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Base that supports Nihon Chouzai

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ESG Management

At Nihon Chouzai, we are strengthening various initiatives directed at the Environment, Social, and Governance (ESG). In recent years, we have actively supported a variety of workstyles, realizing that people that support the Company are an important management resource.



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Social

Together with Local Communities

Health Check Stations

Health Check Stations opened within pharmacies from December 2016. The stations take the initiative to contribute to the health of local residents by providing advice on the appropriate use of over-the-counter drugs and health food products and health counseling. We will further promote the development of pharmacies that offer this kind of health support.

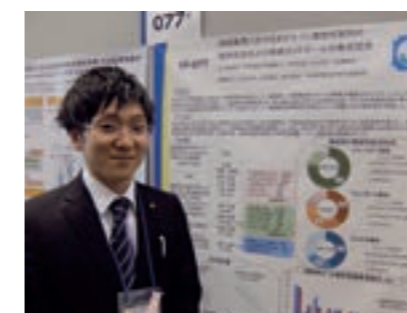


Health Fair

We are promoting health maintenance and disease prevention initiatives for local residents. We perform simple blood tests based on participants' self-drawing of blood, the measurement of blood vessel age, personal stress level, bone density, and body composition, and we recommend participants get checked at medical institutions, if necessary. For those concerned about their health or who have high test values, we offer nutritional counseling that includes dietary guidance by a dietician. For those who are already taking medicine for the treatment of a disease, we offer, as necessary, health and medication counseling by pharmacists at pharmacies nationwide.

Pharmacist Experience

Through workplace experiences, we are constantly communicating the importance of safely taking medicine and how pharmacists are contributing to maintaining the health of local residents. At the Yosano Pharmacy in Kyoto, more than 20 local children participated in experiencing that involved everything from dispensing to inspection and medication instruction. They experienced the work of a pharmacist by setting up dispensing equipment in the waiting room and dividing pieces of candy into dosage units while pretending it was medicine. We continue to offer activities that proactively create opportunities for deepening the understanding of pharmacists' work.



Conference Presentations

At the Annual Meeting of the Japanese Society of Pharmaceutical Oncology in 2017, Nihon Chouzai pharmacists presented a fact-finding survey on the usage conditions of opioid disintegrating tablets and pain control in insurance pharmacies. Treatment to control pain is being performed with opioid preparations to improve patients' quality of life, but in some patients, cases have been reported where pain counseling, such as advice to simply endure the pain, has proven to be inadequate. It is expected that pain assessment during medication instruction by pharmacists would lead to the proper use of opioid preparation.

Social

Together with Shareholders and Investors

General Meeting of Shareholders

The 36th General Meeting of Shareholders was held on June 28, 2016. Seven measures were submitted and all were approved at this general meeting. In addition, Nihon Chouzai changed over to a company with an audit and supervisory committee with the goal of achieving greater management transparency and improving management mobility. At the closing of the General Meeting of Shareholders, President & CEO Hiroshi Mitsuhashi addressed the attendees and explained the future of Nihon Chouzai's business expansion to shareholders.

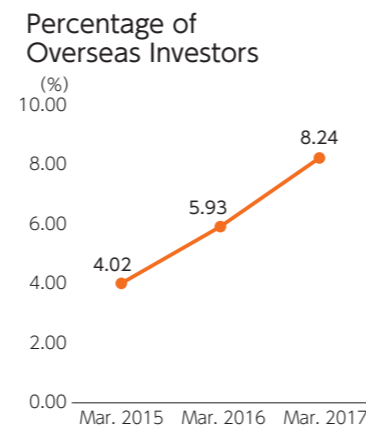


Results Briefing

A results briefing was held on May 11, 2016. Following the revision of medical service fees in April 2016 that occurred immediately before that, we explained at the briefing management's policy toward major changes in the dispensing pharmacy industry, such as the start of the family pharmacist system. Participants asked many questions about our response to the revision of medical service fees. Investors vigorously raised questions about that, especially about the Group's growth strategy, which embodies the state of initiatives and changes toward medical fee revisions.

Investor Relations for Overseas Investors

In recent years, interest from overseas investors has been increasing, and many questions have been asked about business models and growth strategies. In response, Nihon Chouzai conducted overseas investor relations (IR) activities in May 2016. In meetings with institutional investors held in Hong Kong and Singapore, we discussed our performance in fiscal 2015 and explained our response to system changes from April 2016 and the Group's future business strategy. Vigorous questioning ensued and investors came away with a full understanding. The percentage of overseas investors is rising, so we plan to proactively conduct IR activities for these investors, including participating in conference calls with groups of overseas investors.



▼ The initiatives below are implemented as needed

- Company briefings for individual investors
- Small meetings
- Individual meetings with investors (domestic and overseas)
- Investor teleconferences (overseas)

Human

Investment in Human Resources

Initiatives to promote women's advancement in the workplace

Support for a smooth return from child rearing in partnership with childcare facilities

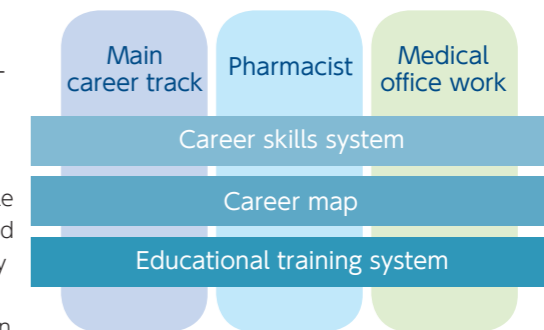
As part of supporting employees' work-home balance, we are partnering with outside childcare facilities and babysitting service companies. In cases where gaining admittance into a childcare facility is difficult, we have partnered with Task-Force Co., Ltd. and Nichigakkan Co., Ltd. as outside childcare facilities that can be used as a temporary safety net.

Providing Diverse Career Plans

Instituting a career skills development plan

In December 2016, Nihon Chouzai instituted a career skills system, career map, and educational training system. We seek to develop human resources who contribute to society with a sense of awareness and duty as medical care leaders by responding to rising medical needs in a super-aged society.

Particularly, for pharmacists who will play a central role in the dispensing pharmacy business, we have positioned "knowledge of pharmacology," "knowledge of pharmacy management," and "knowledge of principles" as the three pillars of pharmacist education, and we focused on rigorously developing professionals who contribute to patients' health.



Developing Human Resources who are Responsible for At-Home Medical Care

Conduct at-home medical training nationwide

We are conducting training nationwide aimed at acquiring knowledge of at-home medical care. In fiscal 2016, we conducted this training a total of 21 times at 16 locations nationwide, and a total of about 600 people attended. At the training, a lecture was given on at-home palliative care, and participants actually practiced acquiring the skill.

The purpose of at-home palliative care is to improve the quality of life of patients, aiming for total pain care, including not only the patient's physical suffering, but also mental and psychological distress. With the need for at-home medical care rising, we are focusing on education in response.



Initiative for Advanced Pharmacology Management Capabilities

Participation in hospital training

We are proactively promoting participation in hospital training conducted at university hospitals and local core hospitals. We started by participating in the training at Asahikawa Medical University Hospital, and we have participated in 24 training sessions at eight hospitals as of June 1, 2017.

In addition, as an initiative leading to the advanced pharmacology management capabilities required for A Vision of Pharmacies for Patients, we also participated for three months in Accredited Pharmacist of Ambulatory Cancer Chemotherapy conducted by the National Cancer Center Japan. We are actively working to develop pharmacists who respond to evolving cancer treatments.



Board of Directors (As of June 29, 2017)



December 1979 Resigned Takeda Pharmaceutical Company Limited.
 March 1980 President and Representative Director (to present)
 January 1994 President and Representative Director of Miyagi Nihon Chouzai Co., Ltd. (Currently Medical Resources Co., Ltd.) (to present)
 January 2005 President and Representative Director of Nihon Generic Co., Ltd. (to present)
 January 2012 President and Representative Director of Japan Medical Research Institute Co., Ltd. (to present)
 May 2013 Chairman and Representative Director of Choseido Pharmaceutical Co., Ltd. (to present)

President and Representative Director
Hiroshi Mitsuhashi



September 1999 Joined the Company
 April 2001 General Manager of Corporate Planning Department
 January 2005 Director of Nihon Generic Co., Ltd.
 April 2006 General Manager of Sales Promotion Department
 October 2006 Director of Medical Resources Co., Ltd.
 June 2007 Director, General Manager of Business Promotion Department
 June 2010 Resigned the Director
 June 2013 Director of Japan Medical Research Institute Co., Ltd. (to present)
 June 2014 Director of the Company, Director of Nihon Generic Co., Ltd. (to present)
 June 2015 Managing Director
 June 2017 Senior Managing Director (to present)

Senior Managing Director
Yosuke Mitsuhashi



May 2008 Joined the Company
 April 2009 Manager of Finance Department
 April 2015 General Manager of Finance Department
 June 2015 Director of the Company, General Manager of Finance Department (to present)
 Director of Medical Resource Co., Ltd. (to present)

Director
Kazunori Ogi



January 2011 Joined the Company
 General Manager of Sales Department for Public Institutions
 October 2013 General Manager of General Affairs Department
 June 2016 Director of the Company, General Manager of Administration Department and General Affairs Department (to present)

Director
Yoshihisa Fujimoto



August 2002 Vice President and Representative Director of Japan Property Solutions Co., Ltd.
 June 2008 President and Representative Director of M.U. Trust Sougou Kanri Co., Ltd.
 June 2011 Chairman, M.U. Trust Sougou Kanri Co., Ltd.
 June 2012 Managing Director, General Manager of Finance Department
 June 2013 Managing Director (to present)
 February 2014 Director of Choseido Pharmaceutical Co., Ltd. (to present)

Managing Director
Yoshiki Kamada



May 1994 Joined the Company
 April 1995 Manager of Pharmaceutical Department, Kyushu Branch
 June 2006 Branch Manager, Kyushu Branch
 March 2008 General Manager of Pharmaceutical Headquarters
 June 2008 Director of the Company, General Manager of Pharmaceutical Headquarters
 April 2012 Director of the Company, Manager of Pharmaceutical Headquarters
 June 2012 Resigned the Director
 June 2012 Manager of Pharmaceutical Headquarters
 June 2013 Director of the Company, General Manager of Contract Dispensing Service Department
 June 2015 Managing Director, General Manager of Contract Dispensing Service Department (to present)

Managing Director
Katsuhiko Fukai



April 2000 Joined the Company
 April 2000 Assistant Manager of Accounting Department
 April 2007 General Manager of Accounting Department
 May 2008 Auditor of Nihon Generic Co., Ltd. (to present)
 January 2012 Auditor of Japan Medical Research Institute Co., Ltd. (to present)
 June 2012 Auditor of Medical Resources Co., Ltd. (to present)
 May 2013 Auditor of Choseido Pharmaceutical Co., Ltd. (to present)
 June 2016 Director of the Company (Audit Committee member) (to present)

Director, Audit Committee member
Kingo Kimura



April 1977 Public Prosecutor
 April 1985 Registration of Attorneys (to present)
 April 1990 Opened Usugane and Arizumi Law Firm
 July 2001 Auditor of the Company
 October 2013 Opened Usugane Law Firm (to present)
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director, Audit Committee member
Kotaro Usugane



April 2013 Joined the Company
 Manager of Sales Management Department
 October 2013 General Manager of Sales Promotion Department
 June 2015 Director of the Company, General Manager of Sales Promotion Department
 April 2016 Director of the Company, General Manager of Sales Management Department
 June 2016 Managing Director, General Manager of Sales Management Department (to present)

Managing Director
Naoto Kasai



January 1992 Joined the Company
 January 2004 Manager of Sales Department, Osaka Branch
 April 2004 Branch Manager, Manager of Sales Department, Osaka Branch
 April 2007 General Manager of Sales Management Department
 June 2007 Director of the Company, General Manager of Sales Management Department
 April 2016 Director of the Company, General Manager of Sales Promotion Department (to present)

Director
Noriaki Miyata



July 2006 Resigned Tokyo Regional Taxation Bureau
 August 2006 Registration of certified public accountant and licensed tax accountant (to present)
 Partner of Japan Tax Management Institute, GPC (to present)
 June 2014 Auditor of the Company
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director
 Committee member
Takashi Nagashima



June 2009 Joined the Company
 General Manager of Administration Department
 December 2009 General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities
 June 2011 Director of the Company, General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities
 June 2017 Director of the Company, General Manager of Health Promotion Department (to present)

Director
Shigeo Suzuki



July 1990 Joined the Company
 April 2000 Manager of Pharmaceutical Department, Tohoku Branch
 December 2004 General Manager of East Japan Pharmaceutical headquarters
 December 2009 General Manager of Purchasing Department, Pharmaceutical Headquarters
 April 2012 General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
 June 2012 Director of the Company, General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
 January 2014 Director of the Company, General Manager of Pharmaceutical Headquarters (to present)

Director
Toshiyuki Koyanagi

Corporate Governance

Basic Concept of Corporate Governance

The Nihon Chouzai Group considers that in order to appropriately respond to changes in the business environment, continually ensure the soundness of Company operations, and further raise its corporate value, increasing management transparency, clarifying management responsibility, exercising speedy decision-making, and strengthening the management oversight function to achieve business targets are necessary. Moreover, because the Group operates its business in a field that is strictly governed by various regulations, it is fully aware that the enhancement of corporate governance and the strengthening of compliance are extremely important matters, and it has implemented a wide range of measures based on this understanding.

Given the Company's scale and its type of business operations, Nihon Chouzai has determined that a company that uses an audit and supervisory committee is most suitable for enhancing the Company's audit and oversight functions and for corporate governance.

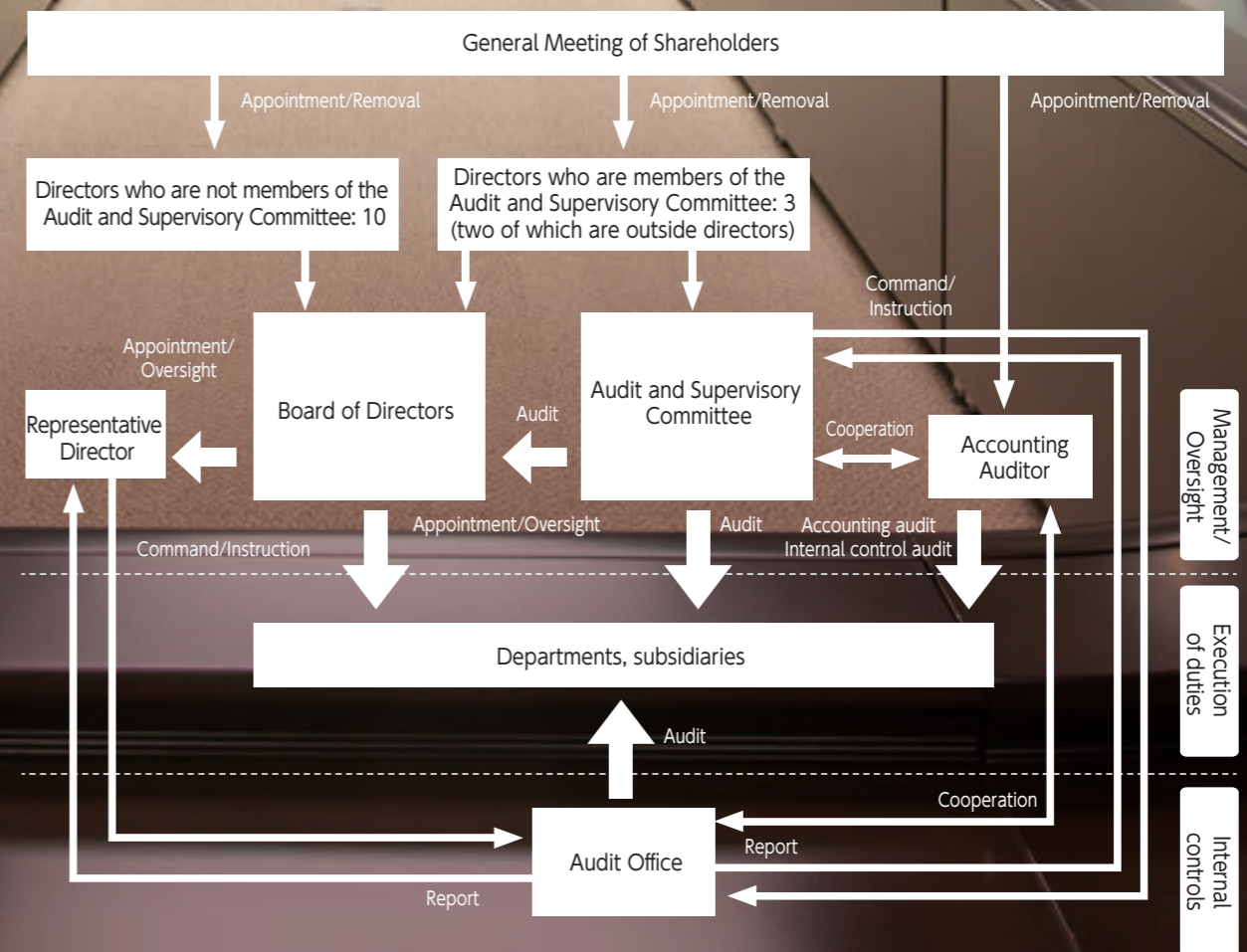
Corporate Governance Structure

At the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. The Board of Directors consists of 10 directors (excluding the Audit and Supervisory Committee members) and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

In addition, the three directors, which include the two outside directors, make up the Audit and Supervisory Committee and fulfill their oversight function through such methods as exercising their right to vote in the Board of Directors meetings, auditing the directors' execution of their duties, and preparing audit reports.

The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency.

Corporate Governance Structure



*The photo is the Company board room

Disclosure Based on Each Principle of Corporate Governance Code

■ Strategic Shareholding

When holding the listed shares in terms of business operations or for the purpose of the enhancement of the business relationship, Nihon Chouzai will comprehensively consider the investment amount and the Company's benefits generated by the said shareholding and determine the propriety of the said shareholding. The Company regularly examines the purpose/reasonableness of the said shareholding in regard to the major shares among the listed shares held and reports the results to the Board of Directors. Moreover, approval or disapproval of exercising the voting right concerning the strategic shareholding will be determined based on the purpose of holding and whether or not it will contribute to the improvement of the investment destination's corporate value.

■ Transactions between the Parties Concerned

When the Company conducts a transaction (Transaction between the Parties Concerned) with the directors or major shareholders, etc., the Company makes the Transaction between the Parties Concerned the matter to be discussed in the Board of Directors meeting in the "Regulations on the Board of Directors Meeting" to make sure that the transaction will not harm the interests of the Company and common interests of the shareholders. The actual individual transactions will be approved in the Board of Directors meeting or oversights through the receipt of the report. In the resolution by the Board of Directors meeting concerning the Transaction between the Parties Concerned, legal check will be implemented by the department in charge of legal affairs.

■ Improvement of Information Disclosure

(1) What the Company is aiming for (management philosophy, etc.), management strategy, and management plan

The Nihon Chouzai Group's corporate philosophy, management strategy, and management plan are disclosed mainly on the Company's website with the following URL and transmitted by using mediums such as the Shareholder Report and Securities Report.
Corporate Philosophy:
<http://www.nicho.co.jp/corporate/profile/>
Management Strategy/Management Plan:
<http://www.nicho.co.jp/corporate/info/12390/>

(2) The policy and procedures when the Board of Directors determines the directors' remunerations

At the Company, the total amount of remunerations for the directors and directors who are the Audit and Supervisory Committee members is resolved at the General Meeting of Shareholders. Each director's degree of contribution, goal achievement level, etc. will be comprehensively considered in regard to individual amount of remuneration and its calculation method. The amounts will be decided upon deliberations by the Board of Directors in the case of the directors, and for the directors who are the Audit and Supervisory Committee members, the amounts will be decided upon deliberations by the Audit and Supervisory Committee.

(3) Policy and procedures in appointing and designating the directors (excluding the Audit and Supervisory Committee members) and the directors who are the Audit and Supervisory Committee members

The Company has the policy to appoint human resources who, as directors (excluding the directors who are the Audit and Supervisory Committee members and the same shall apply hereafter), respond to the entrustment of the management from the shareholders, have abundant experience with distinguished insight for the management, and can fulfill the directors' duties and responsibilities as candidates for the directors. Based on this policy, the representative director prepares the draft on the candidate directors and proposes it to the Board of Directors, and the candidate directors are decided by the Board of Directors.

As for the directors who are the Audit and Supervisory Committee members, the Company has the policy to appoint human resources who understand the importance of the functions of audit in the management and the Audit and Supervisory Committee and can fulfill the Audit and Supervisory Committee members' duties and responsibilities as the candidates for the directors who are the Audit and Supervisory Committee members. Based on this policy, the representative director prepares the draft on the candidate directors and proposes it to the Board of Directors after gaining agreement with the Audit and Supervisory Committee, and the candidate directors are decided by the Board of Directors.

(4) Explanations on the appointment/designation of individual directors

The Company writes the reasons for choosing the candidates for the directors and directors who are the Audit and Supervisory Committee members in the notice of the General Meeting of Shareholders and discloses the said reasons on the website.

■ Role and Responsibility of the Board of Directors

The Company judges/decides the management policy/strategy and important matters in the execution of duties in the Board of Directors meeting in accordance with the laws and regulations, Articles of Incorporation, and Board of Directors Regulations. The matters to be delegated to the management have been stipulated in the Regulations on Administrative Authority and Regulations on Segregation of Duties and the Board of Directors receives reports on the status of the execution of duties to ensure the oversight function.

■ Standards for Determining the Independence of the Independent Outside Directors and Their Qualification

The Company appoints the independent outside directors who have excellent character and insight and can provide appropriate advice and oversight to the Company's management while meeting the Tokyo Stock Exchange's standards for independence.

■ Preconditions to Ensure the Effectiveness of the Board of Directors

In order to effectively fulfill the execution of duties and the management oversight function, the Company's Board of Directors consists of those who are familiar with and have a high level of competence for company management and the economic environment, those who have in-depth knowledge of and experience in the Company's business environment, and those who have knowledge of accounting, financial affairs, legal affairs, and personnel affairs, etc. and give consideration to the balance as a whole and diversity. In addition, the Board of Directors consists of 10 directors and three other directors that serve as the Audit and Supervisory Committee members.

■ Preconditions to Ensure the Effectiveness of the Board of Directors

The Company keeps the number of additional posts held by the directors within the reasonable range in order to appropriately fulfill their roles and duties and the status of the additional posts is written in the notice of General Meeting of Shareholders

■ Preconditions to Ensure the Effectiveness of the Board of Directors/Board of Corporate Auditors

The Company carried out a questionnaire survey on 20 items concerning the evaluation of the effectiveness of the Board of Directors such as the "Structure and Operation of the Board of Directors," etc. among all directors except the President who is a Chairman of the Board of Directors between May and June 2017 based on the opinions of the outside consultant and analyzed and evaluated the effectiveness of the entire Board of Directors in the Board of Directors meeting.

Outline of the results received good conclusions in the evaluation of all items and the effectiveness of the Board of Directors has been judged to be ensured. On the other hand, constructive opinions on the efforts in the aspect of operation in the Board of Directors were presented; therefore, the Company will continuously strive to improve the effectiveness of the entire Board of Directors based on the evaluation results in this time.

■ Directors' Training

The Company provides appropriate explanations on the directors' duties, etc. to the inside directors in a timely manner and provides opportunities to take training or seminars by third parties as needed of which the costs will be incurred by the Company. For the outside directors, with a view to deepen their understanding on the Company's business descriptions and business challenges, the Company provides opportunities to visit each Group company's major bases such as stores, plants, offices, etc. and receive explanations on the business descriptions, business challenges, etc. from the management or each department.

■ Policy for Constructive Dialogues with Shareholders

The Company actively, fairly, rightly, and timely discloses information on the Company's business and financial conditions to the shareholders and investors, aims for the proper formation of the share price, and organizes the investor relations (IR) activity promotion structure as follows:

(1) The department mainly in charge of the dialogues with shareholders and the director who supervises the department

Dialogues with shareholders in the Company are undertaken by the Corporate Planning Department, which is the department in charge of IR and is supervised by the director in charge of corporate planning.

(2) Measures to cooperate with the departments concerned

At the Company, the Corporate Planning Department, which is the department in charge of IR, strives to share information with and collect information from the General Affairs Department, Public Relations Department, Accounting Department, Finance Department, other departments, and our subsidiary companies, and organizes the cooperative structure.

(3) Efforts other than individual interviews

By implementing the General Meeting of Shareholders, Results Briefings, Business Briefings, plant tours, and information disclosure on the Company's website, the Company conducts activities to deepen understanding of the Company's management strategy and business environment.

(4) Measures to provide feedback to the management and Board of Directors

The Company has built a structure to regularly report the contents of suggestions from our shareholders and investors to the director in charge, etc. and provide feedback to the management.

(5) Measures to manage insider information

As a structure to prevent insider trading in IR, the Company sets a quiet period in regard to our financial result information from the day following the final day of the fiscal year to the day of the announcement of financial results. The Company has also established the Internal Information Management Regulations and improved the information management structure.

Basic Concept of Internal Control System and Its Development Status

By dividing the necessary 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 build an internal control system, a resolution on the basic policy for building an internal control system was passed at the Board of Directors meeting of May 26, 2006 (the policy was partially revised at the Board of Directors meeting of June 28, 2016).

Based on the Companies Act, the Company's policies for the following 12 matters have been stipulated:

- (1) The structure concerning the storage and management of information on the directors' execution of their duties
- (2) Regulations and other structure concerning the management of Nihon Chouzai Group's risk of loss
- (3) The structure to ensure that the Group's directors' execution of their duties has been efficiently conducted
- (4) The structure to ensure that the Group directors' and employees' execution of their duties has conformed to the laws and regulations as well as the Articles of Incorporation
- (5) The structure to report matters concerning our subsidiary company directors' and others' execution of their duties to the Company
- (6) Matters concerning the directors and employees who should assist the Audit and Supervisory Committee's duties
- (7) Matters concerning the securing of independence of the directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are the Audit and Supervisory Committee members) as well as the securing of the effectiveness of the instructions given to the said directors and employees
- (8) The structure for the directors (excluding the directors who are the Audit and Supervisory Committee members) and employees to make a report to the Audit and Supervisory Committee and the structure for reports to the Audit and Supervisory Committee
- (9) The structure for our subsidiary company directors, auditors, etc. and employees or those who received reports from these persons to make a report to the Company's Audit and Supervisory Committee
- (10) The structure to ensure that those who made a report to the Audit and Supervisory Committee will not receive unfair treatment on the grounds of making the said report
- (11) Matters concerning the procedures for making an advance payment or reimbursement of the cost generated in executing the Audit and Supervisory Committee members' duties (limited to the ones concerning the Audit and Supervisory Committee's execution of their duties) and the policy concerning other costs or debts generated in executing the said duties
- (12) The structure to ensure that the Audit and Supervisory Committee's audit will be effectively conducted

