Enhancing Corporate Governance

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

Message from Operating Officer

To realize its Management Philosophy and increase corporate value over the mid- to long-term, Nihon Kohden considers enhancing its governance structure to improve the soundness, transparency, and efficiency of management to be an important management issue, and is working to strengthen corporate governance. The Company focuses on the independence and diversity of the Board of Directors, including gender and nationality. In FY2025, the Board consisted of five inside directors and six outside directors, including two female directors and one foreign director, resulting in independent outside directors accounting for the majority of the Board. Outside directors bring expertise from a wide range of fields, including global management, AI and technology, finance and accounting, and legal affairs, thereby fostering an environment in which they can express their opinions freely and candidly. This encourages active discussions from diverse perspectives and contributes to strengthening the management oversight function and improving its quality. Going forward, the Company will continue to enhance the effectiveness of the Board of Directors and strive to strengthen corporate governance and enhance corporate value.



Eri Watanabe
Operating Officer,
General Manager of Corporate Strategy Division

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, suppliers, 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 has six independent outside directors, who account for a majority of the Board of Directors as of the end of June 2026. 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 six 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 two female directors and one foreign director); eight directors excluding Audit & Supervisory Committee members (including four outside directors) and three Audit & Supervisory Committee members (including two outside directors). Independent outside directors constitute the majority of the Board. The Board has monthly meetings in order to resolve the matters pursuant to the Companies Act and make decisions on the execution of important business for the Nihon Kohden Group as well as supervise 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 which were formulated by the Audit & Supervisory Committee. Each Audit & Supervisory Committee member attends the important meetings such as the Management Council. Each Audit & Supervisory Committee member audits the performance of the directors' duties by investigating the conduct of business operations and status of assets at the Company's main offices through office visits or web meetings as well as by investigating 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 accumulated abundant experience within the Company and possesses a considerable degree of knowledge about corporate governance and risk management.

■ Management Council

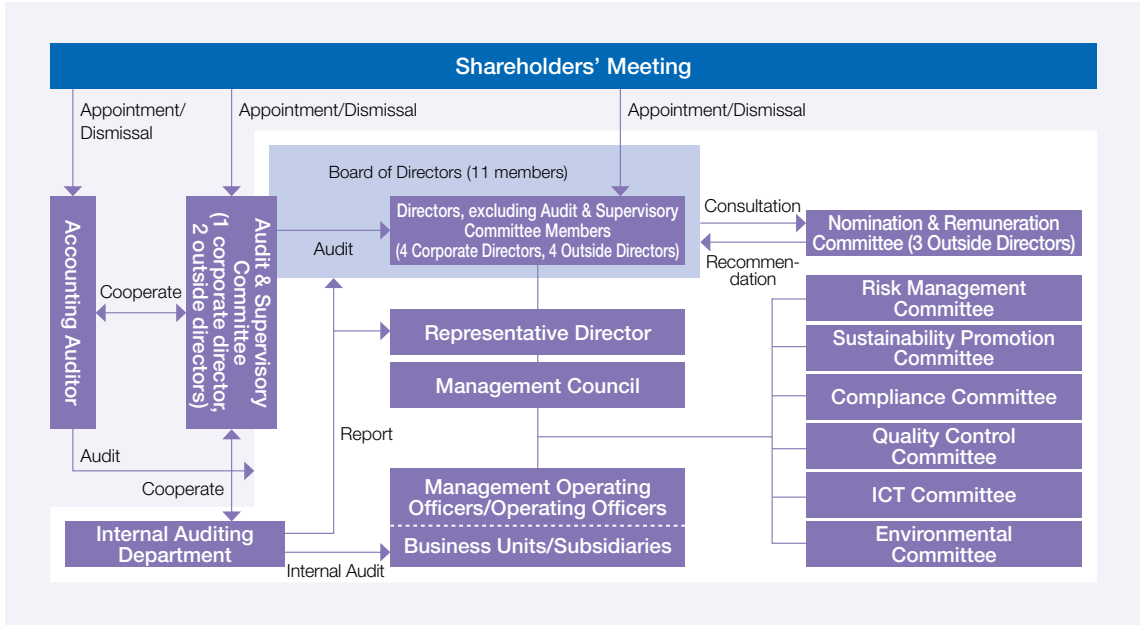
Meetings of the Management Council, at which directors, management operating officers, and operating officers attend, are held once or twice a month in order to undertake the management activities based on the policy approved by the Board as well as aiming at prompt decision making and flexible business 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 management operating officers and 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. The Committee consists of three outside directors and the committee chair is also appointed from outside directors. The Nomination & Remuneration Committee deliberates the proposal of the candidates, the remuneration of directors and succession plans in response to requests from the Board, and submits the recommendations to the Board.

For further details, please refer to our website.
Corporate Organizational Structure

Corporate Organization and Internal Control System



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Board of Directors Evaluation

Nihon Kohden conducted self-evaluations of all directors in a survey with anonymized aggregation related to the size, constitution, and operation of the Board. The Board discussed the results of evaluations and issues for further improvements.

As a result of the evaluation, in terms of size, composition, and operations of the Board, two female outside directors and one foreign outside director were appointed and the ratio of outside directors became majority in FY2025. It was confirmed that the diversity and internationality of the Board of Directors have been ensured and that the structures necessary to enable appropriate performance of the Board's supervisory functions have been established. It was also concluded that the Board operates effectively with an open atmosphere that enables inside and outside directors to engage in candid discussion.

In FY2025, based on the FY2024 evaluation results, the Company strengthened its sophisticated company-wide risk management framework through reporting from the Risk Management Committee to the Board of Directors on the status of responses to important risks. The Company also streamlined routine reporting items to enable the Board of Directors to appropriately allocate deliberation time according to the importance of Board agenda items. On the other hand, the Board members shared the following issues: the need to hold further in-depth discussions on the Company's risk management, as well as the need for preparing meeting materials which concisely and clearly organize the information necessary for decision-making. To further enhance the supervisory functions of the Board of Directors, in addition to continuing past improvement measures, based on FY2025 evaluation results, the Company will further strengthen the company-wide risk management framework through appropriate reviewing and reporting from the Risk Management Committee to the Board of Directors on the status of responses to important risks identified by the Committee, as well as specific mitigation measures. The Company will also improve the management of the Board meetings by preparing meeting materials which concisely and clearly organize the information necessary for decision-making, and by appropriately allocating deliberation time according to the importance of agenda items.

The Company will practice sustainability management, as well as continuing to improve overall effectiveness of the Board aiming at the growth of corporate value and for an enhancement of corporate governance.

Audit & Supervisory Committee Evaluation

Nihon Kohden has evaluated and analyzed the effectiveness of the Audit & Supervisory Committee since FY2022, and discussed issues and future improvement measures with the aim of improving the reliability and quality of the committee's activities and enhancing the effectiveness of audits.

In FY2025, after the seventeen evaluation items and their details 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 and key themes.

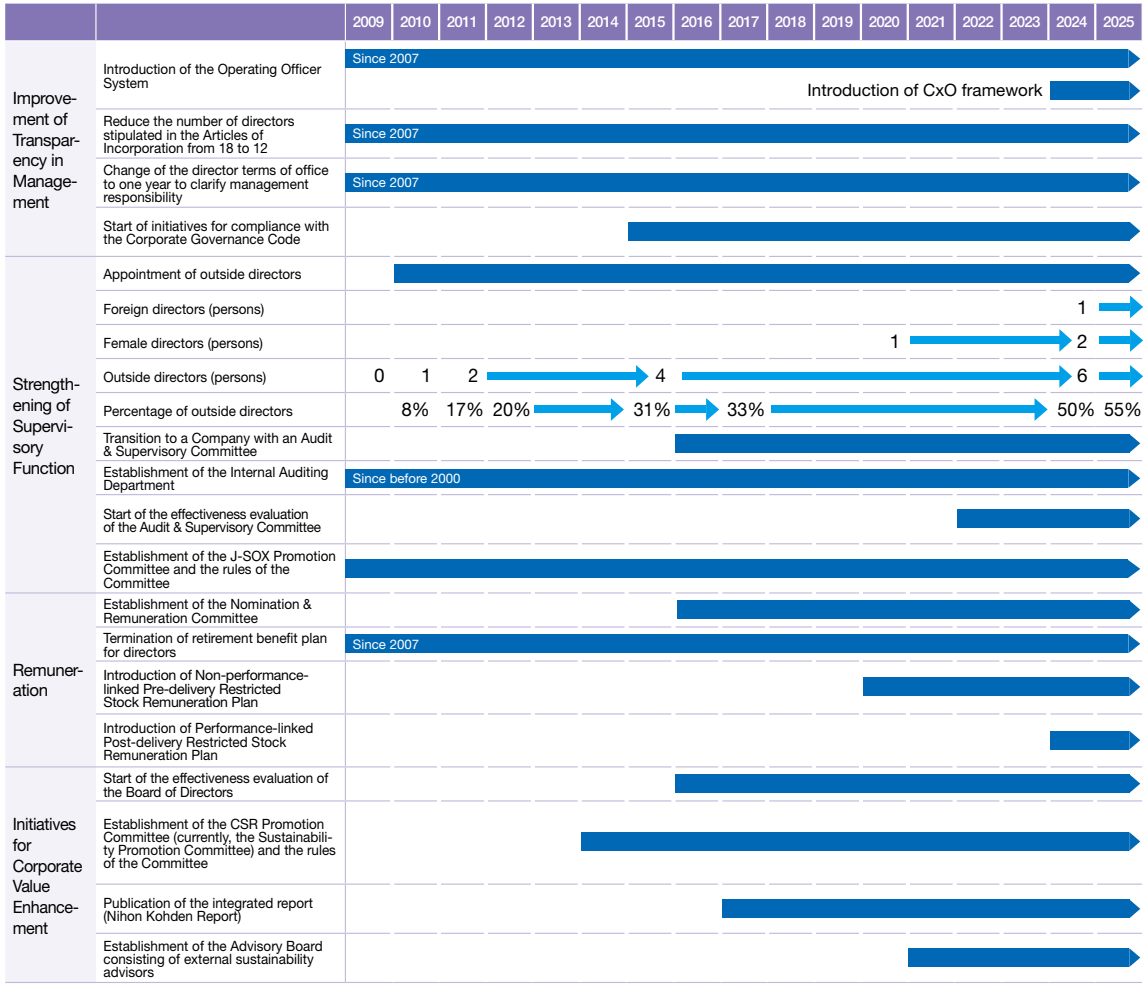
As a result of the evaluation, it was confirmed that the Audit & Supervisory Committee operates effectively, in each of the items such as the size, composition, and operations of the Committee, and that the overall effectiveness of the Committee activities is ensured with an open atmosphere that enables inside and outside members to engage in candid discussions. The Committee also incorporated the issues identified in the evaluation in FY2024 into the priority audit items for FY2025. To enhance the monitoring of the risk management framework, the Committee promoted a shared understanding of the current situation and key issues through interviews and exchanges of opinions with the Risk Management Supervisory Division. To enhance the effectiveness of collaboration between three types of audits; internal audits, audits by the Audit & Supervisory Committee, and audits by the Accounting Auditors, the Committee strived to improve both efficiency and audit quality by deepening mutual understanding of audit plans and risk perceptions through joint meetings of the three parties. Through these initiatives, continuous improvements in effectiveness were confirmed throughout the year.

On the other hand, the effectiveness of IT governance and frameworks was identified as one of the important themes in the future. As the corporate digital transformation (DX) is advancing and becoming increasingly sophisticated, and the importance of cybersecurity measures is also increasing, the need to continuously monitor these developments was confirmed.

The Company will make ongoing efforts to improve the overall effectiveness of the Audit & Supervisory Committee to enhance the Committee's reliability and quality with the aim of continuously increasing corporate value and strengthening corporate governance.

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Changes in Corporate Governance Structure



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.

Ms. Sumie Morita has abundant knowledge and broad experience in corporate management from a global perspective as a corporate executive and information engineering specialist. The Company has appointed her as an outside director anticipating she will provide objective and neutral advice, and supervise management from an independent standpoint by applying the expertise and experience she has accumulated to date.

Mr. Danny Risberg has abundant knowledge and broad experience as a management of a global company and through activities in industry associations. The Company has appointed him as an outside director anticipating he will provide objective and neutral advice, and supervise management from an independent standpoint by applying the expertise and experience as a global business executive he has accumulated to date.

Mr. Mamoru Morita has abundant knowledge and broad experience in corporate management from a global perspective as a corporate executive. The Company has appointed him as an outside director anticipating he will provide objective and neutral advice, and supervise management from an independent standpoint by applying the expertise and experience he has accumulated to date.

Mr. Takayoshi Mimura has abundant knowledge and broad experience as a management of a global company and through activities in industry associations. The Company has appointed him as an outside director anticipating he will provide objective and neutral advice, and supervise management from an independent standpoint by applying the expertise and experience he has accumulated to date.

Mr. Kazuo Shimizu has abundant knowledge and broad experience of finance and accounting as a Certified Public Accountant. The Company has appointed him as an outside director serving as an Audit & Supervisory Committee member anticipating his management audit and supervision from an independent standpoint by applying the expertise and experience he has accumulated to date. He is a Certified Public Accountant and Tax Accountant, and possesses a considerable degree of knowledge about finance and accounting.

Ms. Ikumi Sato is closely acquainted with corporate legal affairs as an attorney. The Company has appointed her as an outside director serving as an Audit & Supervisory Committee member anticipating her management audit and supervision from an independent standpoint by applying the expertise and experience she has accumulated to date.

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Remuneration of Directors

To increase business performance and shareholder value, as well as improving management transparency and increasing mid- to long-term growth and profitability, the Company has established a policy for determining the amounts and methods of calculation of Directors' remuneration as follows. The Decision Policy was determined by a resolution of the Board of Directors after receiving a report from the Nomination & Remuneration Committee, 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 directors serving as 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.

Remuneration to Directors (excluding Directors serving as Audit & Supervisory Committee Members and Outside Directors)

Name	Type		Content/Calculation Method	Payment Method
Base salary by position	Monetary compensation	Fixed compensation	● Determined based on the Director's position, responsibilities, and years served as a Director, comprehensively taking into consideration the levels of other companies, the Company's business performance, and the level of employee salaries.	Paid monthly
Annual bonuses	Monetary compensation	Performance-linked compensation	● Payment rate is determined based on the result of the Company's business performance and individual evaluation of a previous fiscal year Calculated based on a variable payment rate of 0% to 200% Performance indicators for the Company's business performance: Consolidated operating income Performance indicators for individual evaluation: Degree of achievement of annual business performance targets, mid- to long-term strategies, and ESG targets	Paid annually
Mid- to long-term incentive	Non-monetary compensation	Fixed compensation	● Non-performance-linked Pre-delivery Restricted Stock Remuneration Allotted the number of shares of the Company's common stock, which is determined based on the Director's position.	Paid annually
Mid- to long-term incentive	Non-monetary compensation	Performance-linked compensation	● Performance-linked Post-delivery Restricted Stock Remuneration Incentives to strengthen remuneration governance and further improve corporate value to achieve Three-year Business Plan, BEACON 2030 Phase II. Calculated in accordance with the payment rate determined based on consolidated operating margin, consolidated ROE, and relative TSR*. Payment rate varies from 0% to 200% Evaluation weight: consolidated operating margin 30% + consolidated ROE 30% + relative TSR 40%	Paid annually

* (Total shareholder return of the Company at the end of the relevant fiscal year) ÷ (Average of total shareholder return of other companies in the same industry for the period corresponding to the calculation period of total shareholder return of the Company)

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■ **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-linked compensation**

Performance-linked compensation shall consist of bonuses and restricted stock (performance-linked post-delivery type) that reflect key performance indicators (KPI) to raise awareness of the need to improve the Company's business performance in each fiscal year. As regards bonuses, 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. As regards restricted stock remuneration (performance-linked post-delivery type), the 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 the environmental changes. The degree of achievement of target values shall be used as a common evaluation index for all directors. The number of shares to be allotted shall be calculated based on a variable payment rate of 0% to 200%, and the shares shall be allotted annually at a fixed time each year.

The method of determining performance evaluation indicators and payout ratio for FY2024 to FY2026 in the event that the plan is introduced is as follows. Provided, however, that if the consolidated operating margin for the period is less than 10%, the payout ratio in the period will be 0%.

The Method of Determining Payout Ratio of Performance-linked Post-delivery Restricted Stock Remuneration

	Valuation weight	Performance evaluation indicators
Financial target evaluation	30%	Consolidated operating margin
	30%	Consolidated ROE
Corporate value evaluation	40%	Relative TSR*

* (Total shareholder return of the Company at the end of the relevant fiscal year) ÷ (Average of total shareholder return of other companies in the same industry for the period corresponding to the calculation period of total shareholder return of the Company)

■ **Restricted Stock Remuneration**

As regards restricted stock remuneration (non-performance-linked pre-delivery type and performance-linked post-delivery type), 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). As regards non-performance-linked pre-delivery type, the Company shall allot the number of shares of the Company's common stock determined based on the position of the allottee. As regards performance-linked post-delivery type, the Company shall allot the number of shares of the Company's common stock determined based on the degree of achievement of numerical targets for business performance. For both of non-performance-linked pre-delivery type and performance-linked post-delivery type, 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.

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■ 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.
In determining the content of remuneration for each director (excluding Audit & Supervisory Committee members), the Nomination & Remuneration Committee shall conduct a multifaceted review of the draft remuneration plan, including consistency with the Decision Policy. As a general rule, the Board of Directors shall defer to the report of the Nomination & Remuneration Committee and determine that the proposed remuneration complies with the Decision Policy.

■ 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 director is determined by consultation among the Audit & Supervisory Committee members.

The Total Amount of Remuneration of Directors in FY2025

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 (bonuses)	Restricted stock remuneration	
Directors (excluding Audit & Supervisory Committee members and outside directors)	203	143	37	21	6
Directors serving as Audit & Supervisory Committee members (excluding outside directors)	25	25	—	—	1
Outside directors	69	69	—	—	7

(Note) The number of directors receiving restricted stock remuneration is four.
The restricted stock remuneration was the amount recorded as an expense in FY2025 as non-performance-linked pre-delivery type. As regards performance-linked post-delivery type, the payout ratio was 0% because the consolidated operating margin in FY2025 was less than 10%.
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 80 million yen, which was revised by the resolution of the 73rd general shareholders' meeting held on June 26, 2024),
ii) with respect to the amount of remuneration to 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 (non-performance-linked pre-delivery type) shall be within the limit of 100 million yen.
The 73rd general shareholders' meeting held on June 26, 2024 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 (performance-linked post-delivery type) shall be within the limit of 300 million yen.