

# Corporate Governance Report

Last Update: June26, 2020

NIHON CHOUZAI Co., Ltd.

Representative: Yosuke Mitsuhashi, President & CEO

Contact: Kazunori Ogi, Director, General Manager of Finance Department

Stock Code: 3341

<https://www.nicho.co.jp>

The corporate governance of NIHON CHOUZAI Co., Ltd. (“Nihon Chouzai” or the “Company”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

Nihon Chouzai recognizes that, in order to respond appropriately to changes in the business environment, to continuously maintain the soundness of the Company and to further enhance its corporate value, it needs to improve the transparency of management and clarify its management responsibilities. In this regard, it is essential to promote speedy decision-making and the strengthening of management oversight functions to achieve management targets. Furthermore, since the business activities of the Nihon Chouzai Group are carried out in a field that is governed by various regulations, Nihon Chouzai will enhance corporate governance and compliance based on the recognition that the reinforcement of compliance capabilities is extremely important. The Company is implementing various countermeasures in accordance with this recognition.

### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Supplementary Principle 1.2.4 Exercise of Shareholder Rights at General Meetings of Shareholders]  
Although the Company has not yet made an English translation of the convocation notice, it will consider doing so in the future in consideration of the ratio of institutional investors and foreign investors.

[Supplementary Principle 4.2.1 Roles and Responsibilities of the Board of Directors]  
The Company believes that remuneration for directors should give incentives to improve medium- and long-term performance and enhance corporate value. In the future, the Company will consider introducing share-based compensation in addition to conducting a review of its executive remuneration system.

[Supplementary Principle 4.10.1 Use of Optional Approach]  
The Company has not established any independent advisory committees such as an optional nomination committee or a remuneration committee with the independent outside directors as the main members operating under the Board of Directors. But three independent outside directors participate in the meetings of the Board of Directors and the Company has set up a forum for independent consultation with outside directors. Furthermore, the appropriate involvement and advice of independent outside directors is used for the consideration of particularly important matters such as nominations and remuneration.

### [Disclosure Based on the Principles of the Corporate Governance Code] Updated

[Principle 1.4 Cross-shareholdings]  
The Company may hold, as cross-shareholdings, shares of companies that it deems necessary for the purpose of maintaining and strengthening business relationships. Every year, the Company holds meetings of the Board of Directors to examine in detail whether the purpose of ownership for individual cross-shareholdings is appropriate, whether the benefits and risks associated with these holdings are commensurate with the cost

of capital, etc., to verify the suitability of cross-shareholdings. This year, at the Board of Directors meeting in June, after clarifying the number of shares, acquisition prices, book values and market prices for each issue, the Company, having deliberated on the suitability of cross-shareholdings from the above viewpoints, and having taken into consideration the significance and rationality of these holdings, it was decided to sell, in light of the timing of such transactions, the cross-shareholdings for which the rationale for holding them had weakened. For the exercise of voting rights pertaining to policy-holding stocks, the Company's policy is to make decisions based on its viewpoint regarding how votes would contribute to the enhancement of the corporate value of the company invested in, combined with due consideration of the purpose of the holding.

[Principle 1.7 Related Party Transactions]

If the Company conducts transactions (transactions between related parties) with its officers and major shareholders, these transactions are identified as being matters to be referred to the Board of Directors as stipulated in the Board of Directors Regulations so that the transaction will not harm the common interests of the Company or its shareholders. The Board of Directors approves the individual transactions or monitors them by receiving reports about these transactions. The department in charge of legal affairs performs legal checks concerning resolutions of the Board of Directors for transactions between related parties.

[Principle 2.6 Roles of Corporate Pension Fund as Asset Owner]

In October 2011, the Company established a corporate-type defined contribution pension plan. Every year, the Company provides employees with opportunities to learn investment management and investment product selection and asset management. In addition to offering educational opportunities, the Company provides an explanation of the corporate-type defined contribution pension system to new employees at the time they join the company.

[Principle 3.1 Full Disclosure]

(i) Company Objectives (e.g., Management Philosophies), Management Strategies and Management Plans  
The Company website shown below is the principal means of disclosure of our corporate philosophy, management strategy, and management plan. In addition, other media such as shareholder newsletters, securities reports and other methods are used.

Corporate Philosophy: <https://www.nicho.co.jp/corporate/profile/philosophy/>

Management Strategy and Management Plan: <https://www.nicho.co.jp/corporate/info/18742/>

(ii) Basic Views and Guidelines on Corporate Governance Based on Each of the Principles of the Code

This subject is described in "I. 1. Basic Views" in this report.

(iii) Policies and Procedures in Determining the Remuneration of Directors by the Board of Directors  
Remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) and the directors who are members of the Audit and Supervisory Committee is determined by resolutions that are approved at the general meeting of shareholders. For individual remuneration and the method of calculation used to determine it, the contribution made by each director in the fiscal year and the degree to which goals have been achieved, etc. are comprehensively taken into account. With respect to directors (excluding directors who are members of the Audit and Supervisory Committee), the amounts are decided by the deliberations of the Board of Directors (with three independent outside directors participating). For directors who are members of the Audit and Supervisory Committee, the amounts are determined by deliberations of the Audit and Supervisory Committee (with two independent outside directors participating).

(iv) Policies and Procedures for the Election and Appointment of Directors (Excluding Directors who are Members of the Audit and Supervisory Committee) and Directors Who are Members of the Audit and Supervisory Committee

The Company's policy is to select individuals with extensive experience and valuable insight concerning management to be directors (excluding directors who are members of the Audit and Supervisory Committee). This experience and insight is needed to fulfil the management responsibilities delegated to them from the Company's shareholders and to exercise their duties as directors. Suitable candidates are individuals who are capable of fulfilling these duties and responsibilities (that is, individuals who are skilled in and knowledgeable about company management and the economic environment and who possess outstanding abilities, combined with thorough knowledge and experience concerning our business environment, etc.) as directors (excluding directors who are members of the Audit and Supervisory Committee). Based on this policy, the Representative Director prepares a draft of each candidate's application (excluding directors who are members of the Audit and Supervisory Committee) and presents it to the Board of Directors (with three independent outside directors participating). The Board of Directors selects the candidate directors (excluding directors who are members of the Audit and Supervisory Committee). For the directors who are members of the Audit and Supervisory Committee, the Company's policy is to appoint individuals who understand the importance of the functions of audits and the Audit and Supervisory Committee concerning management and who are capable of fulfilling the duties and responsibilities of the Audit and Supervisory Committee (that is, individuals who have deep and extensive knowledge and experience concerning the Company's business environment and of financial, accounting, and legal affairs, etc.) as the candidates for the directors who are to be Audit and Supervisory Committee members. On the basis of this policy, the Representative Director prepares a draft of each candidate director's application and presents it to the Board of Directors after having received the agreement of the Audit and Supervisory Committee (with two independent outside directors participating). The candidate directors are subsequently selected by the Board of Directors. In addition, in cases where a director (excluding a director who is a member of the Audit and Supervisory Committee) or a director who is a member of the Audit and Supervisory Committee violates laws and regulations or the Articles of Incorporation, or when, for any other reason, it would be difficult for an individual to appropriately perform his/her duties, the Board of Directors will, after due deliberation, decide upon the dismissal or other disposition of the director or the submission of a dismissal proposal to a general meeting of shareholders.

(v) Explanations of Appointments/Dismissals and Nomination of Individual Directors

The Company discloses its reasons for appointing directors (excluding directors who are members of the Audit and Supervisory Committee) and candidates for directors who are members of the Audit and Supervisory Committee in the notices of the general meeting of shareholders and discloses this information on the Company's website. In addition, when dismissing a director (excluding a director who is a member of the Audit and Supervisory Committee) or a director who is a member of the Audit and Supervisory Committee, the reason for the dismissal is stated in the notice of the general meeting of shareholders and disclosed on the website.

[Supplementary Principle 4.1.1 Roles and Responsibilities of the Board of Directors (1)]

In accordance with laws and regulations, the Articles of Incorporation and the Board of Directors Regulations, the Company makes judgments and decisions on management policies, strategies and important matters concerning the execution of business by the Board of Directors. In addition, the matters to be delegated to management are stipulated in the Regulations on Administrative Authority and Regulations on Segregation of Duties and the Board of Directors receives reports on the status of business execution and aims to enhance supervisory functions.

[Principle 4.9 Independence Criteria and Qualification for Independent Outside Directors]

For its independent outside directors, in addition to the independence standards of the Tokyo Stock Exchange, individuals who are superior in character and insight and who can advise and supervise the Company's management appropriately are selected.

[Supplementary Principle 4.11.1 Preconditions to Ensure the Effectiveness of the Board of Directors]

In order to fulfill the functions of supervising business execution and management effectively, the Company's Board of Directors is constituted of individuals who are highly skilled and familiar both with company management and the economic environment. These individuals also have deep and extensive knowledge and experience concerning the Company's business environment and of financial, accounting, and legal affairs, etc. The Company also considers the balance and diversity of the Board of Directors. Currently, there are no female or foreign directors but, regardless of gender or nationality, the basic policy is to provide the right place for the right person. Furthermore, the Board of Directors consists of nine directors (excluding directors who are members of the Audit and Supervisory Committee) and three directors who are members of the Audit and Supervisory Committee. The policies and procedures concerning the election of these directors are described in "I. 1. Basic Views [Disclosure Based on the Principles of Corporate Governance Code] [Principle 3.1]" in this report.

[Supplementary Principle 4.11.2 Preconditions to Ensure the Effectiveness of the Board of Directors]

The Company keeps the number of additional posts held by the directors within a reasonable range in order to enable them to fulfil their roles and duties. Information about the additional posts is included in the notices of the general meeting of shareholders.

[Supplementary Principle 4.11.3 Analysis and Evaluation of the Effectiveness of the Board of Directors]

In May 2020, based on the opinions of an external consultant, the Company carried out a questionnaire survey with 22 items for the evaluation of the effectiveness of the Board of Directors. This survey included the Structure and Operation of the Board of Directors and other items, involving directors. Just as in the previous fiscal year, the results of this survey led to favorable conclusions concerning the evaluations of all items, resulting in the decision that the Board of Directors is performing effectively. Although there has been a certain degree of improvement in the executive training compared with the previous fiscal year, some further constructive opinions on how to further improve the effectiveness of the Board of Directors have also been presented and so, based on the results of this evaluation, we will continue to work to improve the overall effectiveness of the Board of Directors.

[Supplementary Principle 4.14.2 Policy on Training Directors]

The Company provides opportunities for internal directors to properly explain the responsibilities of executives, etc., and to participate in training and seminars by third-party organizations as necessary, and the expenses are borne by the company. Also, with the aim of deepening the understanding of our company's business activities and management issues, the Company provides opportunities for executives of the management teams and of departments to deliver explanations about business activities, management issues and other matters involving their departments.

[Principle 5.1 Policy on Constructive Dialogue with Shareholders]

The Company fairly and in an appropriate and timely manner discloses information about business and financial conditions to shareholders and investors. The Company also has the following structure for investor relations (IR) with the aim of promoting the proper formation of the share price.

- (i) Department responsible mainly for dialogue with shareholders and executive officers overseeing these activities

The Corporate Planning Department, which is the department in charge of IR, is responsible for conducting and maintaining dialogues with shareholders, and this department is supervised by the director in charge of corporate planning.

- (ii) Measures for collaboration with related departments

The Corporate Planning Department, which is the department in charge of IR, shares information with and gathers information from the General Affairs Department, the Public Relations Department, the Accounting Department, the Finance Department, other department heads and officers of subsidiaries, and also organizes a cooperative structure among them.

(iii) Initiatives other than individual interviews

The Company conducts activities to deepen understanding of the Company's management strategy and of the business environment in general by holding general shareholders meetings, information meetings about results of operations, information meetings about business activities and plant tours and by providing information on the Company's website and through other channels.

(iv) Measures for providing feedback to executives of the management teams and to the Board of Directors

The Company regularly submits reports about the recommendations it receives from shareholders and investors, etc. to the directors in charge in order to maintain a system to deliver feedback to the Company's management team.

(v) Measures for the management of insider information

To prevent insider trading in IR, the Company establishes a quiet period for financial results information from the day after the last day of a financial period to the earnings announcement date. Moreover, the Company has its own Internal Information Management Regulations and has improved its information management structure.

## 2. Capital Structure

Foreign Shareholding Ratio	Less than 10%
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### [Status of Major Shareholders] Updated

Name / Company Name	Number of Shares Owned	Percentage (%)
Hiroshi Mitsuvara	4,680,000	31.21
Yosuke Mitsuvara	3,320,000	22.14
Max Planning, Inc.	1,120,000	7.47
Nihon Chouzai Employee Shareholding Association	452,600	3.02
Yoko Mitsuvara	400,000	2.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	327,200	2.18
Keiko Yeow	269,300	1.80
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	210,900	1.41
Japan Trustee Services Bank, Ltd. (Trust account 9)	180,700	1.21
Japan Trustee Services Bank, Ltd. (Trust account)	161,900	1.08

Controlling Shareholder (Except for Parent Company)	Hiroshi Mitsuvara Yosuke Mitsuvara
Parent Company	None

### Supplementary Explanation Updated

The above major shareholders are as of March 31, 2020.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-end	March
Type of Business	Retail
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (Consolidated) as of the End of the Previous Fiscal Year	More than ¥100 billion and less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year <span style="border: 1px solid black; padding: 0 2px;">Updated</span>	More than 10 and less than 50

### 4. Policy on Measures to Protect Minority Shareholders when Conducting Transactions with a Controlling Shareholder

For the protection of minority shareholders concerning transactions with a controlling shareholder, these transactions are conducted under the oversight of a supervisory framework. This oversight is described in “I. 1. Basic Views [Disclosure Based on the Principles of the Corporate Governance Code] [Principle 1.7]” in this report.

### 5. Other Special Circumstances which May Have a Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit and Supervisory Committee
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	18
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	12
Election of Outside Directors	Yes
Number of Outside Directors	3
Number of Independent Directors	3

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Yoshimitsu Onji	From another company												
Tadashi Urabe	Attorney												
Arata Toyoshi	Certified public accountant												

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/Audit and Supervisory Committee member

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/Audit and Supervisory Committee members are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)

Name	Audit and Supervisory Committee Members	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshimitsu Onji		○	–	Mr. Onji has extensive experience as a manager as well as broad insight. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from our management team. He was therefore named as an independent director at the Board of Directors meeting held on June 26, 2019.
Tadashi Urabe	○	○	–	Mr. Urabe is an attorney who has extensive knowledge of legal affairs. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from the management team. He was therefore named as an independent director at the Board of Directors meeting held on June 26, 2019.
Arata Toyoshi	○	○	–	Mr. Toyoshi is a certified public accountant/tax accountant and has extensive knowledge of finance, accounting and auditing. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from the management team. He was therefore named as an independent director at the Board of Directors meeting held on June 26, 2019.

[Audit and Supervisory Committee]

Committee's Composition, and Attributes of Chairperson

	Audit and Supervisory Committee
All Committee Members	3
Full-time Members	1
Inside Directors	1
Outside Directors	2
Chairperson	Inside Director

Appointment of Directors and Employees Who Assist the Audit and Supervisory Committee's Duties	Yes
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**Matters Relating to Ensuring the Independence from Executives of the Directors and Employees Who Assist the Audit and Supervisory Committee's Duties**

Individuals assigned to the Audit Office and the Audit and Supervisory Committee is appointed to assist with the duties of the Audit and Supervisory Committee. In order to ensure the independence of these individuals from the directors (excluding the directors who are members of the Audit and Supervisory Committee), the Company needs prior consent in the form of a meeting of the Audit and Supervisory Committee in relation to the change of duties, disciplinary action and dismissal to assist with supplementary work for the Audit Office and the Audit and Supervisory Committee. Moreover, personnel evaluations will be conducted by full-time Audit and Supervisory Committee members based on the evaluation made by this committee. Additionally, when assisting the duties of the Audit and Supervisory Committee, the employee will exclusively follow the commands and instructions of the Audit and Supervisory Committee.

**Cooperation among Audit and Supervisory Committee, Accounting Auditors and Internal Audit Division**

The Audit and Supervisory Committee, Accounting Auditor and Internal Audit Division exchange information as necessary throughout the year and work to enhance mutual cooperation concerning audit functions.

**[Voluntary Establishment of Committee]**

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	None
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**[Independent Directors/ Audit and Supervisory Committee Members]**

Number of Independent Directors/Audit and Supervisory Committee Members	3
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Matters relating to Independent Directors/Audit and Supervisory Committee Members

The Company has named all outside directors as independent directors based on the provisions of the Tokyo Stock Exchange and notified the exchange of these directors.

**[Incentives]**

Incentive Policies for Directors	Not introduced
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Supplementary Explanation

Although the Company implemented a stock option system targeting directors and employees in the fiscal year ended March 2001, the exercise of share acquisition rights under this system was completed in the fiscal year ended March 2008. The plan for the future implementation of this system is, as yet, undecided.

Recipients of Stock Options	
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Supplementary Explanation

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## [Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected directors
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Supplementary Explanation

Remuneration of individual directors is disclosed in securities reports only for directors who receive total remuneration on a consolidated basis of at least ¥100 million. The securities reports are disclosed on the Company's website.

Policy on Determining Remuneration Amounts and Calculation Methods <u>Updated</u>	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) is ¥1 billion per year (including ¥20 million for outside directors, but excluding salaries for employees), as resolved at the shareholders meeting held on June 28, 2016. The remuneration for directors who are members of the Audit and Supervisory Committee is limited to ¥50 million per year. The total remuneration for directors paid for the 40th term (the fiscal year ended March 2020) was ¥413 million (including ¥28 million for outside directors). The total amount of remuneration includes an increase of ¥30 million (for directors) for an allowance for directors' retirement benefits for the fiscal year ended March 2020.

## [Supporting System for Outside Directors and/or Audit and Supervisory Committee Members]

The secretariat of the Board of Directors performs the tasks necessary for arranging the work of outside directors and has prepared a supporting system for each director.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

The highest decision-making body for the execution of our business is the Board of Directors. The Company holds a monthly meeting of the Board of Directors and also arranges other meetings from time to time if necessary. Meetings of the Board of Directors were held on 17 occasions in the fiscal year ended March 2020, and the main issues discussed at these meetings included the closing or opening of pharmacies, budgets and financial results, personnel and labor, the procurement of funds, the establishment of rules, organizational changes, and M&A, etc. The rate of attendance for individual members was 14 members out of a total of 17 attending all meetings, with two members absent on one occasion, and one member absent on two occasions. The Board of Directors has nine members (one of whom is an outside director) excluding directors who are members of the Audit and Supervisory Committee, and three directors (two of whom are outside directors) who are members of the Audit and Supervisory Committee. As a general rule, these meetings are conducted with the participation of all members.

In addition, the Audit and Supervisory Committee is a system that shares information among the members of the Audit and Supervisory Committee and conducts efficient audits. Three of the members are from the Audit and Supervisory Committee, (and two are outside directors). The Audit and Supervisory Committee holds a regular meeting once a month. Each member is a professional in law and accounting audit work, and thanks to the input provided from each member's point of view, the Committee is able to strictly and meaningfully monitor the performance of the duties of the Board of Directors.

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company and its outside directors have entered into contracts to limit the liability for damages under Article 423, Paragraph 1 of the same Act. We have established an Audit Office within the Company as an internal auditing body, and it is positioned as an organization that has a direct reporting line to the president. It conducts internal audits according to each fiscal year's internal audit schedule to monitor the effectiveness of the internal audit. The office consists of one department head and two staff members. But if additional individuals are required based on the stipulations of internal audit regulations, a support system that assigns personnel from other departments to the internal audit has been established with the approval of the Representative Director. The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency. The Audit Office and the Audit and Supervisory Committee, the Accounting Auditor and the Audit Office, the Audit and Supervisory Committee and the Accounting Auditor all exchange information from time to time as necessary throughout the year and thereby enhance the degree of mutual cooperation in conducting the Company's audit functions. Names of certified public accountants who executed the audit in the fiscal year ended March 2020, and the name of audit company were as follows:  
Designated limited liability partners Mr. Kazumasa Moriya and Mr. Takaaki Saito, Deloitte Touche Tohmatsu LLC

### **3. Reasons for Adoption of Current Corporate Governance System**

Following a resolution passed at the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, the Company changed the organization of the Company and became a company with an Audit and Supervisory Committee. Given the scale of our Company and its business activities, we believe that being a company with an Audit and Supervisory Committee is appropriate for enhancing our auditing and supervisory functions and corporate governance.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Scheduling General Shareholder Meetings Avoiding the Peak Day	The Company is making efforts to schedule such meetings to avoid the peak day.
Allowing Electronic Exercise of Voting Rights	The Company allows the exercise of voting rights via the Internet.
Participation in Electronic Voting Platform and Other Measures for Greater Ease of Voting by Institutional Investors	The Company uses the Electronic Voting Platform operated by ICJ, Inc., from the fiscal year ended March 2017.

#### 2. IR Activities

	Supplementary Explanations	Presentation by President
Preparation and Announcement of Disclosure Policy	The Company is maintaining the structure of its IR activities in accordance with the Principles of the Corporate Governance Code. The contents are described in “I. 1. Basic Views [Disclosure Based on the Principles of Corporate Governance Code] [Principle 5.1]” in this report.	
Regular Investor Briefings for Analysts and Institutional Investors	Briefings for analysts and institutional investors are held twice a year after the annual settlement of accounts and the announcement of the second quarter settlement of accounts. We also respond to periodic individual visits and to the visits of analysts and institutional investors.	Yes
Posting of IR Materials on Website	The Company provides financial reports and other timely disclosure materials, securities reports, presentation materials and shareholder newsletters. IR website: <a href="https://www.nicho.co.jp/corporate/ir/">https://www.nicho.co.jp/corporate/ir/</a>	
Establishment of Department and/or Manager in Charge of IR	The Corporate Planning Department is responsible for IR.	
Other	The Company responds individually to its overseas investors, including conducting overseas IR activities as appropriate.	

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In our corporate conduct code, we stipulate that we will hold a constructive dialogue with a wide range of stakeholders surrounding enterprises to improve and enhance the Company's corporate value.
Implementation of Environmental Activities, CSR Activities etc.	Based on our Company's corporate philosophy of maintaining the "True separation of the roles of drug prescribing and dispensing services," we are engaged in spreading the distribution of generic drugs. We feel that it is important to reducing drug costs by promoting the use of generic drugs to reduce the constant annual increase in our national health expenditures. Also, we have donated to the Japan Cancer Society, opened a medicine consultation corner at the Futabamachi evacuation center, hosted a medicine class at elementary school, accepted junior high school students for work experience, implemented Dementia Supporter Activities to teach our employees to become dementia supporters, and are engaged in social contribution activities from the standpoint of medicine and medical experts.
Other	In our Company, the candidates for directors are selected on the basis of their personality, insight and ability, and not merely on the grounds of their gender.

## **IV. Matters Related to the Internal Control System**

### **1. Basic Views on Internal Control System and the Progress of System Development**

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 construct 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 held on May 26, 2006 (the policy was partially revised at the Board of Directors meeting held on June 28, 2016). Based on the Companies Act, the Company's policies for the following 12 issues have now been stipulated:

1. System concerning the preservation and management of information pertaining to the execution of duties by directors
2. Regulations and other systems relating to management of the risk of loss by the Nihon Chouzai Group
3. System for ensuring the efficient execution of duties by the directors of the Group
4. System for ensuring that the execution of duties by the directors and employees of the Group conforms to laws and regulations and the Articles of Incorporation
5. System relating to reporting of matters pertaining to the execution of duties by directors, etc., of subsidiaries to the Company
6. Matters concerning directors and employees who should assist the Audit and Supervisory Committee's duties
7. Matters concerning the independence of directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are members of the Audit and Supervisory Committee), and ensuring the effectiveness of the instructions issued to these directors and employees
8. System for reporting to the Audit and Supervisory Committee by directors (excluding the directors who are members of the Audit and Supervisory Committee) and employees, and system for other reports to the Audit and Supervisory Committee
9. System for directors, auditors, etc. and employees of the Company's subsidiaries or those who received reports from these persons to make a report to the Company's Audit and Supervisory Committee
10. System for ensuring that persons making a report to the Audit and Supervisory Committee do not receive unfair treatment on the grounds of making the said report
11. Procedures for prepayment of expenses or reimbursement of the cost generated in executing the Audit and Supervisory Committee members' duties (limited to the performance of duties of the Audit and Supervisory Committee) and the policy concerning other costs or debts generated in executing said duties
12. The system for ensuring that the Audit and Supervisory Committee's audit will be effectively conducted

### **2. Basic Views on Eliminating Anti-Social Forces**

The Company and the group companies have absolutely no connection with any antisocial forces and organizations that threaten the order and safety of society and stand firm in maintaining a resolute attitude against them.

We have thoroughly informed all of the officers and employees of the Company and of the group companies regarding anti-social forces and organizations, and that, regardless of the nominal reasons presented, or the amounts of money involved, to the effect that the Company will not provide any benefits of any kind to these persons, and that, from the top management down, the Company will never comply with any illegal or unfair demands of any kind.

We have designated the General Affairs Department as the supervisory department in this connection, and in cooperation with relevant administrative agencies, such as the police department, concerned, and specialized agencies such as corporate attorneys, we shall strive to promptly respond to any information we receive in this regard as soon as possible.

**V. Other**

**1. Adoption of Anti-Takeover Measures**

Adoption of Anti-Takeover Measures	Not adopted
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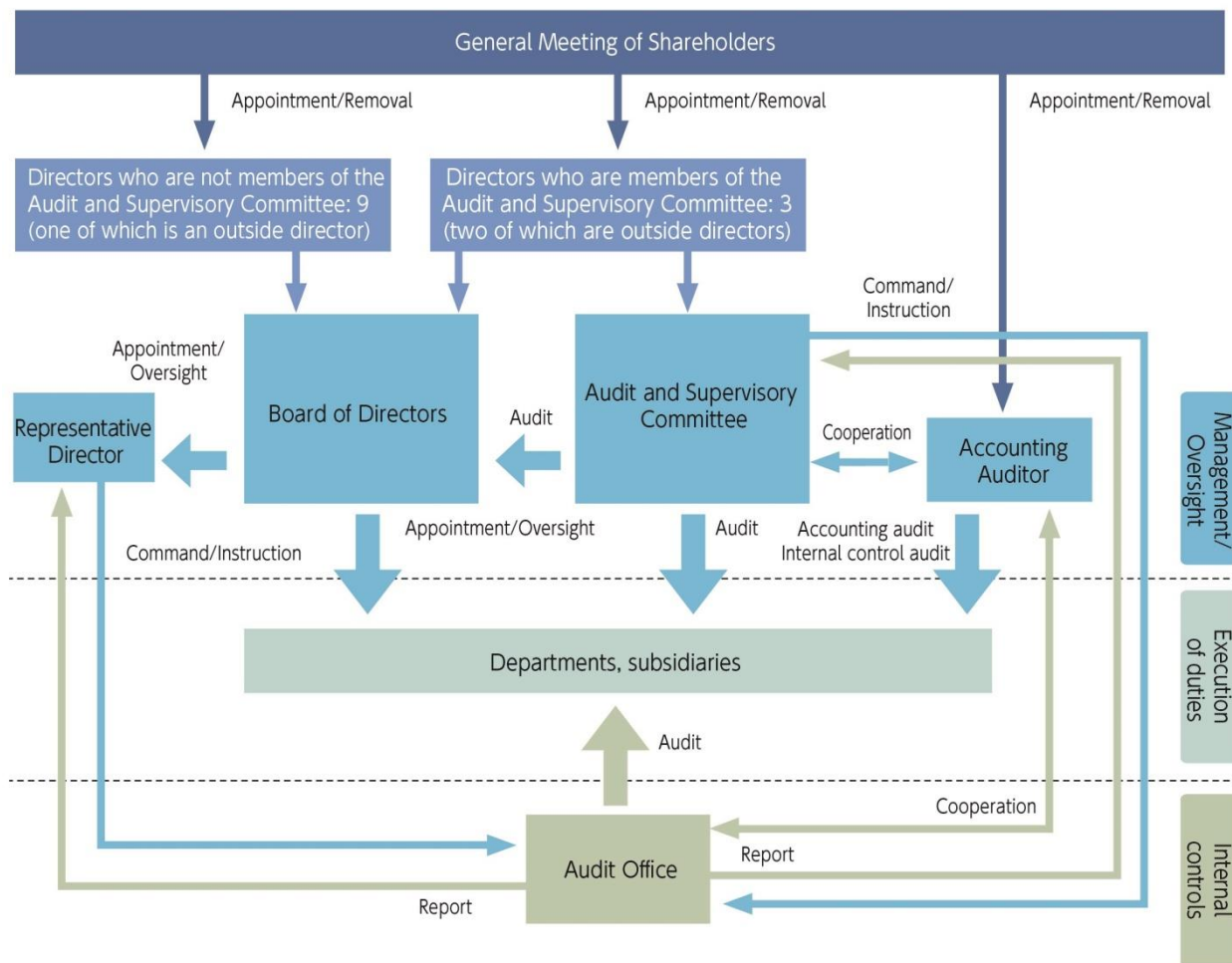
Supplementary Explanation

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**2. Other Matters Concerning Corporate Governance System**

Please refer to the attached document for a schematic diagram of the corporate governance structure and the timely disclosure flow of the Company.

# Attachment: Corporate Governance Structure





**Attachment: Nihon Chouzai Co., Ltd. Timely Disclosure Flowchart**

