake	Corporate Director, Senior Operating Officer	●	●	●					
Hiroyuki Satake	Corporate Director, Senior Operating Officer				●				
Kanako Muraoka	Outside Director, Nomination & Remuneration Committee Member		●			●	●		
Hidemitsu Sasaya	Outside Director		●						●
Shigeru Hirata	Corporate Director, Full-time Audit & Supervisory Committee Member			●			●	●	
Shigeru Kawatsuhara	Outside Director, Audit & Supervisory Committee Member, Nomination & Remuneration Committee Member	●	●	●					
Kazuo Shimizu	Outside Director, Audit & Supervisory Committee Member, Nomination & Remuneration Committee Member					●	●		