

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 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

In June 2016, we transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. The Board of Directors is made up of eight directors (other than 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 Board's role 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.

Current Status of Board of Directors Operation

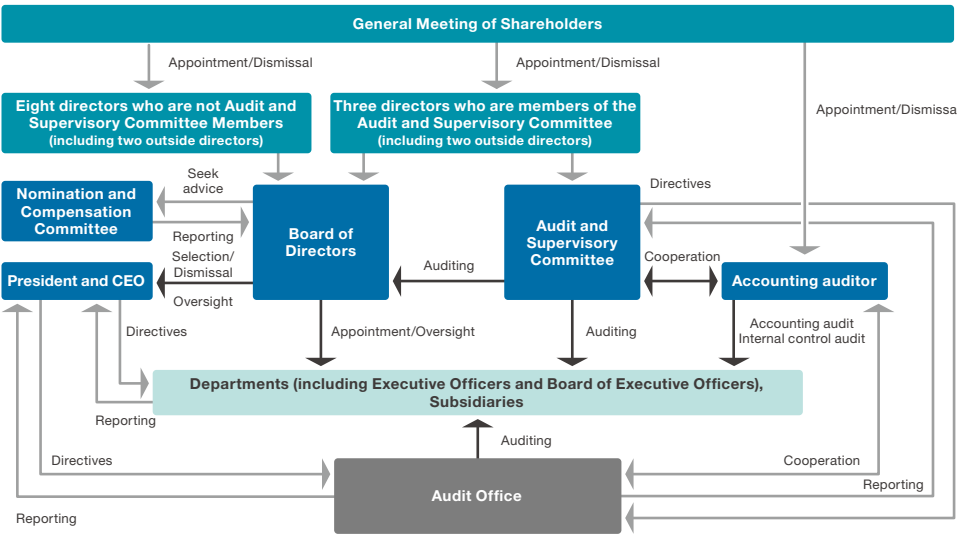
Activities in FY2024

The Board of Directors met 19 times from Monday, April 1, 2024 to Monday, March 31, 2025. 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.

Board of Directors Meetings and Key Topics of Deliberation

Frequency	In principle, once a month or as needed
Related departments	19 (Monday, April 1, 2024– Monday, March 31, 2025)
Key agenda items, resolutions for the Board of Directors in FY2024	<ul style="list-style-type: none">Formulating, releasing the Long-Term Vision 2035 and deciding on basic policies for managementConsolidated and non-consolidated results, financial standing, etc.Pharmacy openings and closings (including acquisitions) in the Dispensing Pharmacy Business and the FY2025 pharmacy opening policy, etc.Decision to relocate head office to pursue better human capital management and reduce SG&A expensesProgress of next-generation dispensing system, budget, etc.Discussion of governance framework in light of engagement reports from institutional investorsFormulation of action plans based on the Act on Promotion of Women's Participation and Advancement in the Workplace and the Act on Advancement of Measures to Support Raising Next-Generation ChildrenSustainability guidelines and policies, TCFD-based disclosure

Corporate Governance Framework (as of June 26, 2025)

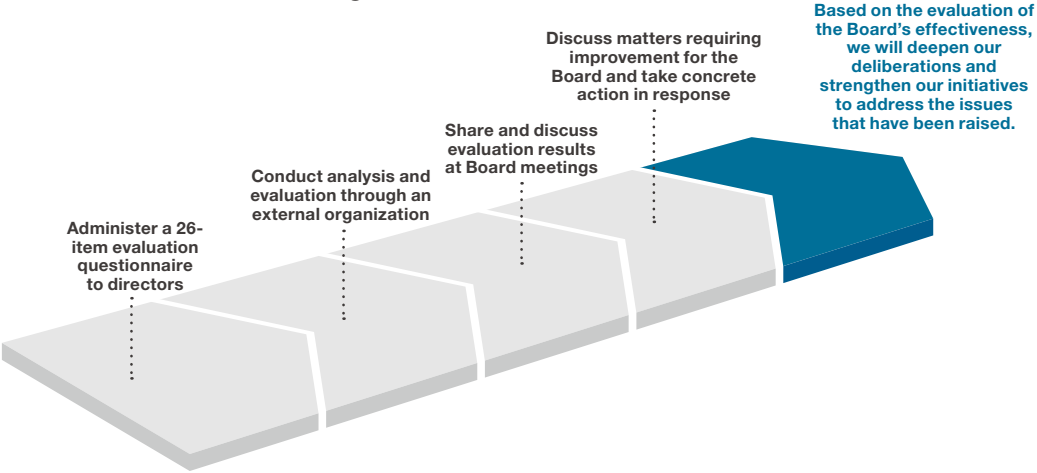


- Policy, Board Overview, Structure
 - Effectiveness Evaluation, Executive Compensation
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Analyzing and Evaluating the Effectiveness of the Board of Directors

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



▶ Initiatives to address identified issues and results of evaluating effectiveness in FY2024

The results of an evaluation carried out in May 2025 confirmed that the effectiveness of the Board of Directors had been generally ensured in FY2024.

We took steps in FY2024 to address issues identified in light of the results of the previous year's evaluation. We also continue discussions that began in FY2023 with a view to formulating the new long-term vision announced in September 2024. In Board meetings and other venues, we discussed and considered issues from multiple perspectives, including strategies and performance targets. Moreover, we continued to monitor the progress of ongoing efforts to ensure diversity among core human resources. These efforts yielded improvements in the areas of considering strategies from multiple perspectives and ensuring diverse core human resources, although these are recognized as still having outstanding issues.

On the other hand, some issues, including deliberations on management strategies and succession planning, are recognized as requiring an ongoing response. We will continue to take steps to make improvements on these issues.

▶ Future Initiatives Based on Issues Identified

01

Securing more time for deliberations and considering strategies from multiple perspectives

We introduced an executive officer system in April 2022 to separate management decision-making and supervisory functions from business execution functions and to increase management agility. We are delegating greater authority to the executive side by clarifying the division of roles between the Board of Directors and the Board of Executive Officers and by revising the criteria for submitting agenda items from the perspective of the division of oversight and execution functions. In addition, steps such as classifying reports in view of the role of the Board of Directors frees up more time for discussion on longer-term themes at Board meetings.

We are also providing regular opportunities for discussions among executives in venues outside Board meetings that focus more narrowly on longer-term strategies and issues. This allows us to continue to secure time for deliberations and achieve more in-depth discussions.

02

Enhanced discussions about the business portfolio and other matters affecting the entire Group

The evaluation indicated that discussions regarding the business portfolio, including new businesses investment, measures to strengthen and revise existing businesses, and business strategies affecting the Group as a whole have been insufficient, and that there are issues regarding the role of the Group head office. We are taking the review of the long-term vision as an opportunity to move forward with more robust discussions among executives regarding the ideal business portfolio, one that takes into account business growth and capital efficiency, as well as regarding investment strategies. We are striving to secure time for discussions among executives at Board meetings and in other venues, while also enhancing information shared prior to meetings to be able to engage in more in-depth discussions on the business portfolio and other matters.

03

Succession planning initiatives for executives

We view succession planning for senior management as a key management issue and are continually working to improve its effectiveness. The executive side reports regularly to the Nomination and Compensation Committee on the formulation of succession plans and the status of initiatives, and the committee thoroughly deliberates on these matters. In this way, we will build an objective and transparent process for considering candidates, systematically cultivate capable personnel to take on future management responsibilities, and achieve sustainable corporate growth.

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Executive Compensation System

Basic Policy

- We will secure and retain outstanding personnel who can act to realize the Group philosophy, motivating them to adequately carry out the roles expected of them to sustainably enhance corporate and shareholder value.
- Acknowledging that we should be fully accountable to shareholders and other stakeholders, we will prepare 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 proportion 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.

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 profit and the evaluations of individual executive officers

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.

Total Director Compensation

Total compensation by type (Millions of yen)					
Executive category	Total compensation (Millions of yen)	Fixed compensation	Executive bonuses	Stock-based compensation costs (Board Incentive Plan Trust)	Number of eligible officers
Director (excluding Audit and Supervisory Committee members and outside directors)	199	158	26	13	7
Audit and Supervisory Committee members (excluding outside directors)	14	14	-	-	1
Outside Director	34	34	-	-	5
Total	248	207	26	13	13

1. The amounts of director compensation do not include the employee salaries of directors who also serve as employees.
2. The company has introduced a stock-based compensation plan (Board Incentive Plan Trust). Regarding stock compensation, amounts recorded as expenses during the fiscal year in respect of the Board Incentive Plan Trust for executives are shown.
3. In conjunction with its delisting, the company has resolved to discontinue the equity compensation plan (Board Incentive Plan Trust) that was in effect during the period covered by this integrated report.

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.

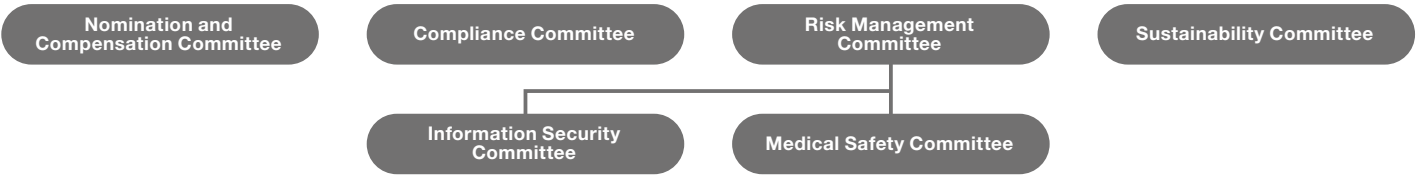
		Number of issues	Shares other than unlisted shares
FY2023	Number of issues	1	-
	Amount* (millions of yen)	13	-
FY2024	Number of issues	1	-
	Amount* (millions of yen)	13	-

*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	Implementation
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.	General Affairs Department, Human Resources Department	Held six times in FY2024 (April 2024–March 2025). 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 and enhances social credibility 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, Group Corporate Planning Department, Pharmaceutical Administration Department, Quality Control Department, Audit Office.	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. Group companies 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, Group Corporate Planning Department, Pharmaceutical Administration Department, Quality Control Department, Audit Office.	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. Group companies 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, 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, Group Corporate Planning Department, Group companies	Held three times in FY2024 (April 2024–March 2025). Oversees and evaluates the progress of initiatives to address material issues the Group has identified, integrates sustainability concepts into corporate and business strategies, considers actions aimed at fostering sustainability, ensures compliance with international guidelines, and discusses participation in global initiatives, reporting to the Board as needed.

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Risk Management

Risk Management Framework

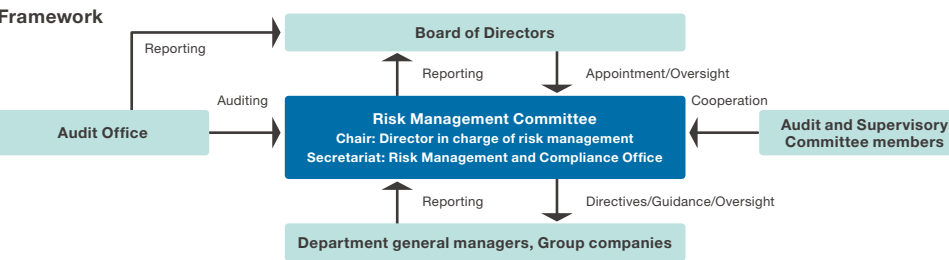
The Group has established a Risk Management Committee, which serves as an advisory and executive body to the Board of Directors, as the core of its risk management framework. Chaired by the director in charge of risk management, the committee is tasked with setting and overseeing the implementation of policies regarding the establishment and operation of a comprehensive risk management framework for the Group, emergency responses, measures to address emerging risks, and risk-related education and training. In identifying material risks, we look first at all the operating domains of the Group and comprehensively ascertain any event that could damage the Group's earnings or reputation. We consider a variety of factors in ascertaining potential risks, including issues arising from human error or technology, natural disasters, and criminal activity, in addition to risks related to compliance and social responsibility. The Risk Management Committee continuously monitors the status of the material risks that have been identified and the responses of various departments, thereby pursuing effective risk management across the Group.

Operation of the Risk Management Committee

In principle, the Risk Management Committee meets once every three months. The various Group companies also operate similar committees, and the Group works together to reinforce the integrated risk management framework.

Nihon Chouzai's Risk Management Committee

Meeting frequency of the Risk Management Committee	In principle, once every three months
Meetings held	4 (April 1, 2024–March 31, 2025)
Key agenda items for the Risk Management Committee in FY2024	<ul style="list-style-type: none">Business continuity and disaster preparednessBusiness continuity response (damage caused by Kyushu earthquake and Typhoon No. 10)Information security initiativesFY2024 accounting auditDecision on applying Accounting Standard for Lease Transactions



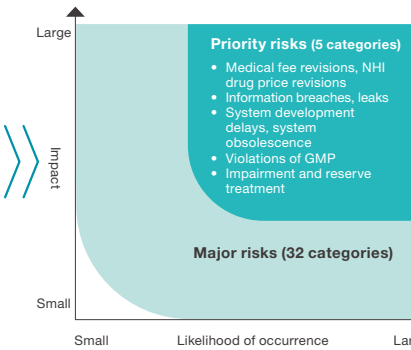
Major Risks and Responses

Major risks	Description of risk	Response
Changes to the healthcare system	Revisions to NHI drug prices and dispensing fees, changes in healthcare delivery framework	Gather and analyze information, revise cost structures, seek to obtain dispensing fee premiums, create new services and functions
Goodwill, fixed assets	Impairment losses on goodwill and fixed assets, obsolescence of assets	Screen investment plans, reinforce due diligence, optimize pharmacies (assets)
Safety of dispensing work, quality of medications, side effects	Compensation payments due to dispensing errors, reputational damage, and product recalls and sales suspensions caused by unknown side effects or quality issues	Comply with operating procedures, conduct training, cultivate highly specialized pharmacists, implement multifaceted measures such as introducing a system of checks, strengthen and expand manufacturing and quality control framework based on Good Manufacturing Practices (GMP)
Laws, regulations	Revisions to the Pharmaceuticals and Medical Devices Act and other laws (changes to standards for business activities and facilities that may incur new costs and place restrictions on business operations), revisions to the Health Insurance Act (impact on fee calculation standards and co-payments), and revisions to the Personal Information Protection Act (new burdens stemming from reinforcement of the information management framework, response to information leaks, etc.)	Strengthen the legal and compliance framework, establish and disseminate internal rules, strengthen internal audit and risk management framework
Information systems, information security, management of personal information	Breaches of confidential or personal information due to cyberattacks, loss or theft of mobile devices, system trouble or downtime, vulnerabilities in cloud services	Establish regulations, strengthen incident detection and response capabilities, strengthen information security measures and implement stricter access privileges, conduct security education for employees, introduce a personal information protection management system
Securing human resources	Difficulty in securing necessary personnel due to mounting competition over talent and human capital flight, rising recruitment costs and turnover, aging employees and lack of successors	Diversify recruitment strategies and capitalize on diverse talent, improve working environments, enhance education and training systems, boost work efficiency and pursue digital transformation
Supply chain	Unstable drug supplies, disruptions to logistics networks, occurrence of quality issues, price fluctuations stemming from surging raw materials costs	Purchase from multiple manufacturers, properly manage inventory, strengthen the quality control framework, share information and strengthen collaboration
Interest rate fluctuations, raw materials markets	Higher interest payments due to rising interest rates on loans Higher manufacturing costs due to surging costs of raw materials and energy	Optimize debt, shore up the financial position, strengthen price negotiation capabilities with suppliers, diversify the earnings structure
Climate change	Higher operating costs due to introduction of carbon taxes and emissions trading systems, etc.; rising costs due to regulations on raw materials and changes in the supply-demand balance; surging transportation and electricity costs; damage to bases and disruptions to logistics networks; spread of infectious diseases	Identify physical and secondary risks and opportunities, assess and consider their degree of impact and response measures, implement response measures at each stage of the supply chain
Large-scale disasters, spread of infectious diseases	Business interruptions, employee health and safety, reputational damage, requests and regulations from governments and local governments, etc., such as restrictions on activities	Formulate business continuity plans and conduct training, diversify the supply chain and stockpile drugs, pursue rigorous hygiene management, develop a framework for providing services remotely, collaborate with public institutions
Transforming the business model through technological innovation	Emergence of competitors, delayed response to digital technologies, changing patient needs, delayed response to increasingly advanced and diverse specialization	Pursue digital transformation, leverage AI, strengthen the functions of family pharmacies, develop new services, collaborate with other industries and organizations
Litigation, patents and intellectual property	Infringement of copyrights, trademarks, and patents, inadequate protection of Group intellectual property	Conduct thorough preliminary research; obtain copyrights, trademarks, and patents; protect intellectual property through contracts; educate employees; collaborate with experts

Risk Map

Major risks

Management	Response to corporate governance
Pharmacy operations	Revision of medical fees and NHI drug prices, responses to disasters and pandemics, etc.
Systems	Information breaches and leaks, system trouble or downtime, cyberattacks, virus damage, system development delays, system obsolescence, etc.
Human resources, labor	Improper conduct and harassment, serious fraud and harassment Difficulty in managing working hours and securing talent, human capital flight, etc.
Legal affairs	Enactment and revision of laws, response to deregulation, etc.
Finance, accounting	Interest rate fluctuations, introduction of lease accounting, impairment and reserve treatment, etc.
Compliance	Insider trading, bribery, anti-social forces, criminal activity and accidents, violations of laws and regulations, violations of GMP
Sustainability	Human rights risks, CO ₂ reductions
Operating environment	Inflation, deflation, and exchange rate fluctuations



Compliance

Nihon Chouzai Group Ethical Conduct Guideline

The Nihon Chouzai Group has formulated ethical guidelines to ensure that all directors, executive officers, and employees working in the Group strive for the growth of every employee and the sustainable development of the Group, while putting into practice standards to be observed in daily business activities to become a company that is trusted by patients and other stakeholders.

Nihon Chouzai Group Ethical Conduct Guideline

https://www.nicho.co.jp/files/Ethical_Conduct_Guideline_en.pdf

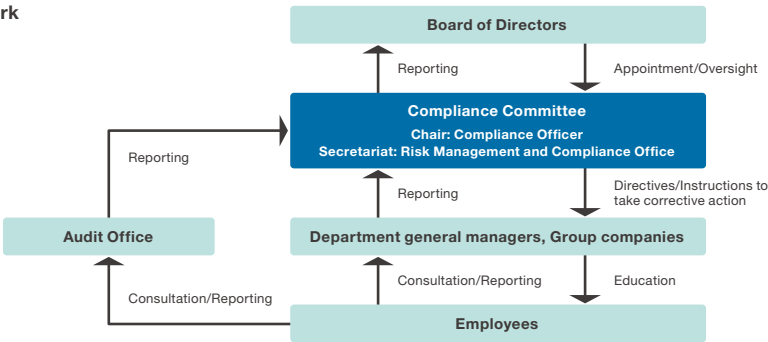
Operation of the Compliance Committee

In principle, the Compliance Committee meets once every three months, and met a total of four times in FY2024 (April 1, 2024–March 31, 2025). The committee also holds meetings at various Group companies, working to ensure rigorous compliance across the Group and to maintain and deepen the trust of society.

Nihon Chouzai's Compliance Committee

Meeting frequency of the Compliance Committee Meetings	In principle, once every three months
Meetings held	4 (April 1, 2024–March 31, 2025)
Key agenda items for the Compliance Committee in FY2024	<ul style="list-style-type: none">Optimization of insurance claimsProtection of personal informationResponse to harassment, management of working hoursOperation of the internal reporting systemMonitoring, responding to social media

Framework



Establishing an Internal Reporting System

We have established an internal reporting system to ensure the early detection and correction of compliance violations. The system is made available to all Group employees, including contract and temporary employees, as well as former employees who have left the Group within the past year. Furthermore, to build fair relationships with our business partners, we have set up a Business Partner Hotline. Both reporting systems ensure the anonymity of those who report and impose strict obligations on all involved parties to maintain confidentiality, and reporting policies are regularly communicated to the entire Group.

	Reporting system	Type of consultation
In-house reporting	Nihon Chouzai Hotline (pharmacy operations)	Pointing out or reporting any actions that violate laws, regulations, internal rules, or the Group code of conduct
	Nihon Chouzai Hotline (non-pharmacy operations)	Pointing out or reporting any actions that violate laws, regulations, internal rules, or the Group code of conduct
	Nihon Chouzai Group Harassment Hotline	Consultation desk for workplace concerns such as sexual harassment, abuses of power, harassment related to childbirth and childcare for male and female employees, etc.
	Nihon Chouzai Group Health Consultation Hotline	Health consultation service Mental health counseling service (by telephone, face-to-face, online)
External reporting	Reporting hotline with attorney	Pointing out or reporting any actions that violate laws, regulations, internal rules, or the Group code of conduct
	Business Partner Hotline	Providing information regarding actions that violate (or may violate) laws, regulations, the Ethical Conduct Guideline, or the basic procurement policy

Education and Training

The Group provides all employees with ongoing education and training with the aim of thoroughly preventing corruption and reinforcing compliance. In addition to training for all staff, we aim to make each employee more aware of compliance by providing an array of educational opportunities tailored to different employee groups, such as training for specific job positions and for new employees.

	Training	Target
Group-wide	Nihon Chouzai Group compliance training	All Group company employees
	Insider trading training	All Group company employees
	Information security training	All Group company employees
Dispensing Pharmacy Business	Information security training for new employees	New employees
	Medical safety training	All pharmacy staff
	Training on proper handling of narcotics	All pharmacists at pharmacies
	Training to prevent harassment by customers	All pharmacy staff
	PrivacyMark Training	All employees
Pharmaceutical Manufacturing and Sales Business	Nihon Generic compliance training	All employees in the Pharmaceutical Manufacturing and Sales Business
	GMP training	Manufacturing department employees
	New employee orientation	New employees
Medical Professional Staffing and Placement Business	Job placement staff training course	All employees involved in job placement
	Master training on industry regulations	All staff engaged in staffing and job placement businesses
	Business audit trainees	Recruiters with more than one year in the Group

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Manufacturing Management Deficiencies at Choseido Pharmaceutical's Kawauchi Plant

Concerning the Kawauchi Plant

In FY2024, Choseido Pharmaceutical was in the process of implementing a business improvement plan in response to a business improvement order issued by Tokushima Prefecture in October 2021 for violations of the Pharmaceuticals and Medical Devices Act. However, it was determined that improvement efforts at the Kawauchi Plant were inadequate, and that the plant had not properly carried out manufacturing and quality control operations in accordance with the government's Good Manufacturing Practice (GMP) ordinance. The plant was thus subjected to administrative disciplinary action for a second time in March 2025, including a directive to suspend operations, for violations of the Pharmaceuticals and Medical Devices Act.

We offer our heartfelt apologies to all of our stakeholders, including patients and their families and healthcare professionals, for the concern and inconvenience caused by this matter.

We take this administrative action very seriously, and have conducted a thorough investigation into the causes of the inappropriate conduct. Based on these findings, and with top priority on preventing recurrence of quality issues and restoring trust, we drafted a business improvement plan in April 2025 to correct the problems identified and prevent recurrence, and submitted the plan to Tokushima Prefecture.

We will steadily put the measures spelled out in the business improvement plan in place and work together across the Group to prevent recurrence and restore trust.

Details of the plan can be found at the links below (Japanese only) ▼

Regarding Inappropriate Manufacturing Practices at the Kawauchi Plant and the Strengthening of Business Improvement Measures
<https://www.choseido.com/news/pdf/240524.pdf>

Administrative Disciplinary Action Based on the Pharmaceuticals and Medical Devices Act
<https://www.choseido.com/news/pdf/250327.pdf>

About the Submission of the Business Improvement Plan
https://www.choseido.com/news/pdf/250425_01.pdf

Overview of the Business Improvement Plan

- 1 Building a legal compliance framework and fostering a quality culture at the Kawauchi Plant
 - Establish an organizational framework that stresses quality and compliance with standards
 - Implement highly effective education and training and foster a culture that encourages the self-development of employees
 - Clarify the roles of each department and ensure cooperation between departments (foster a culture of openness)
- 2 Changes to the GMP framework at the Kawauchi Plant
 - Revisit plant manager and manufacturing management leader assignments
 - Reinforce the functions of the quality assurance department
 - Establish on-site quality assurance and step-up the monitoring of manufacturing management
- 3 Initiatives to prevent recurrence of quality issues at the Kawauchi Plant
 - Maintain consistency between procedures and approvals and actual conditions at the plant
 - Enhance manufacturing management functions
 - Establish a framework for ongoing review to resolve quality issues
 - Strengthen audits and supervision, strengthen HR functions
- 4 Company-wide initiatives
 - Enhance functions related to internal reporting, systems
 - Rigorously implement effective management reviews
 - Carry out appropriate production planning



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Message from
an Outside
Director

Tomomi Nakano Outside Director (Audit and Supervisory Committee Member)

Monitoring progress in management issues and supporting the enhancement of corporate value

An outside director talks about the growth and future of the Nihon Chouzai Group

... Role as an Audit and Supervisory Committee Member

After gaining practical experience at a bank, I got certified as a public accountant and did corporate auditing for 15 years with an auditing firm. Then I went on to set up my own accounting firm, and have provided financial and accounting support to various companies. Having this experience, I was appointed as an outside director (Audit and Supervisory Committee member) of Nihon Chouzai Co., Ltd. in June 2024. Having struggled with illness as a child, I had lots of opportunities to come into contact with medical care, and have always had an interest in the medical and healthcare fields. For this reason, the mission of the Nihon Chouzai Group of giving people the closest possible support really resonates with me personally.

My role as an Audit and Supervisory Committee member is to supervise directors in the performance of their duties. I am intentional about drawing on my expertise as a CPA to offer advice that helps to enhance corporate value. I also recognize that I have the important responsibility to offer advice and recommendations from an objective standpoint, so as not to undermine the interests of shareholders.

... Nihon Chouzai Group's Strengths and Growth Potential

In the year since I assumed this role, through discussions at Board of Directors meetings and dialogue with employees, what once again struck me is that the Nihon Chouzai Group's greatest strength is its people. The high level of expertise of Group pharmacists and other employees, their sincere commitment to coming alongside patients, and their unwavering ethical standards as healthcare professionals are strengths that competitors would find hard to match. These are indispensable assets that will support the growth of the Group going forward. In particular, the Group is actively engaged in dispensing the kind of specialty drugs that other companies find difficult to handle. To maintain and further cultivate this high level of expertise and unique knowledge, the Group is investing unsparingly in personnel training and providing employees with abundant opportunities for growth. An appealing working environment that allows employees to hone their expertise and develop their careers has established Nihon Chouzai as a popular employer. This gives rise to a virtuous cycle that attracts even more talented people. Another major strength of the Group is a business portfolio that covers a wide range of healthcare fields, starting with the Dispensing Pharmacy Business and extending to the manufacturing and sales of generic drugs and the staffing and placement of medical professionals.

On the flip side, the Group is also facing challenges. First is the need to boost work efficiency at pharmacies. While bearing in mind that the industry is characterized by significant manual labor, the Group has to promote digitalization through the use of AI and roll out dispensing robots on a broader scale, creating environments in which pharmacists can concentrate on patient-centered work. Second is the need to address industry-wide restructuring. As competition in the pharmacy industry intensifies, my sense is that strategic initiatives, including M&A activities, are essential. I

think Nihon Chouzai is being called on to take the lead here and play a central role in restructuring the industry. The third issue is returning the manufacturing management framework at Choseido Pharmaceutical to normal as soon as possible. Restructuring that stresses quality control and a stable supply is a top priority that needs to be tackled right away to restore trust across the Group.

... Ensuring the Effectiveness of the Board of Directors and the Process of Choosing a New President

The Board of Directors keeps tabs on progress in the businesses through monthly performance reports. Areas that we are monitoring in particular include the pharmacy network strategy of the Dispensing Pharmacy Business, such as reviewing unprofitable pharmacies and opening pharmacies in profitable locations; the activities of At-Home Medical Care Support Centers; and the profit results of mainstay drugs in the Pharmaceutical Manufacturing and Sales Business. The Pharmaceutical Manufacturing and Sales Business in particular is currently seeking to make a strategic shift, from being a manufacturer of a full lineup of generic drugs to narrowing down the range of drugs it makes. Directors are constantly mindful of progress with this shift. In this context, in managing Board meetings, the company has worked to create conditions to ensure that outside directors can take part in discussions based on adequate information, providing materials in advance in a timely manner. It has also created opportunities outside Board meetings to provide detailed explanations of the Long-Term Vision 2035 announced in September 2024, as well as venues for outside directors to exchange opinions, which allowed for more in-depth dialogue.

The decision to appoint a new President in June 2025 was also made according to an appropriate process, following discussions with the Nomination and Compensation Committee. The new President, Kazunori Ogi, had been focusing on addressing manufacturing issues at Choseido Pharmaceutical. Given his experience in that regard, my assessment is that the timing of his appointment was appropriate. I look forward to seeing him capitalize on his skills as a leader who will drive new growth for the Group.

... Decision to Delist to Enhance Corporate Value

Long-Term Vision 2035 prioritizes enhancing profitability and securing growth potential. To achieve this vision, the Group has to expeditiously address the factors that are hindering profitability and steadily take steps to boost profitability. The most important foundation to support this strategy is human capital. Recognizing the need to take full advantage of its strengths in being able to secure outstanding talent, the Group is actively promoting young executive officers and providing them with opportunities to gain a variety of experience. In recent years, the Group has been notable for promoting women to department head positions, and I look forward to seeing more women taking on managerial roles going forward. I think diversifying decision-making in this way is essential to realizing the long-term vision. To put a framework in place for swiftly implementing these kinds of longer-term measures, the



Message from an Outside Director

Board made its most critical management decision this year: to delist the company. In coming to this decision, the Group set up a special committee whose top priorities were to consider ways of enhancing corporate value and protecting minority shareholders. The committee held thorough, repeated discussions, informed by the specialized advice of financial and legal advisors. After exploring the issues carefully through a fair and transparent process, the Group chose Advantage Partners and LYFE Capital to be its partners following the delisting. I'm confident that the decision was based not simply on the scale of the acquisition price offered, but also on the fact that the two companies were seen as partners who value employees and can work together to continue enhancing the corporate value of the Nihon Chouzai Group.

... Expectations Going Forward and a Word to Stakeholders

Stakeholders may have been taken aback by the sudden announcement of the company's delisting. However, the move will enable management to make decisions from a longer-term perspective, without being exposed to short-term fluctuations in stock prices. Nihon Chouzai can also capitalize on the knowledge its new partners have in terms of enhancing corporate value and as well as on their global healthcare network. I anticipate that this will enable the Group to move forward to the next stage of growth and realize its long-term vision.

My hope is that all employees will also take a forward-looking approach to this transformation, and bring the expertise and pride they have built up to date to bear on their daily work. The foundation for enhancing corporate value lies in the expertise of employees and their dedication to their work. I'm convinced that a business is underpinned by each and every employee, and that the value of such employees should never be underestimated.

Together with its new partners, the Nihon Chouzai Group will make further strides in carrying out its mission of giving people the closest possible support as it aims for further growth. I ask all of the company's stakeholders for their continued support.

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Board of Directors (as of October 1, 2025)



Hiroshi Mitsuvara Chairman and Representative Director

Mitsuvara is the founder of the Nihon Chouzai Group. As President and CEO of Nihon Chouzai, he promoted the company's founding philosophy of "achieving the true separation of drug prescribing and dispensing services." He also established Group companies Medical Resources, Nihon Generic, and Japan Medical Research Institute, spearheading the growth of the Nihon Chouzai Group. He became Chairman and Representative Director in June 2024.



Kazunori Ogi President and CEO

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. He became President and CEO in June 2025. From a group-wide perspective, he leads the identification of management issues across all group companies and the formulation of management strategies to address them. Since October 2021, he has also served as Director of Nihon Generic Co., Ltd., concurrently serving as Director of Choseido Pharmaceutical Co., Ltd. from May 2025 and Director of Medical Resources Co., Ltd. from June 2025.



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. Koyanagi is in charge of the Dispensing Pharmacy Business and responsible for drug-related operations, overall systems, and branch management. With a wealth of experience in pharmacy management and thorough knowledge of medical administration, he contributes to the expansion of the Dispensing Pharmacy Business by taking the lead in addressing changes in the operating environment, including medical service fee revisions.



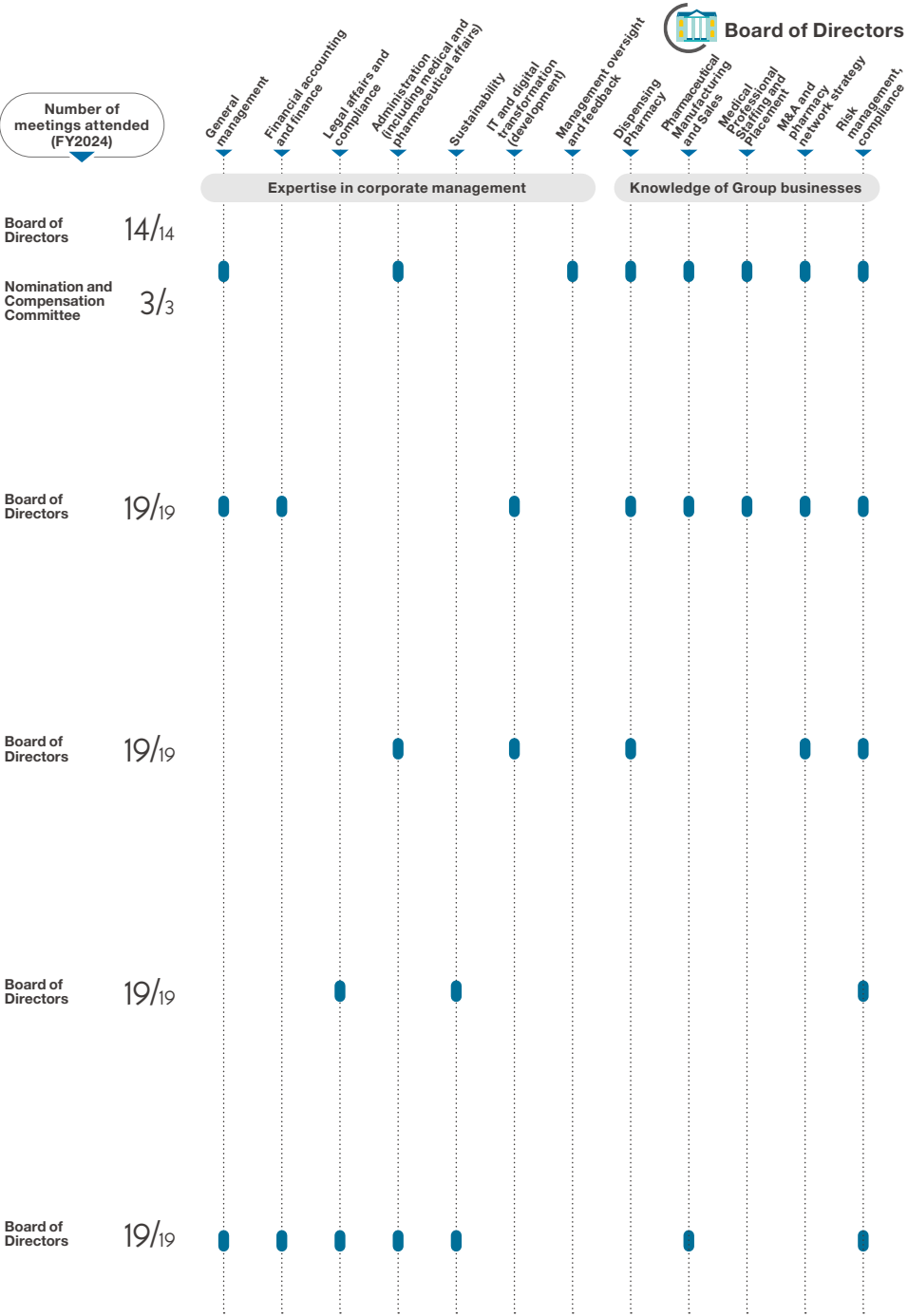
Yoshihisa Fujimoto Director and Senior Executive Officer

Fujimoto is in charge of general affairs, human resources, recruitment for the pharmacy business, the insurance services business, risk management, and compliance, and serves as Chief Information 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.



Masahiro Inoue Director

Before joining Nihon Generic, Inoue served as branch manager and area branch manager for Sumitomo Mitsui Banking. Since joining the 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. He has overseen the Pharmaceutical Manufacturing and Sales Business as President and CEO of Nihon Generic Co., Ltd. since June 2022, and as President and CEO of Choseido Pharmaceutical Co., Ltd. since May 2025.



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Yoshimitsu Onji

Outside Director Outside Independent

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.



Mikiharu Noma

Outside Director Outside Independent

As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. He is also well-versed in building corporate value, investor engagement, ESG and human capital management.



Nobuyuki Hatakeyama

Director

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.



Shio Harada

Outside Director Outside Independent

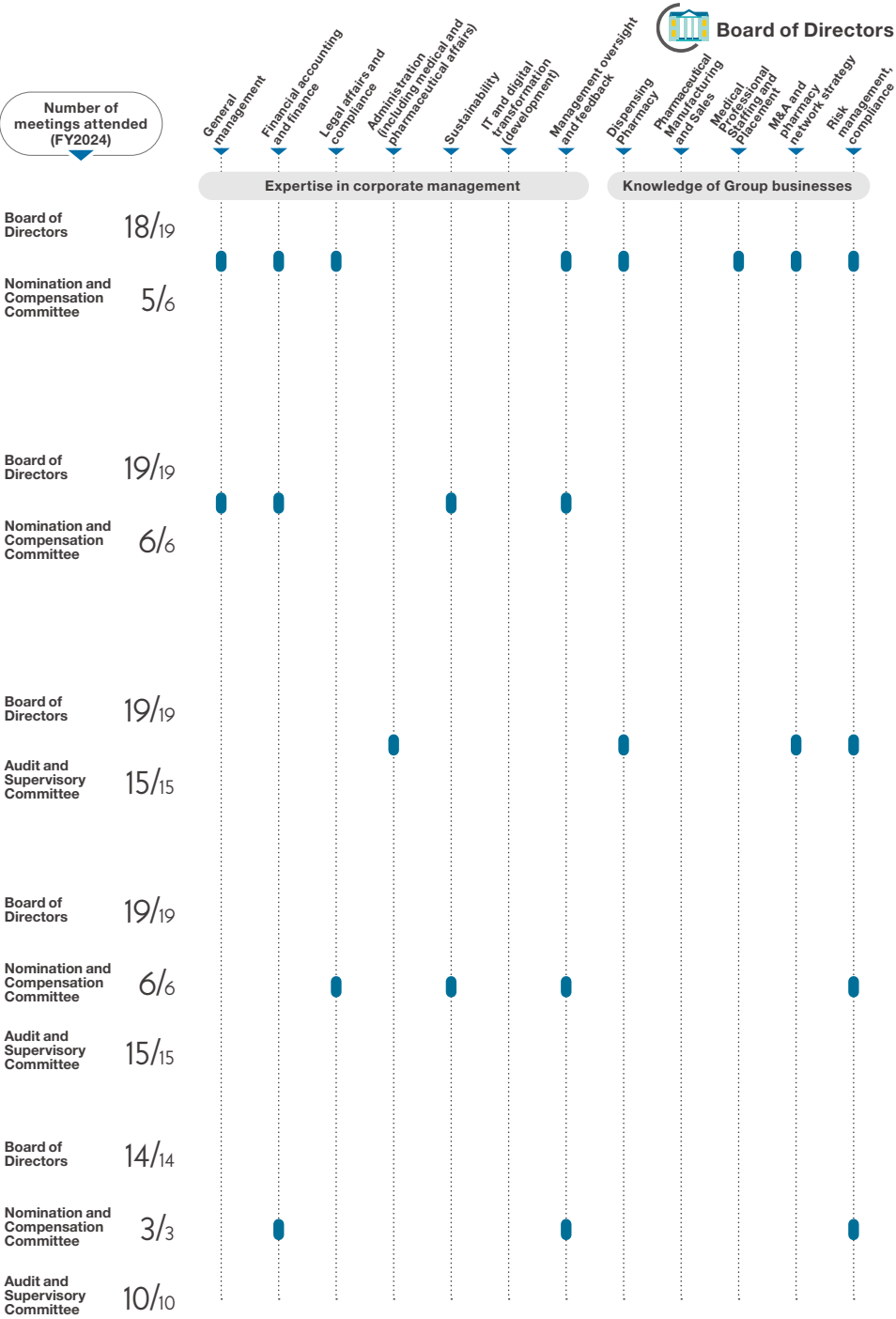
Attorney. Harada has a wealth of experience and insight regarding legal affairs as a whole, including as a lecturer in the area of civil affairs at the Legal Research and Training Institute. In addition to serving as outside director of another listed company, she has extensive knowledge of sustainability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



Tomomi Nakano

Outside Director Outside Independent

Nakano is a certified public accountant and tax accountant. She has been engaged in audit work at an auditing firm for 14 years, and has been involved in statutory audit work for listed companies, large companies under the Companies Act, and educational institutions. She has also served as a director and auditor for a charitable corporation, as an auditor for a regional bank, as an outside director for a company listed on the Tokyo Stock Exchange Prime Market, and as an auditor for an independent administrative agency.



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