

Enhancing Corporate Governance

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

■ Board of Directors

The Board consists of a total of twelve directors (including one female director), nine 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 the directors' duties 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 fifteen operating officers (including two female operating officers) who are not serving concurrently as directors.

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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 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.

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.

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

Total Amount of Remuneration of Directors in FY2021

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)	320	162	135	22	7
Directors (Audit & Supervisory Committee members and outside directors)	22	22	—	—	2
Outside directors	41	41	—	—	4

(Note) The amount above does not include 42 million yen which is the directors' salary as employees of the Company.

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 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.

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Board of Directors Evaluation

Nihon Kohden conducted self-evaluations of all twelve 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, 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 discussion.

In FY2021, based on the results of the FY2020 evaluation results, the Company reviewed operational methods to ensure adequate time for deliberation by the Board, and revised the Standards for Procedures for Requesting Deliberations and Making Decisions. The Company also strengthened support for outside directors by holding free discussion meetings to exchange opinions among outside directors. On the other hand, the Board members shared the following issues: the need for further discussion on compliance, internal controls, and risk management as well as further reinforcing the support systems for outside directors.

In addition to continuing past improvement efforts, the Company will continue to consider appointing female and foreign directors on the Board, based on FY2021 evaluation results. The Company will also strengthen to promote sustainability management and disclose 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.

Director Skills Matrix

All twelve 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		●			●	●	●	●
Fumio Hirose	Corporate Director, Senior Operating Officer	●		●	●				
Eiichi 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					●	●		