

# Corporate Governance

With the aim of becoming a company that is indispensable to society, Nihon Chouzai is constantly working to reinforce its corporate governance to achieve sustainable growth and build corporate value.

## Nihon Chouzai's Concept of Corporate Governance

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| 1 Improving management transparency and clarifying management responsibilities | 2 Speedy decision-making | 3 Strengthening management oversight functions |
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These three elements are essential to responding effectively to changes in the business environment, ensuring the ongoing soundness of the company, and further enhancing corporate value. Particularly as a corporate group operating in fields that are governed by various laws and regulations, Nihon Chouzai recognizes the critical importance of maintaining robust corporate governance and strict compliance. We are pursuing

various measures based on this recognition. Given the scale and nature of our businesses, we determined that being a company with an Audit and Supervisory Committee was the most appropriate organizational form to enable Nihon Chouzai to fulfill its audit and oversight functions and corporate governance responsibilities.

## Actions to Strengthen Corporate Governance

Internal Control System	May 2006 Formulated policy on creation of an internal control system	June 2016 Revised policy	January 2021 Revised policy
Internal Reporting System	March 2011 Established an internal reporting system, Nihon Chouzai Hotline		
Information Security Committee	April 2012 Established an Information Security Committee		
Corporate Code of Conduct	February 2014 Formulated a Corporate Code of Conduct	April 2018 Revised the Code	
Code of Ethics	February 2014 Established a Code of Ethics	April 2018 Revised the Code	June 2019 Revised the Code
Compliance Committee	February 2014 Established a Compliance Committee		
Medical Safety Committee	October 2014 Established a Medical Safety Committee		
Outside Directors	June 2015 Brought in an outside director		
Risk Management Committee	March 2016 Established a Risk Management Committee		
Company with Audit and Supervisory Committee	June 2016 Transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee		
Privacy Mark	November 2016 Acquired Privacy Mark business certification.		
Business Continuity Plan	May 2017 Established a business continuity plan.		
Risk Management and Compliance Office	April 2020 Established a Risk Management and Compliance Office.		

# Corporate Governance Framework

At the 36th General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai resolved to transition from being a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. It also determined that the Board of Directors is made up of 10 directors (excluding directors who are Audit and Supervisory Committee members, and including two outside directors) and three directors who are Audit and Supervisory Committee members (including two outside directors). The role of the Board is to decide on important matters stipulated by laws and regulations and oversee the performance of duties by executives.

The Audit and Supervisory Committee is made up of three directors, including two outside directors. They

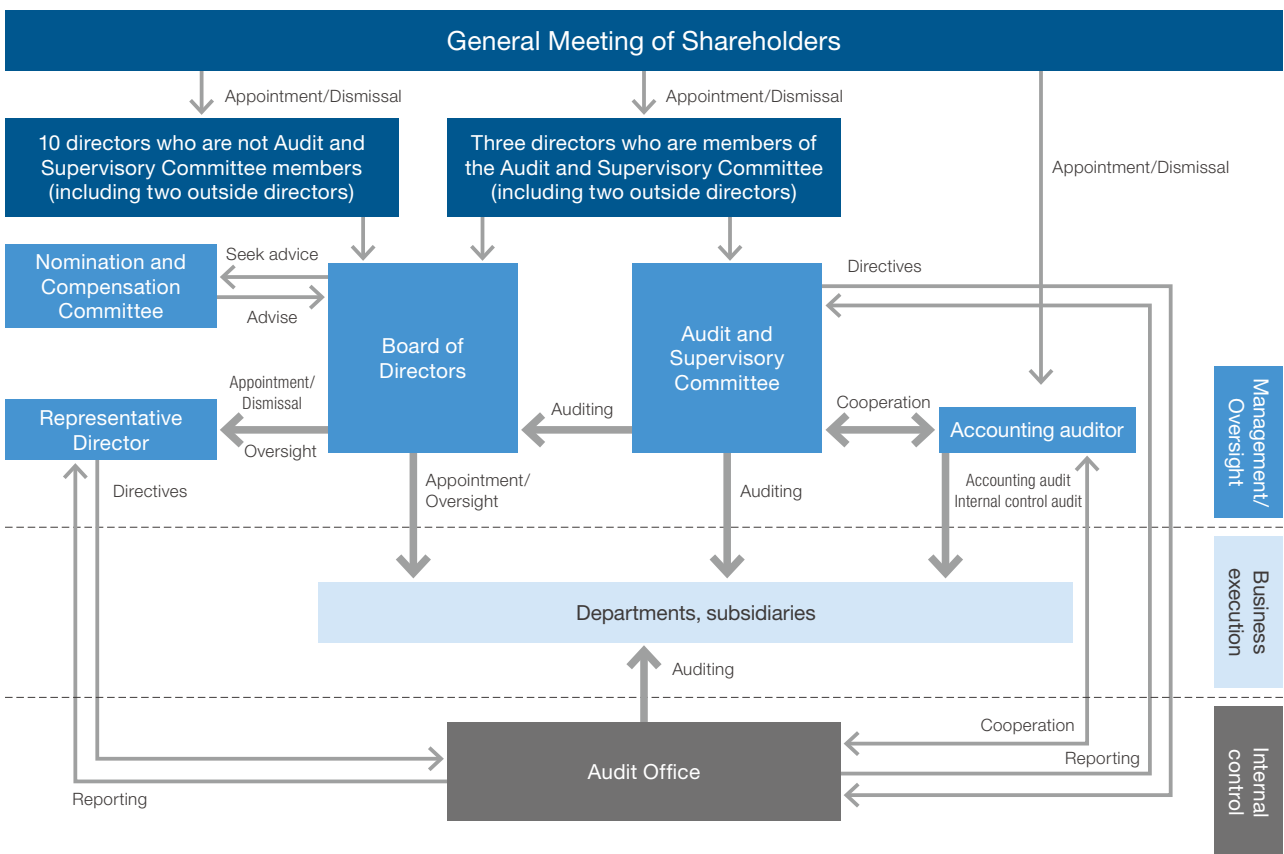
carry out their oversight functions by exercising their voting rights at meetings of the Board Of Directors, as well as auditing performance of duties by directors and preparing audit reports. Moreover, Deloitte Touche Tohmatsu LLC was appointed to be the accounting auditor for the company to ensure proper accounting and management transparency.

## Corporate Governance Framework (as of June 24, 2021)

<b>Board of Directors*</b>	<b>Directors: 10</b> (including two outside directors/independent officers)
<b>Audit and Supervisory Committee</b>	<b>Directors: 3</b> (including two outside directors/independent officers)

\*Excluding directors who are Audit and Supervisory Committee members

## Corporate Governance Framework (as of June 24, 2021)



## Responsibilities of the Board of Directors

The primary responsibilities of the Board of Directors are to promote the sustainable growth of the company and the improvement of corporate value over the medium and long term, as well as enhance profitability and capital efficiency. The Board carries out the following measures to achieve these ends.

- 1 Carefully manage the progress of corporate strategies.
- 2 Foster an environment in which senior management can take appropriate risks.
- 3 Effectively monitor the company's management team and directors from an independent, objective standpoint.

## Analyzing and Evaluating the Effectiveness of the Board of Directors

### Process of Evaluating the Board's Effectiveness

Again in FY2020, the company evaluated and took measures to improve the effectiveness of the Board of Directors. The Board set aside sufficient time for meetings to allow for more thorough deliberation on critical issues, such as how to enhance reporting on matters before the Board and share the results of analyses. We also secured adequate time for training with officers as needed.

### Addressing Issues before the Board

A range of issues have been identified as necessitating training for the company's management team, including management methods, legal affairs, labor and personnel, and crisis management. In FY2020, we held lectures on themes ranging from branding and risk management to compliance, accounting, and auditing. Separate training for employees other than officers aimed at deepening understanding across the company and shoring up the organization.

### Issues to Be Carefully Considered and Addressed

#### 1. Sustainability Issues

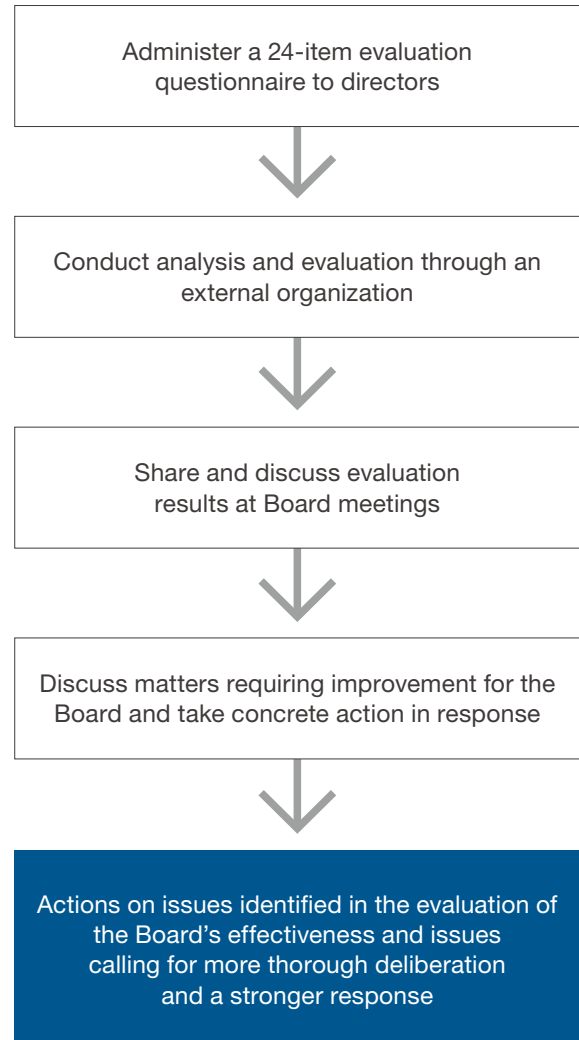
Recognizing that addressing social and environmental issues and other matters related to sustainability is a critical task for management, Nihon Chouzai is taking forward-looking, proactive steps to respond appropriately. By setting sustainable development goals, we are committed to achieving longer-term improvements in corporate value while striking a balance between economics, the environment, and society.

#### 2. Issues Involving Corporate Governance

Having reaffirmed the importance of both "offensive" and "defensive" governance in terms of group management, we will build an optimal business portfolio across the group, and improve overall corporate value.

### Enabling More Lively Board Discussions

To facilitate lively, productive discussions and exchanges of opinions, including problem areas pointed out by outside directors, we deliver Board meeting materials in advance to all directors, including outside directors, along with the annual schedule for Board meetings.



## Board of Directors Operations

### Activities in FY2020

The Board met 14 times from April 1, 2020 to March 31, 2021. In principle, Board meetings are held once a month, or as needed. Officers from Nihon Chouzai also sit in on the Board meetings of group companies and take other actions to reflect the group as a whole in

Board discussions. Audit and Supervisory Committee meetings are held separately.

We also conduct follow-up training with officers as needed after meetings of the Board of Directors.

Name	Title	Responsibilities and significant concurrent positions	Board Meeting Attendance
Yosuke Mitsuhara	Representative Director	Overall management	14 out of 14
Katsuhiko Fukai	Managing Director	Medical collaboration, business development	14 out of 14
Naoto Kasai	Managing Director	Sales management, development, corporate information	14 out of 14
Noriaki Miyata	Director	General Manager of Sales Promotion Department. Sales promotion, Medical Center and Mentaio (pharmacies near stations and in shopping districts) sales	14 out of 14
Toshiyuki Koyanagi	Director	General Manager of Pharmaceutical Headquarters. Pharmaceutical administration and promotion, education and information, generic drug promotion, purchasing, at-home care, healthcare promotion, marketing, pharmaceutical planning, pharmacy management	14 out of 14
Kazunori Ogi	Director	General Manager of Finance Department. Accounting, finance, systems, corporate planning	14 out of 14
Yoshihisa Fujimoto	Director	General Manager of Administration Department. General affairs, personnel, Pharmaceutical Recruitment Center, public relations, private health insurance, risk and compliance management, Chief Security Officer	14 out of 14
Keiso Masuhara	Director	General Manager of FINDAT Business Department. FINDAT web business	14 out of 14
Yoshimitsu Onji	Outside Director	Outside Director of Tokyo Tatemono Co., Ltd., Outside Auditor of United Foods International Co., Ltd., Outside Director of Sotetsu Holdings, Inc.	14 out of 14
Nobuyuki Hatakeyama	Audit and Supervisory Committee member Director	Audit and Supervisory Committee member	14 out of 14
Tadashi Urabe	Audit and Supervisory Committee member Outside Director	Outside Director (Audit and Supervisory Committee member) of the Company, attorney, Partner of Meitetsu Law Offices	14 out of 14
Arata Toyoshi	Audit and Supervisory Committee member Outside Director	Certified Public Accountant, Licensed Tax Accountant, Auditor-Secretary of Seikei Alumni Association, Auditor-Secretary of the Yuumi Memorial Foundation for Home Health Care, Substitute Audit & Supervisory Committee Member of Japan Private REIT Inc., Outside Corporate Auditor of SMC Corporation	14 out of 14

### Board of Directors Meetings and Key Topics of Deliberation

Frequency	Meetings Held	Key Topics of Deliberation
In principle, once a month or as needed	14 (April 1, 2020-March 31, 2021)	Director nomination and compensation, pharmacy openings, acquisitions, budget, financial results, personnel and labor, fund procurement, formulation of rules, organizational changes, corporate governance code, acquisition and disposal of assets

### Board of Directors Meetings and Key Topics of Deliberation

The company may hold, as cross-shareholdings, shares of companies that it deems necessary for maintaining and strengthening business relationships. The Board of Directors meets annually to carefully examine whether the purpose of owning individual cross-shareholdings is appropriate and whether the benefits and risks associated with these holdings are commensurate with the cost of capital, among other considerations, in this way verifying the suitability of cross-shareholdings. The company's policy is to exercise voting rights pertaining to cross-shareholdings from the perspective of whether or not such exercise will contribute to enhancing the corporate value of the company invested in, along with due consideration of the purpose of the holding.

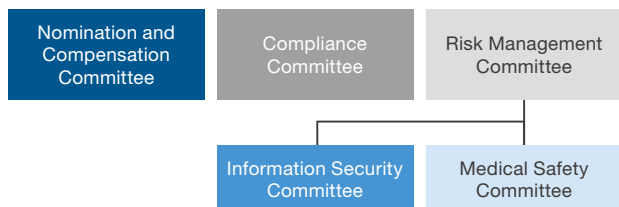
		Unlisted shares	Shares other than unlisted shares
Shares held in FY2019	Number of issues	1	-
	Issue amount* (millions of yen)	13	-
Shares held in FY2020	Number of issues	1	-
	Issue amount* (millions of yen)	13	-

\*Aggregate amount recorded on the balance sheet.

## Organization and Activities of Internal Control System

### Committee Organization

The purpose, related departments, and activities of each committee are as described below.



Nomination and Compensation Committee	
<b>Purpose</b>	To strengthen the fairness, transparency, and objectivity of procedures related to the nomination and compensation of directors, and to further enhance the corporate governance framework.
<b>Related departments</b>	Human Resources Department, General Affairs Department
<b>Committee activities</b>	Meets at least once a year.

Information Security Committee	
<b>Purpose</b>	To protect all information assets held by the Nihon Chouzai Group and to build an information security framework to gain customer satisfaction and the trust of society by complying with laws, regulations, and other rules.
<b>Related departments</b>	Same as Compliance Committee
<b>Committee activities</b>	In principle, the Information Security Committee meets once every three months. Nihon Chouzai's information security policy sets out the conditions for ensuring security as defined in the Security Guidelines for Medical Information Systems published by the Ministry of Health, Labour and Welfare. The committee reports and shares information on the information management activities of each department, such as any intentional or negligent information security violations by employees or cyber security incidents.

Medical Safety Committee	
<b>Purpose</b>	To promote appropriate medical safety management and contribute to the safe provision of healthcare.
<b>Related departments</b>	Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee
<b>Committee activities</b>	The Medical Safety Committee discusses all events related to medical safety management. It also discusses the revision of measures to prevent recurrence of safety incidents and improve safety.

Compliance Committee	
<b>Purpose</b>	To ensure thorough compliance and gain the greater trust of society by defining basic matters related to compliance actions and constructing and properly managing a compliance framework.
<b>Related departments</b>	Risk Management and Compliance Office, General Affairs Department, System Departments I and II, Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee
<b>Committee activities</b>	In principle, the Compliance Committee meets once every three months. It reports and shares information, such as on compliance activities and upcoming plans, compliance education, measures to comply with the Act on the Protection of Personal Information, labor compliance, and the internal reporting system. Subsidiaries hold similar meetings. To raise employee awareness of compliance, the committee publishes a monthly "Compliance Education" corner on the corporate intranet as well as distributing a newsletter and email magazine.

Risk Management Committee	
<b>Purpose</b>	To implement risk management for the Nihon Chouzai Group.
<b>Related departments</b>	Same as Compliance Committee
<b>Committee activities</b>	In principle, the Risk Management Committee meets once every three months. It reports and shares information, such as on the progress of risk management and upcoming plans, and business continuity plans. Subsidiaries hold similar meetings.

### Formulation and Dissemination of Rules and Regulations

To ensure the appropriateness of the Group's business operations, Nihon Chouzai has formulated various rules, operation flow charts and manuals, a Mission Statement & Compliance Card for all employees, a Mission Statement & Compliance Policy, business continuity plans, and a disaster response pocket manual. It seeks to ensure employee awareness of these matters by circulating materials and posting them on the corporate intranet.

