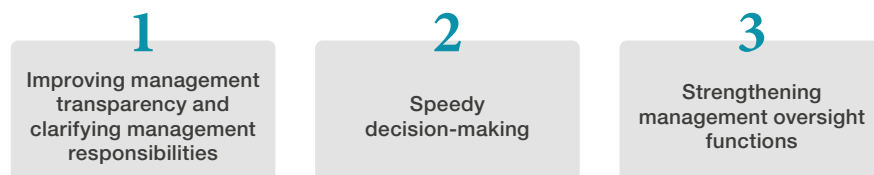


Corporate Governance

Corporate Governance

Nihon Chouzai's Concept of Corporate Governance



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 Governance Framework

In June 2016, we transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. We also determined that the Board of Directors should be made up of eight directors (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 comprises 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 the 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

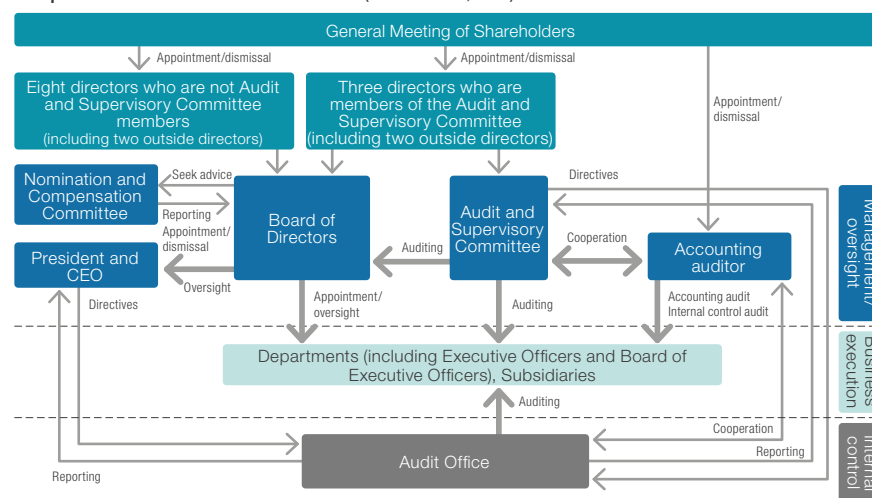
Activities in 2022

The Board of Directors met 15 times from April 1, 2022 to March 31, 2023. 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.

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.

Corporate Governance Framework (as of June 23, 2023)



Board of Directors Meetings and Key Topics of Deliberation

Frequency	In principle, once a month or as needed
Meetings Held	15 (Friday, April 1, 2022–Friday, March 31, 2023)
Key Topics of Deliberation	Budget and financial results; fund procurement; director nomination and compensation; pharmacy openings, closings, mergers and acquisitions; personnel and labor affairs; regulatory changes; organizational changes; group governance; risk management framework; digital transformation strategy; sustainability; etc.

Analyzing and Evaluating the Effectiveness of the Board of Directors

At least once a year, the Board of Directors conducts an evaluation to improve its effectiveness as a whole.

■ Process of Evaluating the Board's Effectiveness



■ Major Issues and Initiatives in Evaluating Effectiveness in FY2021

Based on the FY2021 evaluation of the Board's effectiveness, we took steps to address the issues raised. In particular, in response to the quality issue at Choseido Pharmaceutical in 2021, we augmented our oversight functions for Group companies. Also, in seeking to shape discussions around the issue of optimizing the Group as a whole, we identified the need to better evaluate the role of the Group headquarters in the effectiveness evaluation for FY2021.

In addition, the Board of Directors took time out twice during the year to share feedback obtained through dialogue with investors. Partly as a result of this, we saw improvement in the category of "making use of shareholder feedback." Going forward, we will strive to further deepen discussions informed by shareholder feedback and engage in constructive dialogue with investors. On the other hand, we saw some issues as outstanding, and committed to continue to work on them.

■ Results of FY2022 Effectiveness Evaluation

The evaluation confirmed that the effectiveness of the Board of Directors has been generally ensured. On the other hand, it highlighted some issues, including securing time for deliberations, considering strategy from multiple angles, succession planning, and oversight to ensure the diversity of core human resources. We will continue to take steps to address these issues.

■ Future Initiatives Based on Issues Identified

01 Securing more time for deliberations and consideration of strategy from multiple angles

We introduced an executive officer system in April 2022, aiming to better separate management decision-making and oversight functions from business execution functions and enhance management agility. The system further clarifies the division of roles between the Board of Directors and the Board of Executive Officers, resulting in more focused agendas from the perspective of the separation of oversight and execution. Meanwhile, delegating greater authority to the executive side frees up more time for discussion on longer-term themes at Board of Directors meetings.

Moreover, we are working to secure more time in venues outside meetings of the Board of Directors for deliberation and more in-depth discussions, such as at executive retreats, allowing executives to zoom in on longer-term issues and strategies.

02 Succession Planning Initiatives for Executives

Members of the Nomination and Compensation Committee will deliberate on the method of framing discussions around succession planning for executives as well as on an objective, transparent screening process. Meanwhile, members of the Board of Directors will deliberate on how information from the Nomination and Compensation Committee should be linked to Board meetings in terms of ideal scope and depth.

03 Oversight to Ensure Diversity of Core Human Resources

We continue to take steps to ensure diversity in our workforce, including promoting women's empowerment, but this effectiveness evaluation points out the need for further improvement in the ratio of female managers and measures to appoint female directors from within the company.

To better oversee an HR strategy that is linked to our management strategies, the Board of Directors in future meetings will discuss policies for investing in human resources by backcasting from longer-term strategic goals and setting indicators suitable for monitoring. The Board will also continue to monitor efforts to develop core human resources, including increasing the ratio of female managers.

Executive Compensation System

Basic Policy

- We will set executive compensation at an appropriate level to secure and retain outstanding personnel who act to realize the Group philosophy, motivating them to adequately carry out the roles expected of them in bringing about the sustainable enhancement of corporate and shareholder value.
- Acknowledging that we should be fully accountable to shareholders and other stakeholders, we will work to ensure reasonable, objective, and transparent compensation both in terms of content and the decision-making process.

Compensation Structure

- Outside directors responsible for oversight functions and directors who are members of the Audit and Supervisory Committee > Basic compensation
Directors and executive officers responsible for business execution > basic compensation, performance-based compensation, stock-based compensation (stock ownership plan)
- The ratio of each type of compensation for directors and executive officers responsible for business execution will be determined based on factors such as their position and role and the trends of other companies that have a business scale similar to that of Nihon Chouzai.

Basic Compensation

We determine compensation amounts according to the common basic salary table for directors and executive officers, plus allowances according to position and role, and pay compensation at a fixed time every month. We will establish a basic salary table for each director and executive officer, and will review the table as appropriate based on annual evaluations, length of service, and other factors.

Cross-Shareholdings

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.

Performance-Based Compensation

To motivate directors and executive officers to contribute to the enhancement of business performance each fiscal year, we will pay bonuses on a fixed date every year, calculated based on the following formulas.

- 01** Directors: Profit-sharing method based on consolidated ordinary profit, and target method based on consolidated net sales and operating profit and individual evaluations of each director
- 02** Executive officers: Target method based on consolidated net sales and operating income and individual evaluations of each executive officer

Details of Stock-Based Compensation

To motivate directors and executive officers to share value with shareholders and contribute to the enhancement of longer-term corporate and shareholder value, we will grant shares at a certain term after retirement based on a stock ownership system.

Procedures for Determining Compensation

Compensation for all directors (excluding outside directors and directors who are members of the Audit and Supervisory Committee) and executive officers is determined by resolution of the Board of Directors in consideration of the deliberations and reports of the Nomination and Compensation Committee, of which the majority of members are independent outside directors.

	Unlisted shares	Shares other than unlisted shares
FY2021	Number of issues	1
	Amount* (millions of yen)	13
FY2022	Number of issues	1
	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.



Formulation and Dissemination of Rules and Regulations

To ensure the appropriateness of the Group's business operations, Nihon Chouzai has formulated various internal rules, operation flow charts and manuals, 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 and various meetings.

	Purpose	Related departments	Committee operation
Nomination and Compensation Committee	Seeks to strengthen the fairness, transparency, and objectivity of procedures related to the nomination and compensation of directors and executive officers, and further enhance the corporate governance framework.	Human Resources Department, General Affairs Department	Held three times in FY2022 (April 2022–March 2023). Made up of three or more members who are directors or executive officers, the majority of whom are independent outside directors. As an advisory body to the Board of Directors, the committee deliberates on such matters as composition of the Board of Directors, the rationales for appointing directors and executive officers, and the appropriateness of individual compensation amounts, and reports to the Board of Directors.
Compliance Committee	Ensures thorough compliance by defining basic matters related to compliance actions and constructing and properly managing a compliance framework.	Risk Management and Compliance Office, General Affairs Department, System Headquarters, Pharmaceutical Headquarters, Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee, etc.	In principle, meets once every three months. In addition to monitoring and reviewing the development and operation of the compliance framework, the committee takes up matters related to the planning and execution of compliance programs aimed at promoting compliance throughout the Group. Specifically, the committee considers the response to relevant business laws, the internal reporting framework, and training programs aimed at fostering employee compliance awareness. Subsidiaries hold similar meetings.
Risk Management Committee	To be aware of risks that may significantly impact the attainment of management goals and corporate sustainability, and to support appropriate judgments and responses to risks, the committee works to promote more sophisticated risk management.	Risk Management and Compliance Office, General Affairs Department, System Headquarters, Pharmaceutical Headquarters, Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee, etc.	In principle, meets once every three months. Based on the risk management policy, the committee works to develop and appropriately operate Group-wide risk management. Specifically, it identifies and examines risks based on the internal and external business environment, takes response measures, conducts regular monitoring, and takes necessary action based on circumstances. Subsidiaries hold similar meetings.
Information Security Committee	Promotes information security management, including implementing information security measures and disseminating policy, and constructs and operates a Group-wide information security framework.	System Headquarters, Pharmaceutical Headquarters, General Affairs Department, Human Resources Department, Risk Management and Compliance Office, etc.	In principle, meets once every three months. The committee shares information on measures based on the Security Guidelines for Medical Information Systems published by the Ministry of Health, Labour and Welfare and related laws and guidelines, assesses whether there are any information security violations, examines case studies of cyber security incidents, etc., while holding discussions on countermeasures.
Medical Safety Committee	Promotes appropriate medical safety management and contributes to the safe provision of healthcare.	Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department, Quality Control Department), Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee	The Medical Safety Committee discusses all events related to medical safety management. It also discusses the revision of measures to prevent the recurrence of safety incidents and improve safety.
Sustainability Committee	Aims to achieve sustainable growth and enhance corporate value of the Group over the longer term, while contributing to the creation of a sustainable society through Group business activities.	Sustainability Supervision Office, Corporate Planning Department, General Affairs Department, Group companies	Held three times in FY2022 (April 2022–March 2023). Supervises and evaluates the progress of initiatives to address the material issues the Group has identified, builds these issues into corporate and business strategies, and deliberates on observance of international guidelines and participation in global initiatives, reporting to the Board as needed.