

# Corporate Governance Report

Last Update: July 1, 2022

NIHON CHOUZAI Co., Ltd.

Representative: Yosuke Mitsuhara, President & CEO

Contact: Masahiro Tojo, Executive Officer and General Manager of Corporate Planning Department

Stock Code: 3341

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

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

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

### 1. Basic Views

Nihon Chouzai recognizes that we can improve its corporate value over the medium to long term by building and strengthening a corporate governance system that is capable of continuously ensuring the soundness and transparency of the Company, as well as by responding appropriately to changes in the business environment. Nihon Chouzai shall establish a Nomination and Compensation Committee as a voluntary committee, with the majority of members being independent outside directors. To enhance the fairness, transparency and objectivity of procedures related to the nomination and compensation of directors and executive officers, the committee shall endeavor to further enhance the Company's corporate governance.

Furthermore, out of a recognition that stronger compliance is extremely important due to the fact that the Group's businesses are governed by various regulations, Nihon Chouzai shall take various measures for implementing compliance.

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

[Supplementary Principle 3.1.3 Enhancing Information Disclosure]

(Initiatives on Sustainability)

Information on sustainability and related matters at Nihon Chouzai can be found on the Company website.

This includes: basic policies for sustainability activities and structures for implementing those policies; processes for identifying material issues and priority maps; and lists/explanations of specified material issues. Please refer to the following website.

<https://www.nicho.co.jp/en/sustainability/about/>

(Investments in human capital and intellectual property)

In terms of investing in human capital, the Company sees the employees who support its organization as important management resources, and actively invests in hiring, training, evaluation, and engagement initiatives. We are focusing particularly on manpower training and strengthening organizational capabilities to dramatically expand business as laid out in our Long-Term Vision for 2030.

Please refer to the Company website for details.

<https://www.nicho.co.jp/corporate/sustainability/esg/human/>

Regarding investments in intellectual property, the Company is investing in R&D targeting generic drugs as part of the Pharmaceutical Manufacturing and Sales Business, and is actively investing in promoting digital transformation (DX) strategies. In the Dispensing Pharmacy Business in particular, the Company sees ICT strategies as an important element of growth. As such, we have continued to focus efforts on ICT investments since the Company was founded. In addition to backbone pharmaceutical dispensing systems used in the Dispensing Pharmacy Business, the Company has developed original services such as Okusuri Techo (electronic medication notebook) Plus and Nihon Chouzai Online Pharmacy Service “NiCOMS”.

Please refer to our Integrated Report for details.

<https://www.nicho.co.jp/corporate/ir/library/annual.html>

(Disclosure based on TCFD recommendations)

We recognize that addressing climate change is an important part of our sustainability management, and we are taking actions and disclosing information based on the TCFD recommendations. As for the status of governance arrangements related to climate change, we have established a Sustainability Committee chaired by the President and CEO, which reports directly to the Board of Directors, discusses initiatives on climate change issues, and reports and makes recommendations to the Board of Directors on a regular basis. In addition, since this fiscal year, CO2 emissions for Scope 1 and Scope 2 have been calculated and disclosed on our website. In the future, we will proceed with Scope 3 calculations, deliberate on appropriate climate-related risks/opportunities, and study the impact on our financial plan through scenario analysis, and promote countermeasures.

Please refer to the Company website for details.

<https://www.nicho.co.jp/corporate/sustainability/esg/environment/>

[Supplementary Principle 4.8.3 Effective Use of Independent Outside Directors]

The Company, which has a controlling shareholder, undertakes transactions with this controlling shareholder; in such cases, as indicated in “I. 1. [Disclosure Based on the Principles of the Corporate Governance Code] [Principle 1.7],” the Company appropriately monitors these transactions by receiving approvals and reports related to actual individual transactions at meetings of the Board of Directors, which includes four independent outside directors. Moving forward, the Company will consider establishing a special committee to deliberate and study important transactions and activities involving conflicts of interest between the controlling shareholder and minority shareholders.

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

[Principle 1.4 Cross-shareholdings]

The Company may hold, as cross-shareholdings, shares of companies that it deems necessary for the purpose of maintaining and strengthening business relationships. Currently, the Company does not hold any listed shares as cross-shareholdings. However, if and when it comes into possession of any cross-shareholdings, including unlisted shares, these shareholdings are examined in detail at meetings of the Board of Directors every year on whether the purpose of ownership for individual cross-shareholdings is appropriate, whether the benefits and risks associated with these holdings are commensurate with the cost of capital, etc., to verify the suitability of cross-shareholdings. This year, at the Board of Directors meeting in June, after clarifying the number of shares, acquisition prices, book values and market prices for each issue, the Company, having deliberated on the suitability of cross-shareholdings from the above viewpoints, has decided to maintain the cross-shareholdings (unlisted shares) it deemed significant and rational. For the exercise of voting rights pertaining to policy-holding stocks, the Company’s policy is to make decisions based on its viewpoint regarding how votes would contribute to the enhancement of the corporate value of the company invested in, combined with due consideration of the purpose of the holding.

[Principle 1.7 Related Party Transactions]

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

[Supplementary Principle 2.4.1 Securing Diversity within the Company, Including the Promotion of Active Participation by Female Employees]

(Approaches to Ensuring Diversity)

The Company sees the employees who support its organization as important management resources, and actively invests in hiring, training, evaluation, and engagement initiatives. With regard to ensuring diversity, the Company recognizes that diverse values can be a strength in achieving continuous growth. Based on this recognition, we strive to be a company abundant with highly engaged employees who act autonomously, with specialized knowledge and a commitment to goals, under a corporate culture where diverse individuals can work in comfort.

(Autonomous and Measurable Goals for Ensuring Diversity, and the Status of the Achievement of These Goals)

As of April 2022, female managers accounted for approximately 10.8% of all managerial positions. We have set a goal of increasing this percentage to 13% or more by the end of March 2025, and will take measures to promote this goal.

Mid-career hires accounted for approximately 60% of all management positions as of April 2022, and the Company believes that it has secured a sufficient level of diversity. We will continue to appoint persons to management positions regardless of their status as new graduate hires or mid-career hires, and to effectively utilize diverse manpower.

Given the unique nature of its business, the Company has recruited few non-Japanese employees, and none have been appointed to managerial positions. We will make plans for the recruiting of non-Japanese employees in the future, in keeping with the growth and development of our business.

(Manpower Training Policies for Ensuring Diversity, Policies for Maintaining In-house Environments, and the Status of Those Policies)

The Company has implemented career formation initiatives, including theme-specific training and transfer placements, with a particular focus on training for specific positions and ranks, and provide opportunities to acquire the knowledge and skills needed by each and every employee, regardless of their gender or employment status. We have also put in place frameworks for identifying manpower as candidates for next generation leader training, and implement career development programs with a focus on training for the persons selected.

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

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

[Principle 3.1 Full Disclosure]

(i) Company Objectives (Management Philosophies, etc.), Business Strategies and Business Plans

The Company website shown below is the principal means of disclosure of our group philosophy and management policy. In addition, other media such as shareholder newsletters and securities reports are used.

Group Philosophy: [https://www.nicho.co.jp/en/profile/group\\_philosophy/](https://www.nicho.co.jp/en/profile/group_philosophy/)

Management Policy: <https://www.nicho.co.jp/en/ir/management.html>

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

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

(iii) Policies and Procedures in Determining the Remuneration of Directors and Executive Officers by the Board of Directors

This subject is described in “Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods” in “Director Remuneration” under “II.1 Organizational Composition and Operation.”

(iv) Policies and Procedures in Appointing/Dismissing and Nominating Directors and Executive Officers by the Board of Directors

The standards and procedures upon which the Board of Directors of the Company appoints or dismisses directors and executive officers are as follows.

(Criteria for Appointment)

- Must possess a high level of insight and ethics, ability to make fair and impartial judgments, and strong will and ability to execute to fully fulfill the responsibilities as a director or executive officer.
- Must possess a strong understanding of, profound insight in, as well as sufficient work experience in the businesses of the Group.

(Criteria for Dismissal)

- If a director has violated the public order, standards of decency, laws and regulations, the Articles of Incorporation, or important internal regulations.
- If a director faces difficulties in performing his or her duties due to health or other reasons.
- If a director has seriously damaged the corporate value of the Company by neglecting his or her duties.
- If, following the appointment, the director is found to clearly not fulfill the criteria for appointment.

(Procedure for Appointment/Dismissal)

(1) Procedure for Appointment/Dismissal of Directors

The Nomination and Compensation Committee proposes candidates for directors (including directors who are members of the Audit and Supervisory Committee) to the Board of Directors, which uses the proposal as a reference to determine the candidates (however, its decisions may differ from the recommendations of the committee) and submit a proposal for appointment and dismissals to the general meeting of shareholders. The proposed appointments and dismissals are ultimately carried out at the general meeting of shareholders.

(2) Procedure for Appointment/Dismissal of Executive Officers

At the time of the Board of Directors' appointment or dismissal of executive officers, the Nomination and Compensation Committee shall report to the Board of Directors on the proposed candidates for executive officers, and the Board of Directors shall take the Committee's proposal into consideration for its resolution. (Resolutions that differ from the committee's report are also possible.)

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

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

In addition, if an executive officer is appointed or dismissed, the Company will disclose the name and responsibilities of the relevant executive officer on its website.

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

In accordance with laws and regulations, the Articles of Incorporation and the Board of Directors Regulations, the Company makes judgments and decisions on management policies, strategies and important matters concerning the execution of business by the Board of Directors.

In addition, matters delegated to the management team are stipulated in the Executive Officers Regulations, Rules on Administrative Authority, and Rules on Division of Duties, and the status of their business execution is reported to the Board of Directors to enhance the supervisory function.

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

The independence criteria and qualification for independent outside directors stipulated by the Company are as follows.

(Independence Criteria)

Individuals who do not fall into any of the following categories.

- a. Executive of the Company, its subsidiaries, or affiliated companies (collectively “the Group”).
- b. Major shareholder of the Company, or an executive thereof
- c. Major client or supplier of the Group, or an executive thereof
- d. A party whose major client or supplier is the Group, or an executive thereof
- e. Consultant, attorney, certified public accountant, or other individual who provides professional services and receives a large amount of monetary consideration or other property from the Group besides executive remuneration
- f. Individual who has received a substantial donation from the Group
- g. Relative of the individuals described in b. to f. above (spouse or relative within the second degree of kinship)
- h. Individual who has served as an outside director for a period exceeding eight years
- i. Other individual for whom conflicts of interest with general shareholders may arise, and who is subject to conditions reasonably deemed to prevent him or her from executing his or her duties.

(Qualification criteria)

- Individuals who possess profound insight and objective judgement, allowing them to provide advice to support appropriate management oversight of business execution by the Group
- Among business managers, individuals who possess professional knowledge in fields such as economy, law, accounting, or other fields, and individuals who possess other relevant expertise, those who have extensive experience in their field

[Supplementary Principle 4.10.1 Use of Voluntary Frameworks]

The Company’s Nomination and Compensation Committee serves as an advisory body to the Board of Directors and deliberates on the nomination and compensation of directors and executive officers.

More than half of the Committee’s members are independent outside directors, to further enhance the fairness, transparency, and objectivity of procedures related to directors’ and executive officers’ nominations and compensation, as well as accountability. This Committee met four times in 2021.

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

In order to encourage energetic and substantial discussions, the Board of Directors maintains a suitable scale to enable both appropriate supervision of management and flexible decision-making. The Board includes three or more independent outside directors, from the perspective of strengthening the effectiveness of supervision over the execution of the directors’ duties.

The Board of Directors identified the skills and other attributes required to increase corporate value in the medium to long term (e.g., deciding on companywide strategies for continuous growth, and executing duties flexibly), and then appointed directors with specialized skills in corporate management and knowledge of the Company Group’s operations. The Nihon Chouzai Group’s Integrated Report includes a “Skill Set Distribution of Directors” chart that illustrates the various directors’ areas of knowledge and specialization. <https://www.nicho.co.jp/corporate/ir/library/annual.html>

Independent outside directors, who include persons with managerial experience at other companies, have been selected based on their diversity of experience and background, in addition to the skills such as those referenced above.

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

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

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

The Company carries out an evaluation of its Board of Directors at least once each year to make improvements to enhance its effectiveness.

In May 2022, based on the opinions of an external consultant, the Company carried out a questionnaire survey with 24 items for the evaluation of the effectiveness of the Board of Directors. This survey included the Structure and Operation of the Board of Directors and other items, involving directors. Just as in the previous fiscal year, the results of this survey led to favorable conclusions concerning the evaluations of all items, resulting in the decision that the Board of Directors is performing effectively. Although there has been a certain degree of improvement in the internal reporting system compared with the previous fiscal year, some further constructive opinions on how to further improve the effectiveness of the Board of Directors have also been presented and so, based on the results of this evaluation, we will continue to work to improve the overall effectiveness of the Board of Directors.

[Supplementary Principle 4.14.2 Policy on Training Directors]

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

[Principle 5.1 Policy on Constructive Dialogue with Shareholders]

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

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

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

(ii) Measures for collaboration with related departments

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

(iii) Initiatives other than individual interviews

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

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

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

(v) Measures for the management of insider information

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

[Supplementary Principle 5.2.1 Formulation and Announcement of Management Strategies and Plans]

The Company's basic policy regarding its business portfolio is explained in the Long-Term Vision announced in April 2018. For details, please refer to our Integrated Report.

<https://www.nicho.co.jp/corporate/ir/library/annual.html>

## 2. Capital Structure

Foreign Shareholding Ratio	10% or higher, but less than 20%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Yosuke Mitsuahara	6,640,000	22.14
Hiroshi Mitsuahara	4,800,000	16.01
Mitsuahara Kosan, Ltd.	3,600,000	12.01
Max Planning, Inc.	2,240,000	7.47
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,554,200	5.18
Nihon Chouzai Employee Shareholding Association	975,000	3.25
Yoko Mitsuahara	800,000	2.67
Keiko Yeow	538,600	1.80
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	400,000	1.33
SMBC Nikko Securities Inc.	176,800	0.59

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

### Supplementary Explanation

The above major shareholders are as of March 31, 2022.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange Prime Market
Fiscal Year-end	March
Type of Business	Retail
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (Consolidated) as of the End of the Previous Fiscal Year	More than ¥100 billion and less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	Less than 10

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

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

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

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

### 1. Organizational Composition and Operation

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

Maximum Number of Directors Stipulated in Articles of Incorporation	18
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	12
Election of Outside Directors	Yes
Number of Outside Directors	4
Number of Independent Directors	4

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

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

\* Categories for "Relationship with the Company"

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

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

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

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

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the Company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/Audit and Supervisory Committee member
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/Audit and Supervisory Committee members are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2)

Name	Audit and Supervisory Committee Members	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshimitsu Onji		○	–	Mr. Onji has extensive experience as a manager as well as broad insight. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from the management team. He has therefore been appointed as an outside director and designated as an independent director.
Mikiharu Noma		○	–	Mr. Noma, as a university professor, has professional knowledge and experience in finances and accounting as well as in enterprise value evaluation. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from the management team. He has therefore been appointed as an outside director and designated as an independent director.
Arata Toyoshi	○	○	–	Mr. Toyoshi is a certified public accountant/tax accountant and has extensive knowledge of finance, accounting and auditing. The Company believes that there is no possibility of any conflicts of interest between him and our general shareholders and that he has sufficient independence from the management team. He has therefore been appointed as an outside director and designated as an independent director.
Shio Harada	○	○	–	Ms. Harada is an attorney who has extensive knowledge of legal affairs. The Company believes that there is no possibility of any conflicts of interest between her and our general shareholders and that she has sufficient independence from the management team. She has therefore been appointed as an outside director and designated as an independent director.

[Audit and Supervisory Committee]

### Committee's Composition, and Attributes of Chairperson

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

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

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

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

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

### [Voluntary Establishment of Committee]

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Yes
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### Conditions of the voluntary committee's establishment, its composition, and the committee chairperson's attributes

	Committee corresponding to nomination committee	Committee corresponding to remuneration committee
Name	Nomination and Compensation Committee	Nomination and Compensation Committee
All Committee Members	6	6
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	4	4
Outside Experts	0	0

Others	1	1
Chairperson	Inside Directors	Inside Directors

Supplementary Explanation [Updated](#)

To enhance the fairness, transparency and objectivity of procedures related to the nomination and compensation of directors and executive officers at Nihon Chouzai, the Nomination and Compensation Committee, serving as both a nomination committee and a remuneration committee, shall deliberate upon and respond to inquiries from the Board of Directors on such matters as nominations and remuneration.

The Nomination and Compensation Committee shall comprise three or more members who are directors or executive officers, the majority of whom shall be independent outside directors.

The composition of the Nomination and Compensation Committee shall be as follows.

Chairperson:

President and CEO Yosuke Mitsuhara

Members:

Managing Executive Officer Yoshiki Kamada

Outside Director Yoshimitsu Onji (Independent Director)

Outside Director Mikiharu Noma (Independent Director)

Outside Director Arata Toyoshi (Independent Director, Audit Committee Member)

Outside Director Shio Harada (Independent Director, Audit Committee Member)

#### **[Independent Directors/ Audit and Supervisory Committee Members]**

Number of Independent Directors/Audit and Supervisory Committee Members	4
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Matters relating to Independent Directors/Audit and Supervisory Committee Members

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

#### **[Incentives]**

Incentive Policies for Directors	Introduction of performance-linked remuneration system
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Supplementary Explanation

The Company has introduced performance-linked remuneration as a bonus for directors and executive officers in charge of business execution. This subject is described in further detail in “Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods” under “Director Remuneration” of “II.1 Organizational Composition and Operation.”

Recipients of Stock Options	
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Supplementary Explanation

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#### **[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No individual disclosure.
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### Supplementary Explanation

- The Company discloses the remuneration of its directors in its securities reports and business reports in accordance with laws and regulations. However, because none of its directors receive total consolidated remuneration, etc., of 100 million yen or more, the Company does not disclose remuneration for individual directors.
- In its securities reports and business reports, the company discloses total remuneration amounts by directors (excluding members of the Audit and Supervisory Committee and outside directors), members of the Audit and Supervisory Committee, and outside directors.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company's policy for determining the remuneration, etc., of individual directors and executive officers is as follows.

#### 1. Basic Policy

The Company secures and retains exceptional human resources who can help realize its corporate philosophy, and can be motivated to adequately perform their expected role in an effort to continually enhance corporate and shareholder value. Specifically, the remuneration of directors and executive officers in charge of business execution comprises basic remuneration, performance-linked remuneration, and stock-based remuneration (Board Benefit Trust), while the remuneration of outside directors and directors who are members of the Audit and Supervisory Committee, who fulfill oversight functions, only consists of basic remuneration. In addition, to establish sufficient accountability to shareholders and other stakeholders, the Company ensures rationality, objectivity, and transparency in the remuneration contents and determination process.

#### 2. Policy to Determine Amount of Basic Remuneration, etc., for Individual Directors and executive officers, Timing of Payment, and Conditions for Payment

The basic remuneration is a fixed, monthly, monetary remuneration. The amount of the basic remuneration is determined by adding the position allowance and role allowance in accordance with the position and role of directors and executive officers to the amount specified in the basic salary table applicable to directors and executive officers, and is paid at a fixed time each month. A basic salary table is determined for each director and executive officer, and is reviewed as necessary based on factors such as annual evaluations and number of years served.

#### 3. Policy to Determine Performance Indicators for Performance-linked Remuneration, Remuneration Amount and Calculation Methodology, Timing of Payment, and Conditions for Payment

Directors and executive officers responsible for business execution shall be paid a bonus, calculated in accordance with the following formula, every year at a certain time after the end of the general meeting of shareholders for the relevant fiscal year, with the aim of motivating directors and executive officers to contribute to the improvement of business performance for each fiscal year.

##### (1) Director

Profit-sharing method based on consolidated ordinary income and target method based on consolidated net sales, consolidated operating income, and evaluation of each director.

##### (2) Executive officer

Target method based on non-consolidated sales, non-consolidated operating income, and evaluation of each executive officer.

4. Policy to Determine the Contents of the Stock-based Remuneration, Remuneration Amount, Timing of Payment, and Conditions for Payment

The Company's stock shall be granted to directors and executive officers who are responsible for business execution at a certain time after their retirement based on the Board Benefit Trust system in order to motivate them to contribute to the enhancement of corporate and shareholder value over the medium to long term in alignment with the values of shareholders. The number of shares granted corresponds to the cumulative total of the annual share issuance points granted in accordance with the position of directors and executive officers.

5. Policy to Determine the Ratios of the Amounts of Basic Remuneration, Performance-linked Remuneration, and Stock-based Remuneration, to the Total Amount of Remuneration for Individual Directors and Executive Officers

The ratio of remuneration by function of directors and executive officers in charge of business execution is determined based on the positions and roles of directors and executive officers, and on trends at other companies with a business scale comparable to the Company.

6. Matters Pertaining to Procedures for the Determination of the Remuneration, etc., for Individual Directors and Executive Officers

The remuneration of all directors (excluding directors who are members of the Audit and Supervisory Committee) and executive officers is determined by a resolution of the Board of Directors based on deliberations and reports by the Nomination and Compensation Committee, which comprises a majority of independent outside directors.

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

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

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

The highest decision-making body for the execution of our business is the Board of Directors. The Company holds a monthly meeting of the Board of Directors and also arranges other meetings from time to time if necessary. Meetings of the Board of Directors were held on 15 occasions in the fiscal year ended March 2022, and the main issues discussed at these meetings included the closing or opening of pharmacies, budgets and financial results, personnel and labor, the procurement of funds, the establishment of rules, organizational changes, and M&A. The rate of attendance for individual members was 11 members out of a total of 13 attending all meetings and 2 members attending 14 meetings. The Board of Directors has 9 members (two of whom is an outside director) excluding directors who are members of the Audit and Supervisory Committee, and three directors (two of whom are outside directors) who are members of the Audit and Supervisory Committee. As a general rule, these meetings are conducted with the participation of all members. In addition, executive officers are delegated by resolution of the Board of Directors to execute duties as entrusted. The Board of Executive Officers is composed of all executive officers and is mainly responsible for the resolution, deliberation, and information sharing of important matters related to the execution of business operations, such as store openings and closings, M&A, etc.

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

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company and its outside directors have entered into contracts to limit the liability for damages under Article 423, Paragraph 1 of the same Act. We have established an Audit Office within the Company as an internal auditing body, and it is positioned as an organization that has a direct reporting line to the president. It conducts internal audits according to each fiscal year's internal audit schedule to monitor the effectiveness of the internal audit. The office consists of one department head and four staff members. But if additional individuals are required based on the stipulations of internal audit regulations, a support system that assigns personnel from other departments to the internal audit has been established with the approval of the Representative Director. The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency. The Audit Office and the Audit and Supervisory Committee, the Accounting Auditor and the Audit Office, the Audit and Supervisory Committee and the Accounting Auditor all exchange information from time to time as necessary throughout the year and thereby enhance the degree of mutual cooperation in conducting the Company's audit functions. Names of certified public accountants who executed the audit in the fiscal year ended March 2022, and the name of audit company were as follows:  
Designated limited liability partners Mr. Shuichi Momoki and Mr. Hiroyuki Fukushima, Deloitte Touche Tohmatsu LLC

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

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

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

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

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

#### 2. IR Activities

	Supplementary Explanations	Presentation by President
Preparation and Announcement of Disclosure Policy	The Company is maintaining the structure of its IR activities in accordance with the principles of the Corporate Governance Code. The contents are described in “I. 1. Basic Views [Disclosure Based on the Principles of Corporate Governance Code] [Principle 5.1]” in this report.	
Regular Investor Briefings for individual investors	Briefings for individual investors are held once a year. We also distribute videos of the briefings in an on-demand format.	No
Regular Investor Briefings for Analysts and Institutional Investors	Briefings for analysts and institutional investors are held twice a year after the annual settlement of accounts and the announcement of the second quarter settlement of accounts. We also respond to periodic individual visits and to the visits of analysts and institutional investors.	Yes
Posting of IR Materials on Website	The Company provides financial reports and other timely disclosure materials, securities reports, presentation materials and shareholder newsletters. IR website: <a href="https://www.nicho.co.jp/corporate/ir/">https://www.nicho.co.jp/corporate/ir/</a>	
Establishment of Department and/or Manager in Charge of IR	The Corporate Planning Department is responsible for IR.	
Other	The Company responds individually to its overseas investors, including conducting overseas IR activities as appropriate.	

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

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

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

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

By dividing the business and management functions into predefined departments and rigorously complying with rules for business and authority, the Company ensures the separation of authority and internal control in its business operations.

In an effort to construct an internal control system, a resolution on instituting a basic policy for building an internal control system was passed at the Board of Directors meeting held on May 26, 2006 (the policy was partially revised at the Board of Directors meeting held on March 28, 2022). Based on the Companies Act, the Company's policies for the following 12 issues have now been stipulated:

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

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

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

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

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

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not adopted
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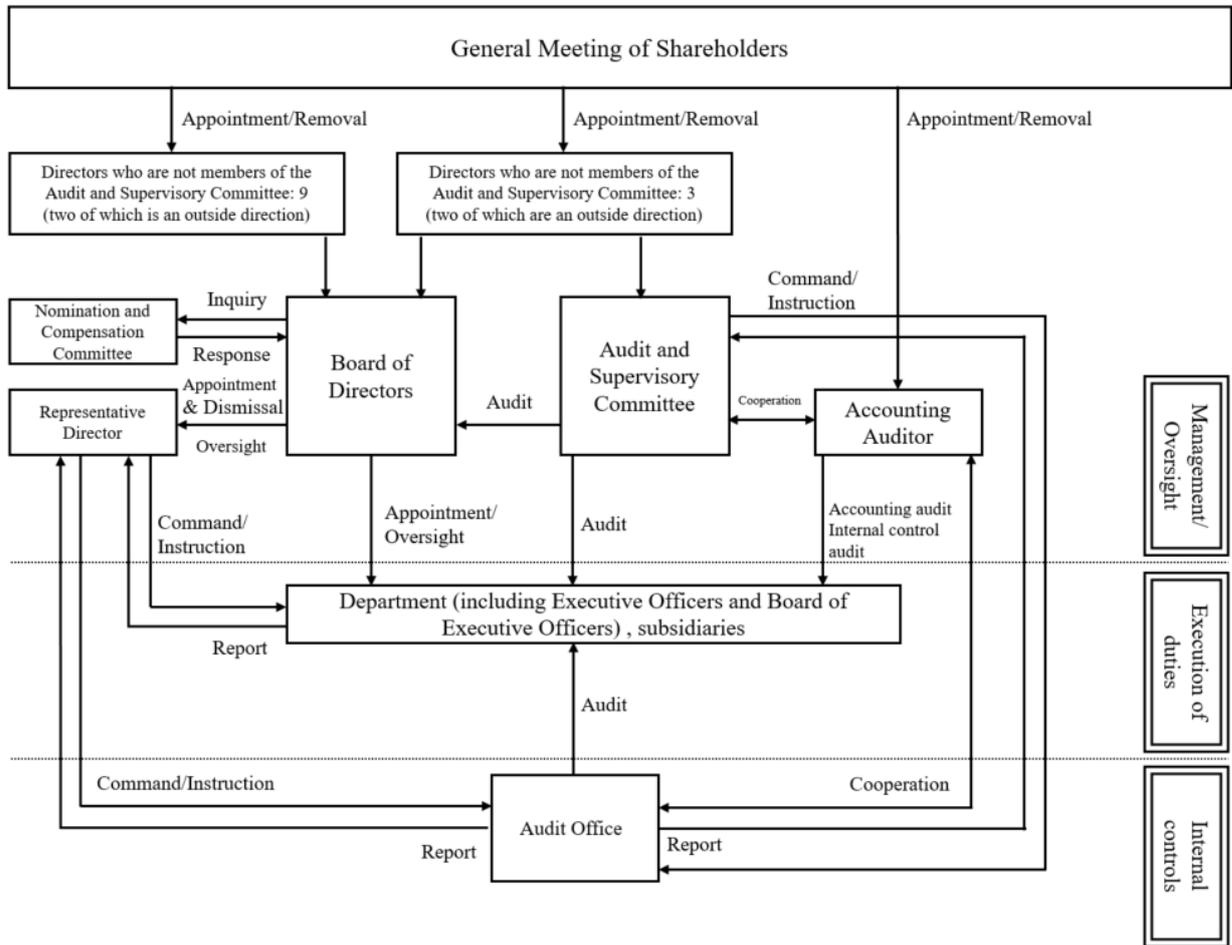
Supplementary Explanation

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### 2. Other Matters Concerning Corporate Governance System

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

# Attachment: Corporate Governance Structure



**Attachment: NIHON CHOUZAI Co., Ltd. Timely Disclosure Flowchart**

