

Base that supports Nihon Chouzai

3

- 43 ESG Management
- 44 Human
- 49 Social — Together with Local Communities
- 51 Governance — Corporate Governance
- 57 Board of Directors
- 59 Corporate Governance of Nihon Chouzai as Seen from
an Outside Director
(Audit Committee member)

ESG Management

At Nihon Chouzai, we are strengthening various initiatives directed at the Environment, Social, and Governance (ESG). In recent years, we have come to view humans who support company as essential management resources, and we are actively engaged in investment in human resources by, for example, promoting women's advancement in the workplace, implementing work-style reform, and conducting a wide variety of training activities.



	ESG Issue Initiatives	Reference Page	
H	Investment in human resources	Promoting women's advancement in the workplace	P 45, 46
		Work-style reform	P 47
		Training system and career plans	P 48
E	Environment	Environmental policy of the Pharmaceutical Manufacturing and Sales Business	P 36
S	Patients	Family pharmacist initiatives	P 23
		Promotion of the use of generic drugs	P 22
		Local communities	At-home medical care initiatives
S	Local communities	Health Check Stations	P 15, 23, 49
		Health-related events	P 49
		Governments/ Administrations	Control increasing medical expenses through generic drug use
S	Shareholders/ Investors	Message to shareholders and investors	P 50
		Stable and continuous dividends	P 14, 17
G	Governance	Strengthening corporate governance initiatives	P 51-59

Human

Long-Term Vision — On the Road to 2030 —

Creating a company that is indispensable to society from the **female** perspective

An industry in which women's involvement is structurally essential

Nihon Chouzai (as of March 31, 2018)

30.5% Women
69.5%

Pharmacists employed at pharmacies & medical institutions throughout Japan*

34.1% Women
65.9%

*Ministry of Health, Labour and Welfare Overview of the FY2016 Survey of Physicians, Dentists, and Pharmacists

Promoting women's advancement in the workplace

(%) **20.1**

Ratio of women in management positions

18.5 18.7 18.9 19.8 20.1

(persons) **92**

Female managers

58 63 68 80 92

April 30, 2014 April 30, 2015 April 30, 2016 April 30, 2017 April 30, 2018

Our action plan to create an environment in which women can maximize their potential was created in March 2016, and since its initiatives were put into practice, the number of female managers has steadily increased.



Promoting women's advancement in the workplace Implementing measures to support work-life balance

A certain number of employees need to spend a portion of their time looking for suitable childcare facilities services for their children in preparation for their return to work from maternity leave because they live in areas where there is a shortage of such services. Nihon Chouzai has created a system akin to a social safety net through which employees can be assured that they will be able to continue working after giving birth. As our Company is engaged in the expansion and development of pharmacies throughout Japan, we have

implemented a policy that can be applied across the country. This policy includes a wide range of related support activities for employees, from on-site childcare facilities to health and welfare services for employees.

At the same time, we are promoting improvements that will ensure our corporate environment is a comfortable workplace for the approximately ten percent of our workforce that is on a working time reduction (WTR) schedule for childcare.

Support measures we have introduced

- 1 **Cooperation with childcare facilities**
Priority admission for Nihon Chouzai employees
Admission free-of-charge, other costs subsidized
- 2 **Corporate contracts with baby sitter services**
No initial fee or annual fees
Discounted monthly fees
- 3 **Childcare facility subsidy service for employees**
Childcare facility vouchers
Monthly childcare facility subsidies

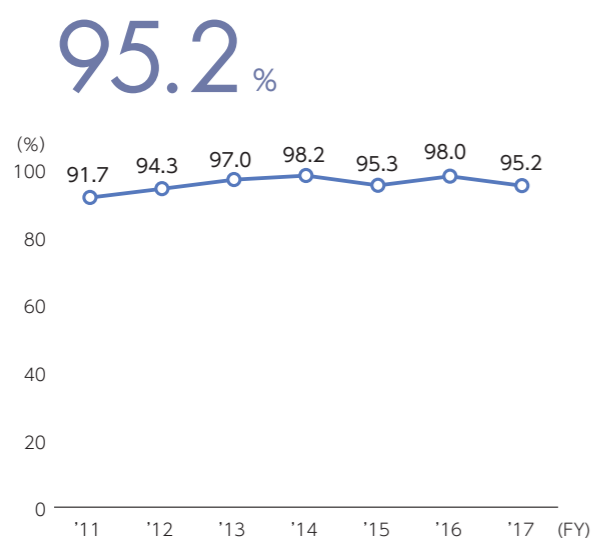
In order to avoid situations in which an employee is unable to work full time, has to delay returning to work, or is forced to quit their job because no childcare facility service is available, Nihon Chouzai has linked up with childcare facilities and has in place both a priority admission system and a subsidy system to defray the cost of childcare facilities. We have also instituted additional support measures to meet a wide range of needs, including tie-ups with babysitting service companies and adding childcare facilities service options to membership-based benefit services.

Support System During Maternity Leave and after Return to Work

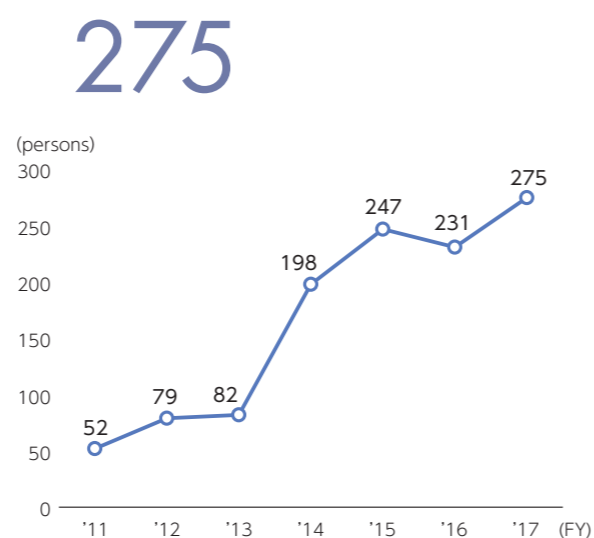
In order to ensure that employees experience a smooth transition from childcare leave to their eventual return to work, we periodically send them copies of our company newsletter and other information. This is done in order to make sure that pharmacists remain fully informed about newly listing in the NHI drug price list during their childcare leave and to ensure that they have the latest medical data that is relevant to drug administration guidance and patient

compliance. These efforts have produced significant results, such as the fact that at Nihon Chouzai the post-childcare leave return rate of employees is over 90%. In addition, since we established our WTR system for childcare in fiscal 2010, the number of people who utilize this system has been increasing. This system is just one of many that makes up our comprehensive effort to create a working environment that is friendly to women.

Retention rate of employees returning from childcare leave



Working Time Reduction (WTR) System — No. of Users



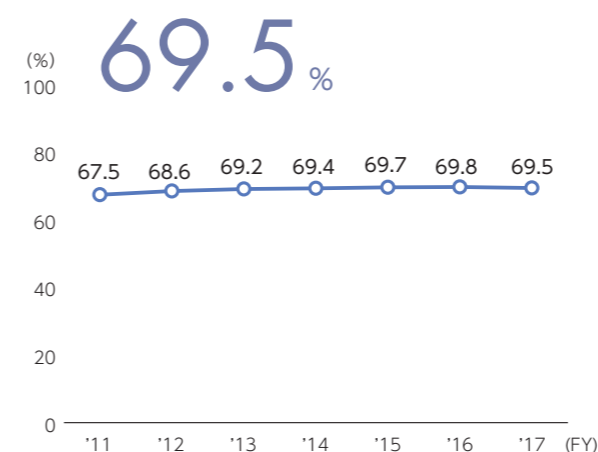
Promoting women's advancement in the workplace Female Managers and Supervising Pharmacists

The ratio of pharmacists working at pharmacies and medical facilities who are women has always been high. In fiscal 2016 women accounted for 65.9%. Most of the employees in Nihon Chouzai's core Dispensing Pharmacy Business are pharmacists, and therefore, structurally, there is a high percentage of women in this business. At the end of fiscal 2017, women accounted for 69.5% of the staff in this business division.

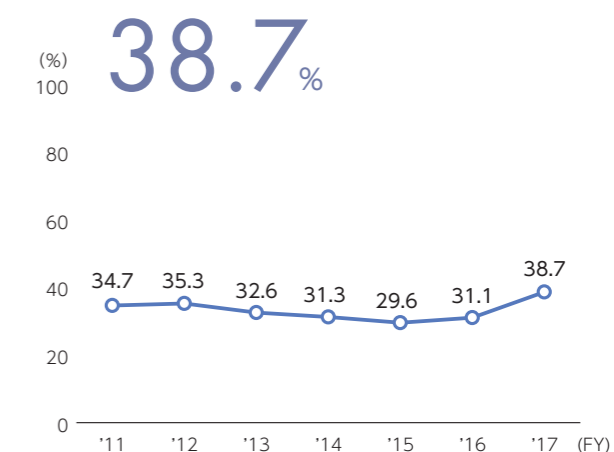
Nihon Chouzai provides educational opportunities for its staff regardless of sex, and the Company is actively promoting

the training of female supervising pharmacists. We also have a system in place that allows our staff to return to work at the same position and under the same conditions after a leave or absence due to major life event in order to ensure that they are able to continue with their career. In recent years there has been an increasing trend in the percentage of female supervising pharmacists, which we believe is due to steady advances being made in the creation of workplace environments where it is easy to work.

Ratio of full-time female employees



Female ratio of supervising pharmacists in supervising pharmacists



Promoting women's advancement in the workplace Raising awareness within the Company

Lecture designed to deepen understanding of promoting women's advancement in the workplace

During a meeting of Area Managers from throughout Japan held in June 2017, a lecture entitled, "Promoting Women's Advancement in the Workplace" was held by the Human Resources Department. An outside lecturer was invited to the meeting to help the attendees deepen their understanding of this issue. The speaker used specific examples to discuss topics such as the circumstances behind the need to promote increased female involvement, the type of attitude required of management, and the various types of, causes of, and solutions to harassment. A similar lecture was also held for employees in internal divisions in headquarters. Through these and other initiatives, the Company is working toward fostering increased awareness of promoting women's advancement in the workplace.



Medical Office Work Leadership Workshop

In June 2017 a Medical Office Work Leadership Workshop was held for staff members who are working as medical office workers in our pharmacies of each branch. This was the second time since last fiscal year that this workshop has been held. It is designed to increase participants' understanding of leadership, group theory, and motivation through the use of learning games and discussions. At least 90% of medical office workers are women. These people play an important role as they are the first staff that customers come into contact with upon entering a pharmacy. Thus, they are expected to show leadership both in the pharmacy and in their communities.



Work-style Reform

Initiatives Designed to Optimize Overtime Work

1 Proper Management of Overtime Work

We are developing a system that allows supervisors to properly manage overtime work, and we have adopted a system that allows us to accurately ascertain the number of hours each employee works. Vein biometric authentication is being used on pharmacists and other pharmacy staff members in order to better manage work time, and thus this technology supports our efforts to optimize work hours.



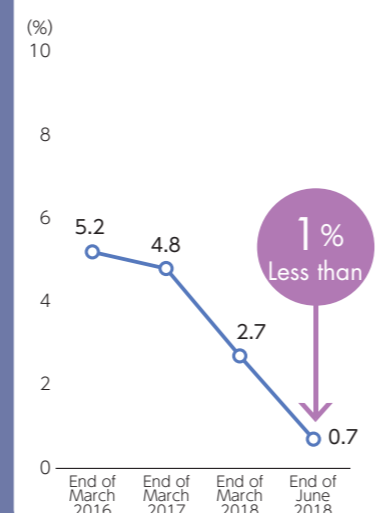
2 Promotion of Business Leveling in Stores and Divisions

In order to prevent a situation from arising in which tasks become concentrated on a single individual, such as the store manager or business leader, which in turn leads to overwork, managers in all divisions of the Company take the initiative to ensure that work is optimized and any imbalances are rectified.

3 Work Management Education for Managers

Store managers attend workshops in work time management and carefully manage work schedules so as to prevent staff members from being forced to work illegally or engage in unpaid overtime work. As a result of these initiatives, the number of employees whose monthly overtime exceeds 45 hours was drastically reduced to less than 1% between fiscal 2015 and the end of June 2018. We will continue to work toward making initiatives designed to reduce overtime hours that are commonplace within the Company.

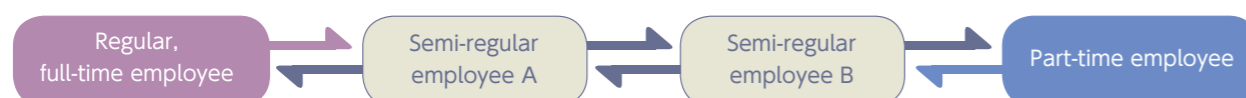
Number of employees who work 45 or more hours of overtime per month



A Diversity of Career Plans

We have introduced a system that affords employees flexibility in changing their employment contracts so that they can easily shift from a full-time employee to a contracted or part-time employee in accordance with life events and changes in their living environments. This flexible system — which allows

employees to choose the work style that suits them — provides them with the support they need to continue working even in cases in which they experience major life events such as raising children or becoming the caregiver of an older family member.



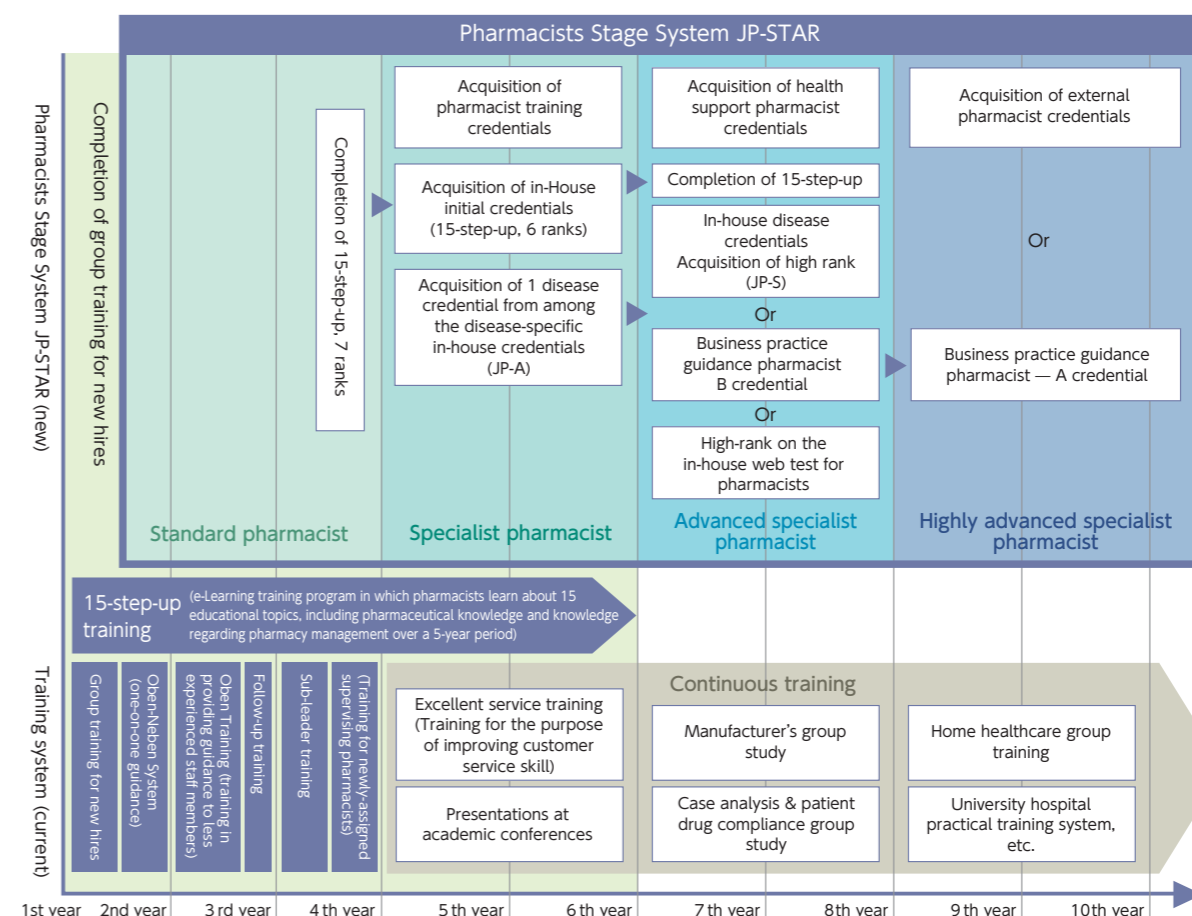
Training System and Career Planning

Launch of the Pharmacists Stage System JP-STAR

Nihon Chouzai created the internal pharmacist stage system JP-STAR. This system, which was launched in April 2018, grants certification to pharmacists based on their knowledge and experience as a way to promote the further education of pharmacists with a high degree of expertise. It is an in-house accreditation system that was newly developed to encourage pharmacists who are experts in cancer, diabetes, and other fields who are thinking of obtaining external accreditation.

The pharmacist education provided by Nihon Chouzai is based on a curriculum that is among the best in the industry.

While acquiring sufficient medical knowledge and skills is essential, students also learn the basic thinking and attitudes required of medical professionals. The program is also designed to provide comprehensive personnel training, which includes aspects such as the ability to communicate with patients and the management skills required to operate a pharmacy. The introduction of the new stage system is expected to improve the level of expertise of pharmacists and ensure that patients are provided with better information and drug compliance guidance than ever before.



Practical Training in Hospital

In 2014 we began a hospital practical training program designed to train pharmacists who will work in fields such as highly advanced pharmaceutical management and at-home medical care. Participants commute to university hospitals for several months. The learning they acquire there regarding aspects of medicine such as team medical care, in-hospital treatment, and anti-cancer drug regimens facilitates stronger cooperation between hospitals and pharmacies, as issues such as swift handling of adverse drug reactions and tracing reports can be handled by pharmacies. The number of medical facilities cooperated with Nihon Chouzai in Japan is increasing, and as a result, the entire company is working to ensure that its pharmacists have the highest possible skill level.



Training for the Next Generation of Management Staff

Nihon Chouzai holds management seminars for young managers who will take over in the future. They take courses that are focused on the examination of topics such as leadership and skills related to financial and business operation analyses in order to improve the skills they will need to become leaders. Using the knowledge they acquire from lectures, the participants come up with suggestions on solutions to the management issues they examine during the training period, and then after the training session is over, they work towards solving those problems. By actually implementing specific initiatives, they create personal networks within the Company and acquire leadership skills.



Together with Local Communities

Health Check Stations: **37** Stores (as of the March 31, 2018)

Nihon Chouzai began actively operating Health Check Stations in its pharmacies in fiscal 2016. These stations are designed to function as centers for pre-symptomatic diseases and disease prevention activities, and the number of pharmacies that have these stations continues to grow. These stations offer consultation services on drugs that patients have been prescribed and other health matters. Our pharmacies are also staffed by national registered dietitians and others who are able to provide nutrition-related consultation services for the purpose of aiding in the improvement of the health of local residents. We plan to further develop the services offered at pharmacies that function as health support centers.



Health Events Held: **515** times



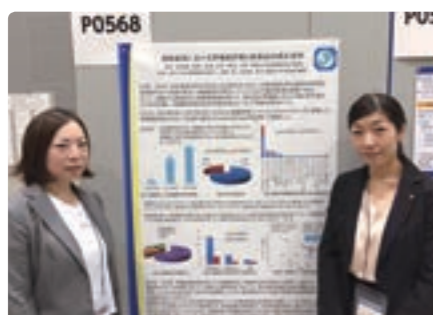
Pharmacies that function as health support centers are required to implement initiatives designed to maintain the health of and prevent illness among local residents. Study groups on drugs and on illness, consultations to aid in quitting smoking, blood pressure measurements, "blood vessel age" and stress level measurement, bone density measurement, body composition measurement, and other services that are made available via a wide variety of health events. At our main pharmacies, national registered dietitians provide nutritional consultations, including dietary guidance. These pharmacies also cooperate with local medical institutions so that they can refer patients who require medical examinations to appropriate facilities.

Pharmacist Experience

The Children's Pharmacist Experience event that was so popular last year was held again in July 2017. This event continues to provide children with valuable information about medication, including the importance of taking medicine safely and how pharmacists contribute to maintaining the health of local residents through its "pharmacist experience" activities. In 2017, 30 children participated, which was 1.5 times more than in 2016. They put on a pharmacist's white jacket, use actual drug dispensing equipment, and dispense candies that stand in for actual drugs. The event also includes a portion during which the children provide drug compliance advice to their parents and guardians who play the role of patient. We will continue in our efforts to actively provide opportunities for the public to better understand the job that pharmacists do.



Conference Presentations: **38** presentations delivered at **9** academic conferences



At the 27th Annual Meeting of the Japanese Society of Pharmaceutical Health Care and Sciences, a Nihon Chouzai pharmacist delivered a presentation about renal function evaluation at health insurance pharmacies and appropriate use of pharmaceuticals. One major issue in which pharmacists will be increasingly involved in the future is the prevention of adverse events related to toxicity, drug-induced kidney failure, and progression to end-stage kidney failure. Thus, we have implemented analytical tests that help pharmacists determine whether a drug dose is appropriate under given kidney function levels as indicated by clinical test results and in order to analyze changes that take place in prescription details after a prescription is identified as suspicious.

Together with Shareholders and Investors

General Meeting of Shareholders

The 38th General Meeting of Shareholders was held on June 27, 2018. Due to the major changes taking place in the dispensing pharmacy industry such as revisions to the prescription dispensing fees, the shareholders actively asked questions at the meeting. Afterwards, all six of the proposals that were submitted for consideration were approved during the General Meeting. In addition, one outside director was appointed for the purpose of improving transparency in management practices and increasing maneuverability. The final business of the General Meeting was the address delivered to the shareholders by Hiroshi Mitsuahara, President and Representative Director of Nihon Chouzai. In his address, President Mitsuahara described the active efforts the Nihon Chouzai Group is engaged in for the purpose of further developing its business.



Results Briefing



The Results Briefing was held on May 10, 2018. With the prescription dispensing fee revision that went into effect in April 2018, pharmacies are required to play a number of roles, including cooperating with other medical institutions within the integrated community care system and strengthening their approach as family pharmacists and pharmacies. At the financial briefing, an explanation was also provided of the status of future initiatives, new pharmacy opening strategies, and improvements being made to existing pharmacies. All of these efforts are being made with an eye on the roles pharmacies will have to fulfill in the future. The participants asked a large number of questions about the effect of the prescription dispensing fee revisions and initiatives that are being implemented in order to deal with these revisions. The Long-Term Vision for Nihon Chouzai was also announced. This vision describes the Company's understanding of the major changes taking place in the industry and it outlines how the Company plans remain on top through 2030 as the industry undergoes reorganization.

Investor Relations

Major changes are taking place in the prescription dispensing pharmacy industry and the generic drug industry that are aimed at an industry-wide reorganization. Shareholders are increasingly concerned about these changes, and as a result, they have a large number of questions related to the medium- and long-term strategies of the Company. There has been a particular increase in questions from overseas shareholders. Nihon Chouzai is improving its investor relations efforts aimed at overseas shareholders so that it is able to provide these investors with answers to their questions. In fiscal 2017, meetings were held with shareholders in London, Edinburgh, and New York where explanations of the Group's overall management strategy and long-term vision were provided. This was followed by vigorous question and answer sessions that provided the Company opportunities to increase the shareholders' understanding of the Nihon Chouzai Group. In the future we are planning a variety of proactive IR activities, including conferences with shareholders in Japan as well as individual meetings.

▼ The initiatives below are implemented as needed

- > Company briefings for individual investors
- > Small meetings
- > Individual meetings with investors (domestic and overseas)
- > Investor conferences held by securities companies

Corporate Governance

Nihon Chouzai continually works to enhance its corporate governance to sustain growth and raise corporate value with the aim of becoming a company that society needs.

Basic Concept of Corporate Governance



The above three points are essential to respond on-target to changes in the business environment, ensure the continued soundness of the Company and further raise corporate value. Moreover, because the Group operates its business in a field that is strictly governed by various regulations, it is fully aware that the enhancement of corporate governance and the strengthening of compliance are extremely important matters, and it has implemented a wide range of measures based on this understanding.

Given the Company's scale and its type of business operations, Nihon Chouzai has determined that a company that uses an audit and supervisory committee is most suitable for enhancing the Company's audit and oversight functions and for corporate governance.

	2005	2010	2015
Internal control system	May 2006 Established basic policy on creation of internal control system		June 2016 Revised internal control system
Internal reporting system		March 2011 Established "Nihon Chouzai Hotline" internal reporting system	
Information security committee		April 2012 Established information security committee	
Corporate conduct code		February 2014 Established corporate conduct code	
Ethical conduct guidelines		February 2014 Established ethical conduct guidelines	
Compliance promotion committee		February 2014 Established compliance promotion committee	
Medical safety committee		October 2014 Established medical safety committee	
Outside directors			June 2015 Brought in an outside director
Risk management committee			March 2016 Established risk management committee
Company with an audit and supervisory committee			June 2016 Switched from a company with a board of corporate auditors to a company with an audit and supervisory committee
Privacy Mark			November 2016 Privacy Mark certified business
Business continuity plan			May 2017 Established business continuity plan

Corporate Governance Structure (As of June 28, 2018)

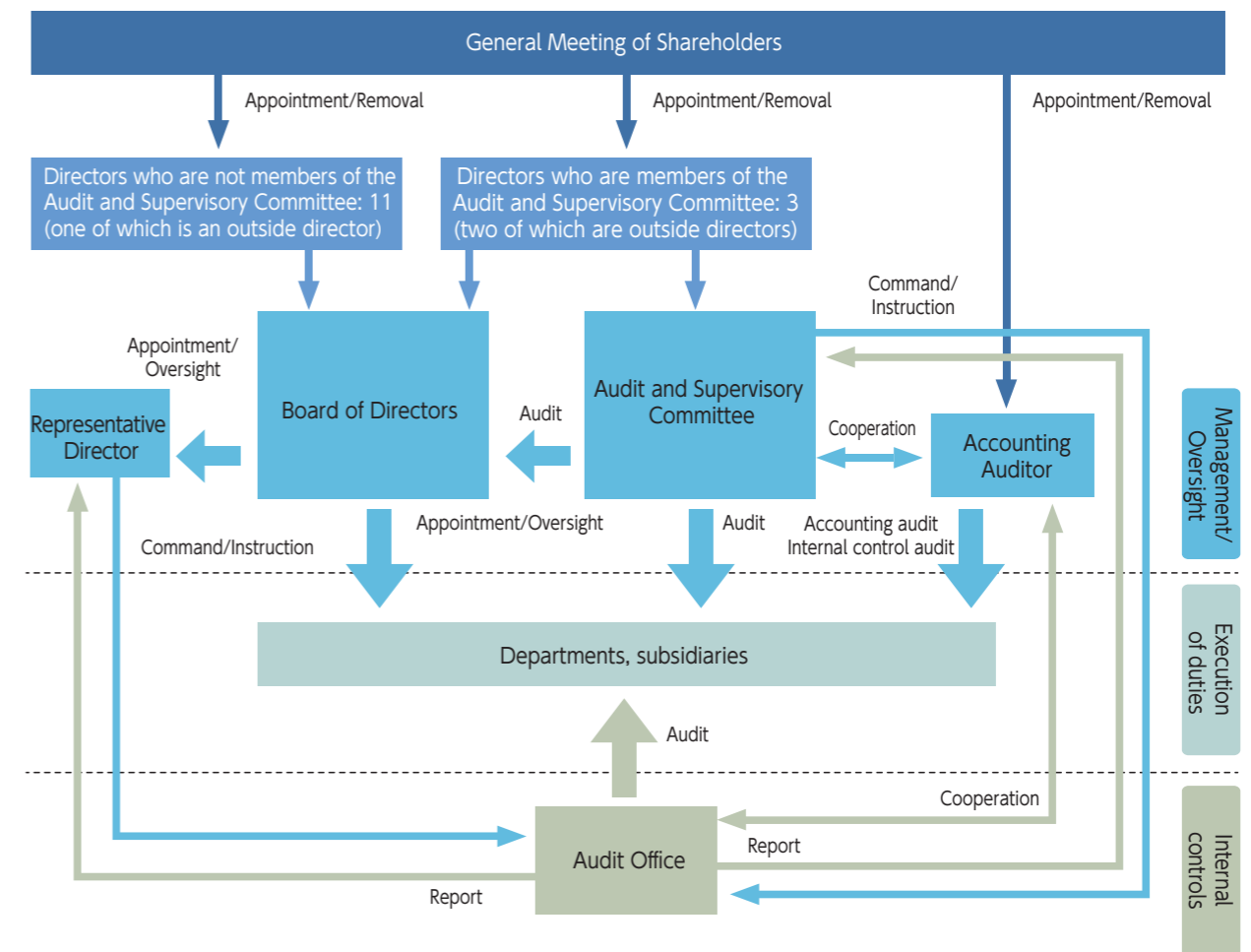
Directors	11 directors one of which is an outside director / independent officer
Audit and supervisory committee	3 directors two of which are outside directors / independent officers

At the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. The Board of Directors consists of 11 directors (excluding the Audit and Supervisory Committee members) and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

In addition, the three directors, which include the two outside directors, make up the Audit and Supervisory Committee and fulfill their oversight function through such methods as exercising their right to vote in the Board of Directors meetings, auditing the directors' execution of their duties, and preparing audit reports.

The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency.

Corporate Governance Structure (As of June 28, 2018)



Management status of the Board of Directors

Convening of Board of Directors meeting	In principle, once a month or as necessary
Number of times convened	14 times (April 1, 2017 - March 31, 2018)
Matters discussed	<ul style="list-style-type: none"> ■ Closing or opening pharmacies ■ Budget / Results ■ Personnel / Labor ■ Fund procurement ■ Establishment of rules ■ Organizational changes ■ M&A ■ Corporate governance ■ Others

Disclosure Based on Each Principle of Corporate Governance Code

■ Strategic Shareholding

When holding the listed shares in terms of business operations or for the purpose of the enhancement of the business relationship, Nihon Chouzai will comprehensively consider the investment amount and the Company's benefits generated by the said shareholding and determine the propriety of the said shareholding. The Company regularly examines the purpose/reasonableness of the said shareholding in regard to the major shares among the listed shares held and reports the results to the Board of Directors. Moreover, approval or disapproval of exercising the voting right concerning the strategic shareholding will be determined based on the purpose of holding and whether or not it will contribute to the improvement of the investment destination's corporate value.

■ Transactions between the Parties Concerned

When the Company conducts a transaction (Transaction between the Parties Concerned) with the directors or major shareholders, etc., the Company makes the Transaction between the Parties Concerned the matter to be discussed in the Board of Directors meeting in the "Regulations on the Board of Directors Meeting" to make sure that the transaction will not harm the interests of the Company and common interests of the shareholders. The actual individual transactions will be approved in the Board of Directors meeting or oversight through the receipt of the report. In the resolution by the Board of Directors meeting concerning the Transaction between the Parties Concerned, legal check will be implemented by the department in charge of legal affairs.

■ Improvement of Information Disclosure

(1) What the Company is aiming for (management philosophy, etc.), management strategy, and management plan

The Nihon Chouzai Group's corporate philosophy, management strategy, and management plan are disclosed mainly on the Company's website with the following URL and transmitted by using mediums such as the Shareholder Report and Securities Report. Corporate Philosophy :
<https://www.nicho.co.jp/corporate/profile/philosophy/>
 Management Strategy/Management Plan :
<https://www.nicho.co.jp/corporate/info/18742/>

(2) The policy and procedures when the Board of Directors determines the directors' remunerations

At the Company, the upper limit of remuneration for the directors (excluding directors who are Audit and Supervisory Committee members) and directors who are Audit and Supervisory Committee members is resolved at the General Meeting of Shareholders. Each director's degree of contribution, goal achievement level, etc. will be comprehensively considered in regard to individual amount of remuneration and its calculation method. The amounts will be decided upon deliberations by the

Board of Directors in the case of the directors (excluding directors who are Audit and Supervisory Committee members), and for the directors who are the Audit and Supervisory Committee members, the amounts will be decided upon deliberations by the Audit and Supervisory Committee.

(3) Policy and procedures in appointing and designating the directors (excluding the Audit and Supervisory Committee members) and the directors who are the Audit and Supervisory Committee members

The Company has a policy to appoint human resources who, as directors (excluding directors who are Audit and Supervisory Committee members and the same shall apply hereafter), respond to the entrustment of the management from the shareholders, have abundant experience with distinguished insight for management, and can fulfill the directors' duties and responsibilities as candidate directors. Based on this policy, the representative director prepares a draft on the candidate directors and proposes it to the Board of Directors, and the candidate directors are decided by the Board of Directors.

As for the directors who are the Audit and Supervisory Committee members, the Company has the policy to appoint human resources who understand the importance of the functions of audit in the management and the Audit and Supervisory Committee and can fulfill the Audit and Supervisory Committee members' duties and responsibilities as the candidates for the directors who are the Audit and Supervisory Committee members. Based on this policy, the representative director prepares the draft on the candidate directors and proposes it to the Board of Directors after gaining agreement with the Audit and Supervisory Committee, and the candidate directors are decided by the Board of Directors.

(4) Explanations on the appointment/designation of individual directors

The Company lists the reasons for choosing the candidate directors (excluding directors who are Audit and Supervisory Committee members) and directors who are the Audit and Supervisory Committee members in the notice of the General Meeting of Shareholders and discloses the said reasons on the website.

■ Role and Responsibility of the Board of Directors

The Company judges/decides the management policy/strategy and important matters in the execution of duties in the Board of Directors meeting in accordance with the laws and regulations, Articles of Incorporation, and Board of Directors Regulations. The matters to be delegated to the management have been stipulated in the Regulations on Administrative Authority and Regulations on Segregation of Duties and the Board of Directors receives reports on the status of the execution of duties to ensure the oversight function.

■ Standards for Determining the Independence of the Independent Outside Directors and Their Qualification

The Company appoints the independent outside directors who have excellent character and insight and can provide appropriate advice and oversight to the Company's management while meeting the Tokyo Stock Exchange's standards for independence.

■ Preconditions to Ensure the Effectiveness of the Board of Directors

i. In order to effectively fulfill the execution of duties and the management oversight function, the Company's Board of Directors consists of those who are familiar with and have a high level of competence for company management and the economic environment, those who have in-depth knowledge of and experience in the Company's business environment, and those who have knowledge of accounting, financial, legal and personnel affairs, etc. and give consideration to the balance as a whole and diversity. In addition, the Board of Directors consists of 11 directors (excluding directors who are Audit and Supervisory Committee members) and three other directors that serve as Audit and Supervisory Committee members.

ii. The Company keeps the number of additional posts held by the directors within the reasonable range in order to appropriately fulfill their roles and duties and the status of the additional posts is written in the notice of General Meeting of Shareholders.

iii. The Company carried out a questionnaire survey on 21 items concerning the evaluation of the effectiveness of the Board of Directors such as the "Structure and Operation of the Board of Directors," etc. among all directors except the President, who is Chairman of the Board of Directors, between May and June 2018 based on the opinions of an outside consultant and analyzed and evaluated the effectiveness of the entire Board of Directors in the Board of Directors meeting. An outline of the results showed good conclusions in the evaluation of all items and the effectiveness of the Board of Directors has been judged to be excellent. On the other hand, constructive opinions on the efforts in the aspect of operation in the Board of Directors were presented; therefore, the Company will continuously strive to improve the effectiveness of the entire Board of Directors based on the evaluation results at this time.

■ Directors' Training

The Company provides appropriate explanations on the directors' duties, etc. to the inside directors in a timely manner and provides opportunities to take training or seminars by third parties as needed of which the costs will be incurred by the Company. For the outside directors, with a view to deepen their understanding on the Company's business descriptions and business challenges, the Company provides opportunities to visit each Group company's major bases such as stores, plants, offices, etc. and receive explanations on the business descriptions, business challenges, etc. from the management or each department.

■ Policy for Constructive Dialogues with Shareholders

The Company actively, fairly, rightly, and timely discloses information on the Company's business and financial conditions to the shareholders and investors, aims for the proper formation of the share price, and organizes the investor relations (IR) activity promotion structure as follows:

(1) The department mainly in charge of the dialogues with shareholders and the director who supervises the department

Dialogues with shareholders in the Company are undertaken by the Corporate Planning Department, which is the department in charge of IR and is supervised by the director in charge of corporate planning.

(2) Measures to cooperate with the departments concerned

At the Company, the Corporate Planning Department, which is the department in charge of IR, strives to share information with and collect information from the General Affairs Department, Public Relations Department, Accounting Department, Finance Department, other departments, and our subsidiary companies, and organizes the cooperative structure.

(3) Efforts other than individual interviews

By implementing the General Meeting of Shareholders, Results Briefings, Business Briefings, plant tours, and information disclosure on the Company's website, the Company conducts activities to deepen understanding of the Company's management strategy and business environment.

(4) Measures to provide feedback to the management and Board of Directors

The Company has built a structure to regularly report the contents of suggestions from our shareholders and investors to the director in charge, etc. and provide feedback to the management.

(5) Measures to manage insider information

As a structure to prevent insider trading in IR, the Company sets a quiet period in regard to our financial result information from the day following the final day of the fiscal year to the day of the announcement of financial results. The Company has also established the Internal Information Management Regulations and improved the information management structure.

Basic Concept of Internal Control System and Its Development Status

■ Standards for Determining the Independence of the Independent Outside Directors and Their Qualification

There are three outside directors. In our view, the function and role to be played by an outside director in corporate governance is to monitor management decision-making from an outside, objective point of view in decisions pertaining to the execution of the Company's duties. Further, to ensure their independence, we recognize the importance of their having no vested interest in the Company.

The Company appoints the independent outside directors who have excellent character and insight and can provide appropriate advice and oversight to the Company's management while meeting the Tokyo Stock Exchange's standards for independence.

■ Status of Internal Audit and Audit Committee Audit

We have established an Audit Office within the Company as an internal auditing body, and it is positioned as an organization with a direct reporting line to the president. It conducts internal audits according to each year's internal audit schedule to monitor the effectiveness of the internal audit. The office consists of one office head and two staff, but if additional personnel are required based on internal audit rules, a support system that assigns personnel from other departments to the internal audit has been established with the approval of the Representative Director.

The Audit Committee consists of three members, of which two are outside directors. Regular meetings are held once a month. Each member is a law and corporate auditing professional who strictly and productively monitors the directors' execution of their duties from their individual perspectives.

■ Progress in Establishment of Risk Management System

Based on the risk management rules established by each company, the Group regularly convenes the Risk Management Committee to understand and manage individual risks and establish a system to prevent risks. In the event that a risk appears, executives and employees report it to the Risk Management Committee, which immediately responds.

The Audit Office, which reports directly to the president, periodically audits the status of risk management in each division, reviews the appropriateness of the risk assumed and the risk management method, and has adopted a system to regularly report to the Board of Directors

■ Basic Concept of Internal Control System

By dividing the business and management functions into predefined departments and rigorously complying with rules for business and authority, the Company ensures the separation of authority and internal control in its business operations. In an effort to build an internal control system, a resolution on instituting a basic policy for building an internal control system was passed at the Board of Directors meeting of May 26, 2006 (the policy was partially revised at the Board of Directors meeting of June 28, 2016). Based on the Companies Act, the Company's policies for the following 12 matters have been stipulated:

- (1) The structure concerning the storage and management of information on the directors' execution of their duties
- (2) Regulations and other structure concerning the management of Nihon Chouzai Group's risk of loss
- (3) The structure to ensure that the Group's directors' execution of their duties has been efficiently conducted
- (4) The structure to ensure that the Group directors' and employees' execution of their duties has conformed to the laws and regulations as well as the Articles of Incorporation
- (5) The structure to report matters concerning our subsidiary company directors' and others' execution of their duties to the Company
- (6) Matters concerning the directors and employees who should assist the Audit and Supervisory Committee's duties
- (7) Matters concerning the securing of independence of the directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are the Audit and Supervisory Committee members) as well as the securing of the effectiveness of the instructions given to the said directors and employees
- (8) The structure for the directors (excluding the directors who are the Audit and Supervisory Committee members) and employees to make a report to the Audit and Supervisory Committee and the structure for reports to the Audit and Supervisory Committee

(9) The structure for our subsidiary company directors, auditors, etc. and employees or those who received reports from these persons to make a report to the Company's Audit and Supervisory Committee

(10) The structure to ensure that those who made a report to the Audit and Supervisory Committee will not receive unfair treatment on the grounds of making the said report

(11) Matters concerning the procedures for making an advance payment or reimbursement of the cost generated in executing the Audit and Supervisory Committee members' duties (limited to the ones concerning the Audit and Supervisory Committee's execution of their duties) and the policy concerning other costs or debts generated in executing the said duties

(12) The structure to ensure that the Audit and Supervisory Committee's audit will be effectively conducted

■ Development and Operation Status of Internal Control System

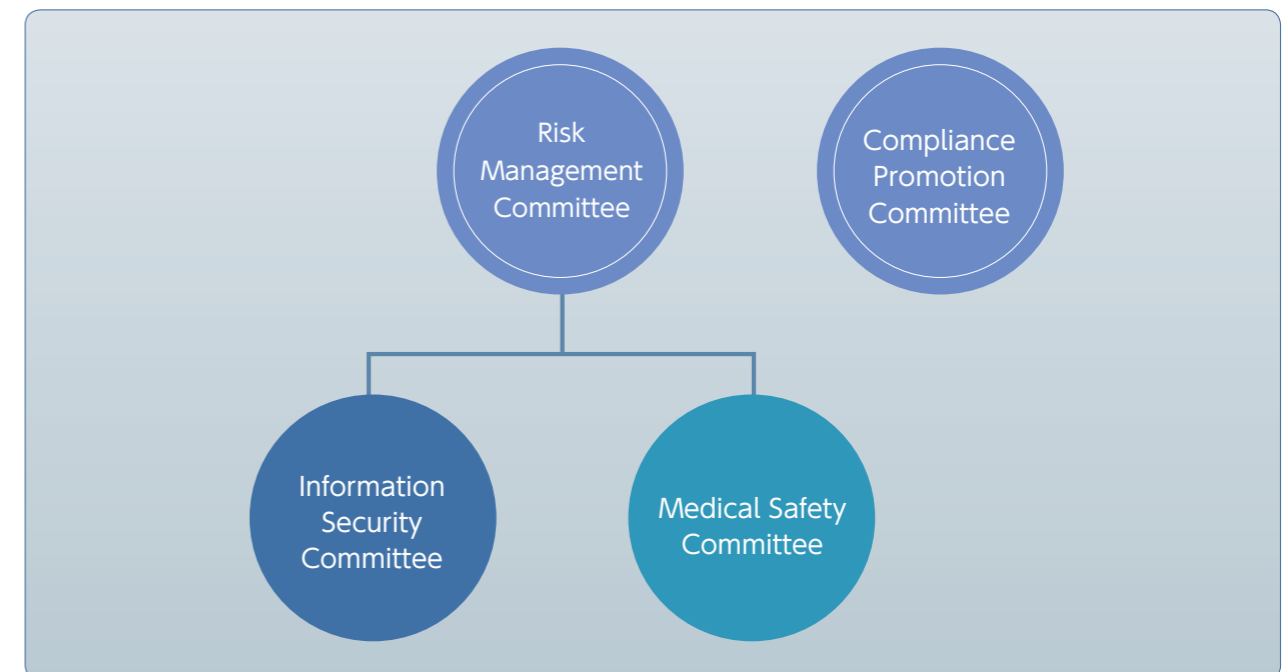
(1) Establishment of rules and their dissemination

To ensure that the Group operates properly, we have established rules, created manuals and cards, and are thoroughly disseminating them through circulation, instruction and training.

(2) Risk management and compliance promotion
The Company convenes the Risk Management Committee (Information Security Committee and Medical Safety Committee) and the Compliance Promotion Committee once every three months and promotes various measures and shares information in each field. Each subsidiary also regularly convenes these committees.

Every month we circulate a Compliance Newsletter and Compliance Mail Magazine, and conduct a verification test through e-learning once a year.

Organization Chart



Board of Directors (As of June 28, 2018)



December 1979 Resigned Takeda Pharmaceutical Company Limited.
 March 1980 President and Representative Director (to present)
 January 1994 President and Representative Director of Miyagi Nihon Chouzai Co., Ltd. (Currently Medical Resources Co., Ltd.) (to present)
 January 2005 President and Representative Director of Nihon Generic Co., Ltd. (to present)
 January 2012 President and Representative Director of Japan Medical Research Institute Co., Ltd. (to present)
 May 2013 Chairman and Representative Director of Choseido Pharmaceutical Co., Ltd. (to present)

President and Representative Director
Hiroshi Mitsuahara



September 1999 Joined the Company
 April 2001 General Manager of Corporate Planning Department
 January 2005 Director of Nihon Generic Co., Ltd.
 April 2006 General Manager of Sales Promotion Department
 October 2006 Director of Medical Resources Co., Ltd.
 June 2007 Director, General Manager of Business Promotion Department
 June 2010 Resigned the Director
 June 2013 Director of Japan Medical Research Institute Co., Ltd. (to present)
 June 2014 Director of the Company, Director of Nihon Generic Co., Ltd. (to present)
 June 2015 Managing Director
 June 2017 Senior Managing Director (to present)

Senior Managing Director
Yosuke Mitsuahara



May 2008 Joined the Company
 April 2009 Manager of Finance Department
 April 2015 General Manager of Finance Department
 June 2015 Director of the Company, General Manager of Finance Department (to present)
 Director of Medical Resource Co., Ltd. (to present)

Director
Kazunori Ogi



January 2011 Joined the Company
 General Manager of Sales Department for Public Institutions
 October 2013 General Manager of General Affairs Department
 June 2016 Director of the Company, General Manager of Administration Department and General Affairs Department (to present)

Director
Yoshihisa Fujimoto



August 2002 Vice President and Representative Director of Japan Property Solutions Co., Ltd.
 June 2008 President and Representative Director of M.U. Trust Sougou Kanri Co., Ltd.
 June 2011 Chairman, M.U. Trust Sougou Kanri Co., Ltd.
 June 2012 Managing Director, General Manager of Finance Department
 June 2013 Managing Director (to present)
 February 2014 Director of Choseido Pharmaceutical Co., Ltd. (to present)

Managing Director
Yoshiki Kamada



May 1994 Joined the Company
 April 1995 Manager of Pharmaceutical Department, Kyushu Branch
 June 2006 Branch Manager, Kyushu Branch
 March 2008 General Manager of Pharmaceutical Headquarters
 June 2008 Director of the Company, General Manager of Pharmaceutical Headquarters
 April 2012 Director of the Company, Manager of Pharmaceutical Headquarters
 June 2012 Resigned the Director
 June 2012 Manager of Pharmaceutical Headquarters
 June 2013 Director of the Company, General Manager of Contract Dispensing Service Department
 June 2015 Managing Director, General Manager of Contract Dispensing Service Department (to present)

Managing Director
Katsuhiko Fukai



April 1977 Joined The Daiei, Inc.
 April 1994 General Manager of Corporate Planning Department of The Daiei, Inc.
 September 1998 Executive Vice President of RE PARTNERS
 December 1999 Director of OZ-corporation (Representative) (to present)
 March 2000 Executive Officer of Office RECOF Co., Ltd. (Currently RECOF Corporation)
 June 2007 Director and Senior Executive Officer of RECOF Corporation
 June 2010 President and CEO of RECOF Corporation
 October 2016 Chairman of the Board of RECOF Corporation
 December 2016 Director of M&A Capital Partners Co., Ltd.
 March 2018 Outside Director of Tokyo Tatemono Co., Ltd. (to present)
 June 2018 Director of the Company (to present)

Outside Director
Yoshimitsu Onji



September 1987 Joined the Company
 June 2000 Director of the Company
 June 2006 Branch Manager, Nagoya Branch
 December 2009 Branch Manager, Yokohama Branch
 February 2016 General Manager of Operational Audits Department at Nihon Chouzai Co., Ltd.
 June 2018 Director of the Company (Audit Committee member) (to present)
 Auditor of Nihon Generic Co., Ltd. (to present)
 Auditor of Medical Resources Co., Ltd. (to present)
 Auditor of Japan Medical Research Institute Co., Ltd. (to present)
 Auditor of Choseido Pharmaceutical Co., Ltd. (to present)

Director, Audit Committee member
Nobuyuki Hatakeyama



April 2013 Joined the Company
 Manager of Sales Management Department
 October 2013 General Manager of Sales Promotion Department
 June 2015 Director of the Company, General Manager of Sales Promotion Department
 April 2016 Director of the Company, General Manager of Sales Management Department
 June 2016 Managing Director, General Manager of Sales Management Department (to present)

Managing Director
Naoto Kasai



January 1992 Joined the Company
 January 2004 Manager of Sales Department, Osaka Branch
 April 2004 Branch Manager, Manager of Sales Department, Osaka Branch
 April 2007 General Manager of Sales Management Department
 June 2007 Director of the Company, General Manager of Sales Management Department
 April 2016 Director of the Company, General Manager of Sales Promotion Department (to present)

Director
Noriaki Miyata



April 1977 Public Prosecutor
 April 1985 Registration of Attorneys (to present)
 April 1990 Opened Usugane and Arizumi Law Firm
 July 2001 Auditor of the Company
 October 2013 Opened Usugane Law Firm (to present)
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director, Audit Committee member
Kotaro Usugane



July 2006 Resigned Tokyo Regional Taxation Bureau
 August 2006 Registration of certified public accountant and licensed tax accountant (to present)
 Partner of Japan Tax Management Institute, GPC (to present)
 June 2014 Auditor of the Company
 June 2015 Auditor of Sodick Co., Ltd. (to present)
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director, Audit Committee member
Takashi Nagashima



June 2009 Joined the Company
 General Manager of Administration Department
 December 2009 General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities
 June 2011 Director of the Company, General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities
 June 2017 Director of the Company, General Manager of Health Promotion Department (to present)

Director
Shigeo Suzuki



July 1990 Joined the Company
 April 2000 Manager of Pharmaceutical Department, Tohoku Branch
 December 2004 General Manager of East Japan Pharmaceutical headquarters
 December 2009 General Manager of Purchasing Department, Pharmaceutical Headquarters
 April 2012 General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
 June 2012 Director of the Company, General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
 January 2014 Director of the Company, General Manager of Pharmaceutical Headquarters (to present)

Director
Toshiyuki Koyanagi

Corporate Governance of Nihon Chouzai as Seen from an Outside Director (Audit Committee member)



Outside Director,
Independent Officer,
Audit Committee
member

Kotaro Usugane

Outside Director,
Independent Officer,
Audit Committee member

Takashi Nagashima

■ Corporate Governance Structure

At the Ordinary General Meeting of Shareholders held on June 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. Audit and supervisory work will be performed by the Audit and Supervisory Committee, which consists of directors, who are Audit and Supervisory Committee members. As a result, directors who are Audit and Supervisory Committee members are responsible for oversight of the director's execution of their duties, and therefore, directors who are Audit and Supervisory Committee members have a heavier responsibility.

Although agreement of a majority of Audit Committee members is required to become an outside director, a distinctive characteristic of Nihon Chouzai is that an attorney from the public prosecutor's office and a tax accountant licensed as a certified public accountant from the National Tax Agency are appointed. Attorney Kotaro Usugane oversees the suitability of work from a compliance (legal compliance) perspective, while tax accountant Takashi Nagashima does the same from an accounting perspective.

Audit and Supervisory Committee members not only attend the regular monthly Board of Directors meeting of the corporate head office, but also the Board of Directors meetings of subsidiaries to watch over the meetings' discussions. By listening to corporate head office executives and key subsidiary officers talk about the current state of the Company, problems and other issues, they share information on these and other issues. They also collaborate with the head of the corporate Audit Office, who accompanies the corporate auditor on visits to branches and pharmacies and assists with the duties of the Audit and Supervisory Committee, and they work on auditing and oversight.

I hope to contribute to the development of Nihon Chouzai, which seeks to achieve a true separation of drug prescribing and dispensing services, by devoting myself to the mission of an outside director from the standpoint of an attorney.

(Kotaro Usugane: Outside Director, Independent Officer, Audit Committee member)

■ Initiatives to Strengthen Corporate Governance

Nihon Chouzai's goal is to contribute to society through the dispensing pharmacy business and further, to maintain and expand Japan's world-class social insurance system.

The Company's basic philosophy is to have all executives and employees rigorously comply with laws and regulations. Accordingly, the Company's stakeholders need to view compliance from a broader perspective. Therefore, Nihon Chouzai switched to a company with an audit and supervisory committee in 2016 and strengthened audits as a condition for exercising the right to vote in the Board of Directors meetings.

It is also important to ensure the effectiveness of the Board of Directors, including the establishment of rules on the execution of duties. This is also linked to creating an internal control system, and we can further strengthen corporate governance by reinforcing both concurrently.

(Takashi Nagashima: Outside Director, Independent Officer, Audit Committee member)

■ Specific Roles and Activities of Audit Committee Members

The most important purpose of the job of the former Board of Corporate Auditors was to oversee the legality of the directors' execution of their duties. After changing to an Audit and Supervisory Committee system, the validity of the directors' execution of their duties also became subject to oversight, and the scope of those activities has expanded.

Unlike before, it has now become possible to respond with an opinion that is backed by the organization based on a resolution of the Audit and Supervisory Committee, and not as the opinion of an individual auditor. Therefore, we listen to specific information given to us directly by individual directors and constantly verify if there have been problems concerning the verification of the legality of the directors' execution of their duties, which was the core job of the former corporate auditor, and concerning the details of work that focuses on each director and business, as well as legal problems currently arising in the execution of those duties.

We exchange opinions about the actual business problems of each pharmacy while keeping the head of internal audits informed, and we alert them through full-time Audit Committee members about the problems that were noticed from occasional visits to each pharmacy and subsidiary and observation of the specific environment and the work performed there.

(Takashi Nagashima: Outside Director, Independent Officer, Audit Committee member)