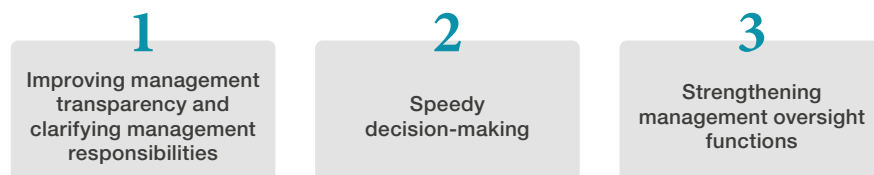


Corporate Governance

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

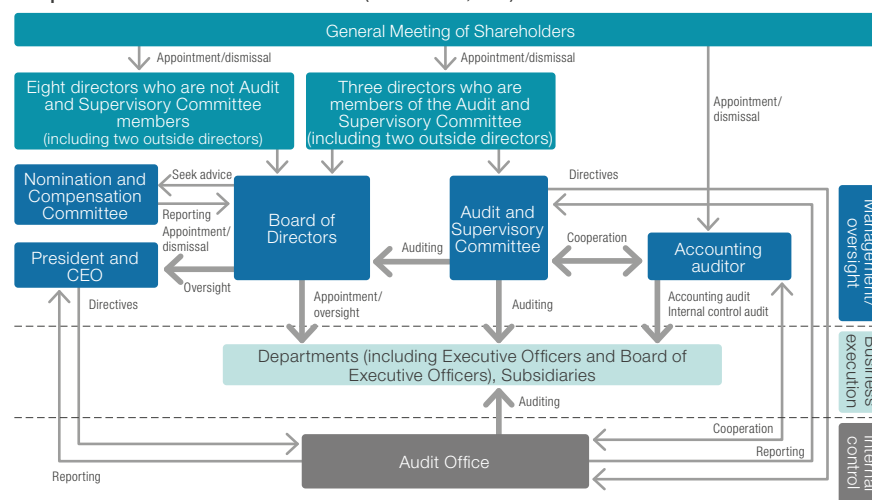
Activities in 2022

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.



Message from Outside Directors

Further promoting sustainability management from the perspective of a female outside director

Outside Director
Shio Harada

As an attorney, I have been involved in a wide array of legal consultations, ranging from the kind of general civil matters that people face in their day-to-day lives to the legal affairs of listed corporations, while also teaching as a lecturer in the area of civil affairs at the Legal Research and Training Institute, for the purpose of nurturing younger generations of attorneys. I also have deepened my knowledge of women's rights in general and gender equality in particular by taking part in the Gender Equality Committee of the bar association to which I belong.

It has been a year now since I was appointed as an outside director and the first female director at Nihon Chouzai. Through repeated discussions at Board of Directors meetings, I have gained a fuller understanding of the company and its business activities as it earnestly seeks to address healthcare issues facing Japan, grounded in the Group philosophy. I resonate very much with the Group's commitment to contribute to society from a broad perspective, one that also looks forward to emerging social issues.

Nihon Chouzai is actively pursuing sustainability management. My sense is that the Group is making steady headway in addressing sustainability issues related to the area of healthcare in particular. Also, with regard to corporate governance, compliance, and other aspects of risk management, the Group is making progress year-by-year in terms of systems and frameworks. Still, I recognize that the challenge going forward will be to further enhance the effectiveness of these systems and frameworks. To pursue even more thorough-going sustainability management, the Group is setting performance indicators for its key management issues (materiality) and strengthening monitoring functions.

Ensuring diversity and maintaining a sound management foundation are essential to

sustainable corporate growth. Women currently account for about 70% of the officers and employees of the Group. I feel that the company's approach to gender diversity, including the empowerment of women, is really wonderful.

I am also paying attention to the recruitment and cultivation of talent. Numerous multi-talented female pharmacists are taking an active role at Nihon Chouzai pharmacies. However, although the ratio of female managers and area managers is increasing according to plan, I would still be hard-pressed to say that the level is high. For women, the formation of a career path tends to be interrupted by life events such as childbirth and childcare. Consequently, creating the kind of systems and environments in which women can form such career paths and continue to work without worry over the long term is an issue that warrants deeper consideration. In FY2022, 69.0% of male employees took childcare leave, which is a solid result vis-a-vis the company's target of 40%. Going forward, I think it would be a good idea to expand discussions around topics such as more flexible HR systems and an increase in the number of leave days taken. I am convinced that improving the working styles of all employees, including men, will lead to a workplace environment that allows women to play a more active role, and that this in turn will help the company secure and cultivate diverse, invaluable talent. But not only that: It is vital in terms of corporate growth and in terms of enhancing corporate value to secure diverse human resources to serve as directors and hold other such positions of authority, so that they can reflect their diversity in corporate decision-making. This is an area that is gaining broader recognition in society. In this respect as well, I look forward to seeing the various initiatives of the Nihon Chouzai Group bear fruit in the near future.

Message from Outside Directors

Dialogue with investors centered on long-term management strategies is key to the long-term enhancement of corporate value.

Outside Director
Yoshimitsu Onji



Five years have gone by quickly since I was appointed as an outside director of Nihon Chouzai in June 2018. Over that period, my strong sense is that the roles expected of an outside director have expanded to include strengthening corporate governance. At the same time, there have been major changes that I feel have impacted the management of the Group as a whole over the past five years.

One of the most significant changes, of course, was the passing of the baton to a new President at Nippon Chouzai shortly after I was appointed. Under the current President's leadership, the Board of Directors meetings—which up to then gave me the strong impression of serving as a venue for providing explanations to outside directors—have changed to become more of a forum for a mutual exchange of ideas in both directions. In 2022, Shio Harada was also appointed as the company's first female director. Going forward, even greater diversity, such as in terms of gender and age, will enable Board meetings to generate discussions from an even broader array of perspectives.

Among the management issues facing Nihon Chouzai, I have a particularly keen interest in three themes. The first is revising the long-term vision and exploring a new medium-term management plan. Enhancing corporate value over the long term calls for establishing a long-term vision for the Group and setting out an appropriate roadmap (medium-term management plan) to achieve that vision. I sincerely hope the Board of Directors will thoroughly revise the long-term vision and engage in discussions around the formulation of a new medium-term management plan, with a view to monitoring the degree to which it achieves its goals more closely than ever. The company has recently launched a project team staffed mainly by younger employees spanning various departments and operating

companies. I look to this team to engage in vigorous discussions about issues facing the Group. It is crucial that the generation that will actually lead the company into the future actively participates in shaping that future, with a sense of ownership.

Secondly, I feel that the current business portfolio is in good shape for Nihon Chouzai as a healthcare group. On the other hand, I feel that the company needs to revisit its strategies, such as how to grow the various businesses in the portfolio. Investors often find Japan's healthcare system difficult to understand. I would like to hold more discussions with these investors so that we can adequately communicate both the risks and the new growth opportunities facing the company.

Third, like other companies listed on the Tokyo Stock Exchange Prime market, I recognize that enhancing corporate value is a major issue for Nihon Chouzai as well. To recover and maintain a price book-value ratio of more than 1.0x, it is of chief importance that the company informs investors about its strengths. My impression is that the company has not yet created sufficient opportunities for communication between outside directors and investors. I would like to expand the number of wide-ranging dialogues beyond the current level, for example by looking overseas.

Nihon Chouzai announced a new Group philosophy in April 2022. I would like the company to be a place where every employee can take ownership of this philosophy, thinking and acting to turn it into a reality. Moreover, I would like to see Nihon Chouzai become more widely known as a key player in healthcare in Japan, as the place to turn to for people pursuing health and wellbeing. I will continue to communicate actively with the company's investors and other stakeholders. I hope that you will look forward to the growth of the Group.

Board of Directors (as of June 23, 2023)

NC Nomination and Compensation Committee
Audit Audit and Supervisory Committee member



Yosuke Mitsuvara
President and CEO

NC

Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, Mitsuvara became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins University Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives. From December 2021, Mitsuvara chairs the Sustainability Committee.



Naoto Kasai
Managing Director and Managing Executive Officer

At Mitsubishi UFJ Trust and Banking, Kasai was Manager of the Human Resources Department, Manager of the Corporate Planning Division, and a Branch Manager. As General Manager of the Sales Management Department in charge of new pharmacy openings for Nihon Chouzai, he sets policy for pharmacy openings, acquisitions, and pharmacy development, and manages business operations. Kasai has been in charge of the Sales Management, Development, Corporate information, Public Relations and Sustainability.



Toshiyuki Koyanagi
Director and Senior Executive Officer

Pharmacist. Koyanagi joined Nihon Chouzai after working in a hospital. He has since served as Manager and General Manager of the Pharmaceutical Department, General Manager of the Purchasing Department, and in other capacities. In addition to overseeing the Dispensing Pharmacy Business, his responsibilities include pharmacy staff training, drug planning, marketing, generic drug promotion, purchasing, at-home care, healthcare promotion, pharmacy branch management, quality control, medical strategic planning, systems, and business development. With a wealth of experience in pharmacy management and thorough knowledge of medical administration, he has contributed to the expansion of the Dispensing Pharmacy Business by taking the lead in addressing changes in the operating environment, including medical service fee revisions.



Kazunori Ogi
Director and Senior Executive Officer

Before joining Nihon Chouzai, Ogi worked for a leading bank and was involved in finance and MBO projects for major companies. After joining the Company, he was a Manager of the Finance Department. Currently, as Director and General Manager, he is in charge of accounting, finance, and affiliated companies. In terms of the Group as a whole, he helps to identify management issues for the Company and its subsidiaries and formulate management strategies to address them. Since October 2021, he has also served as President and CEO of Choseido Pharmaceutical Co., Ltd. and Director of Nihon Generic Co., Ltd.



Yoshihisa Fujimoto
Director and Senior Executive Officer

Fujimoto is responsible for corporate governance, working style reform, empowering women in the workplace, recruitment, as well as serving as Chief Security Officer (CSO). He contributes to the governance of the entire company, including serving on the Information Security Committee, and the Risk Management and Compliance Committee.

Skill Set Distribution of Directors





Masahiro Inoue
Director

Before joining Nihon Generic, Inoue served as branch manager and area branch manager for Sumitomo Mitsui Banking. Since joining that company, he has been in charge of its overall management, and possesses a wide range of knowledge and experience around the manufacture and sale of generic drugs. In June 2022, he began overseeing the Pharmaceutical Manufacturing and Sales Business as President & CEO of Nihon Generic.

Board of Directors*1

- / -



Yoshimitsu Onji
Outside Director

Outside Independent NC

Onji has experience as a company president and chairman. Prior to joining Nihon Chouzai, he was involved in starting up a staffing firm and in numerous corporate acquisitions, as well as being responsible for financial strategy. As a manager with a wealth of experience in funding and M&A transactions, he is helping to oversee management of the Company and provides feedback as an outside director.

Board of Directors

15/15

Nomination and Compensation Committee

3/3



Mikiharu Noma
Outside Director

Outside Independent NC

As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. Since 2013, he has been chair of the Corporate Reporting Lab set up by the Ministry of Economy, Trade and Industry, and is well-versed in building corporate value, investor engagement, ESG and human capital management.

Board of Directors

15/15

Nomination and Compensation Committee

3/3



Nobuyuki Hatakeyama
Director

Audit

Since the early days of Nihon Chouzai's founding, Hatakeyama has held a wide range of key positions, including Sales Manager, Branch Manager, General Manager of the Operational Audits Department, and Director. With a wealth of experience and knowledge in pharmacy development and pharmacy operations in the Dispensing Pharmacy Business, in addition to his auditing role as an Audit and Supervisory Committee member, he also oversees management and provides appropriate feedback.

Board of Directors

15/15

Audit and Supervisory Committee

15/15



Arata Toyoshi
Outside Director

Outside Independent NC Audit

Certified public accountant and licensed tax accountant. Holds a Master of Business Administration. As part of a leading auditing firm, Toyoshi gained extensive knowledge of manufacturing, IT, finance, distribution, as well as of public enterprises. He also has experience as a director of human resources management at the headquarters of a company. As an Audit and Supervisory Committee member, he helps to oversee and provide feedback on the management of the Board of Directors, with an awareness of the perspectives of various stakeholders.

Board of Directors

15/15

Nomination and Compensation Committee

3/3

Audit and Supervisory Committee

15/15



Shio Harada
Outside Director

Outside Independent NC Audit

Attorney. Harada has a wealth of experience and insight regarding legal affairs as a whole, including as a lecturer in the area of civil affairs at the Legal Research and Training Institute. In addition to serving as outside director of another listed company, she has extensive knowledge of sustainability management centered on gender diversity.

Board of Directors*2

9/10

Nomination and Compensation Committee*2

2/2

Audit and Supervisory Committee*2

10/10

Risk management and compliance
M&A and Pharmacy network strategy
Medical Professional Staffing and Placement
Pharmaceutical Manufacturing and Sales
Dispensing Pharmacy Management oversight and feedback
IT and digital Transformation (development)
Sustainability
Administration (including medical and pharmaceutical affairs)
Legal affairs and compliance finance
Financial accounting and General management

*1 Masahiro Inoue was appointed as a director at the general meeting of shareholders held in June 2023.
*2 Number of meetings attended since appointment as outside director in June 2022.