

Governance That Supports Value Creation

Nihon Chouzai's Concept of Corporate Governance

1

Improving management transparency and clarifying

2

Speedy decision-making

3

Strengthening management oversight functions

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. 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.

Current Status of Board of Directors Operation

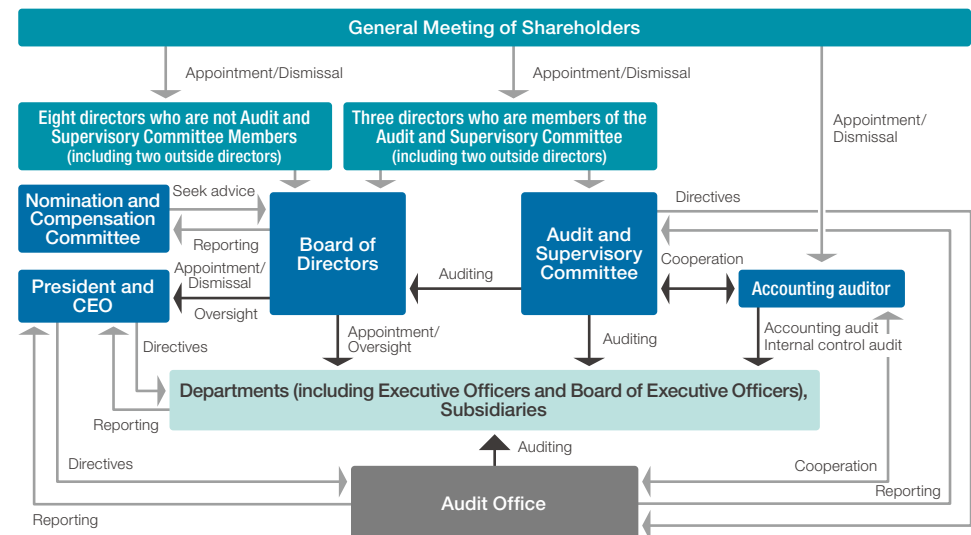
Activities in 2023

The Board of Directors met 14 times from April 1, 2023 to March 31, 2024. 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
Meetings Held	14 (April 1, 2023– March 31, 2024)
Key agenda items and resolutions for the Board of Directors for FY2023	<ul style="list-style-type: none"> Decision to begin exploring revisions to long-term vision and announce medium-term management plan Consolidated and non-consolidated results, financial standing, etc. Pharmacy openings and closings (including acquisitions) in Dispensing Pharmacy Business, response to fee revisions Decision to relocate head office to pursue better human capital management and reduce SG&A expenses Progress of next-generation dispensing system, budget, etc. Discussion of governance framework based on engagement reports from institutional investors Start of new personnel system at Nihon Chouzai Revision of sustainability guidelines and policies, TCFD-based disclosure

Corporate Governance Framework (as of June 25, 2024)

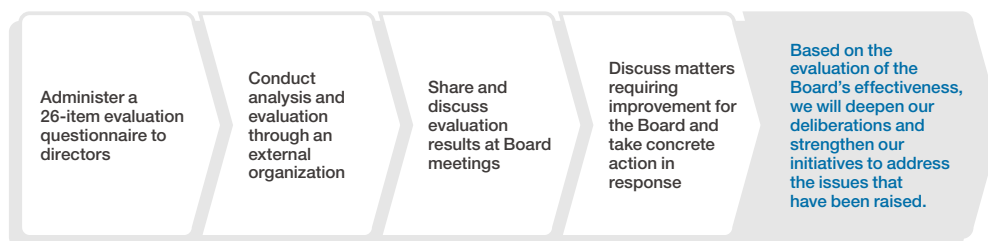


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Analyzing and Evaluating the Effectiveness of the Board of Directors

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 evaluating effectiveness in FY2023

The results of an evaluation carried out in May 2024 confirmed that the effectiveness of the Board of Directors has been generally ensured in FY2023.

We took steps in FY2023 to address issues identified through the results of the previous year's evaluation. Discussions during the year focused in particular on the formulation of the new long-term vision, announced in September 2024. In the Board of Directors and other forums, we discussed and considered issues from multiple perspectives, including strategies and performance targets. Moreover, given the importance of bringing diverse perspectives and values into management and among our core personnel, we pursued measures to raise the ratio of female managers, among other initiatives, guided by our action plan. These efforts yielded improvements in the areas of ensuring diversity among core personnel and considering strategy from multiple angles, although these are still recognized as having outstanding issues.

On the other hand, some issues, including securing more time for deliberations and succession planning, are recognized as requiring an ongoing response. 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.

We also expanded opportunities for discussions at the management level beyond Board meetings, particularly around longer-term strategies and issues, and are working to secure more time for deliberations and achieve more in-depth discussions. Efforts to secure more time for deliberations in FY2023 involved holding meetings and retreats targeting executive officers, primarily aimed at formulating the new long-term vision and medium-term roadmap.

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 Consideration of management and the business portfolio with an awareness of the cost of capital, more in-depth discussions from a Group perspective

Some respondents pointed out a lack of adequate discussion around business strategies that take into account the cost of capital and stock prices. Others noted that, while there is in-depth discussion about the core pharmacy business, discussions about the Group as a whole, including business portfolio strategies, are insufficient. Some also recognized issues with the role that the Group head office plays. Taking advantage of opportunities afforded by the revision of the long-term vision, we are currently holding discussions at the management level regarding topics such as a business portfolio that takes capital efficiency into account and investment strategies. We will continue striving to secure time for executive discussions and reinforce our monitoring of progress.

Governance That Supports Value Creation

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.

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

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.

Total director compensation

Executive category	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			Number of eligible officers
		Fixed compensation	Executive bonuses	Stock-based compensation (Board Incentive Plan Trust)	
Directors (excluding Audit and Supervisory Committee members and outside directors)	209	165	31	12	8
Audit and Supervisory Committee members (excluding outside directors)	14	14	-	-	1
Outside Director	34	34	-	-	4
Total	258	213	31	12	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.

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
FY2022	Number of issues	1	-
	Amount* (millions of yen)	13	-
FY2023	Number of issues	1	-
	Amount* (millions of yen)	13	-

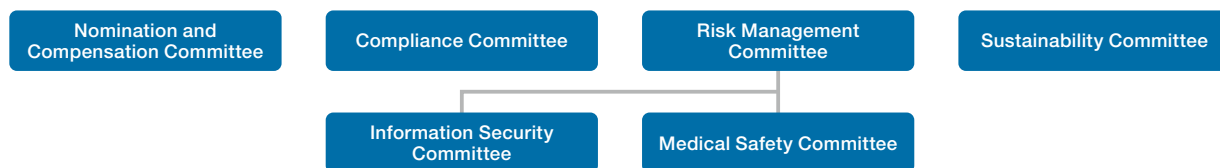
*Aggregate amount recorded on the balance sheet

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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.	General Affairs Department, Human Resources Department	Held three times in FY2023 (April 2023–March 2024). 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, 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.	Group Corporate Planning Department, General Affairs Department, Sustainability Supervision Office, Group companies	Held three times in FY2023 (April 2023–March 2024). Supervises and evaluates the progress of initiatives to address the material issues the Group has identified, builds these issues into corporate and business strategies, ensures compliance with international guidelines, and engages in discussions on participation in global initiatives, reporting to the Board as needed.