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Corporate Governance Report

Last Update: June 28, 2019
Nippon Shinyaku Co., Ltd.
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The corporate governance of Nippon Shinyaku Co., Ltd. (the "Company") is described below.

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

1. Basic Views

At Nippon Shinyaku, we recognize that it is a critical management priority to fulfill our accountability to all stakeholders, by securing the transparency of management in order to raise our corporate value through social contributions. This makes it essential for our corporate governance to function effectively, and we are committed to further enhancing corporate governance structure.
The basic views and basic policies on corporate governance of the Company have been compiled and posted on our website in the "Corporate Governance Basic Policy."
http://www.nippon-shinyaku.co.jp/english/company_profile/governance.php

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

[Supplementary Principle 4.2.1]
Remuneration for the Current Executive Directors of the Company is detailed under "[Director Remuneration] Policy on Determining Remuneration Amounts and Calculation Methods" in "II. 1. Organizational Composition and Operation" of this report.
While we have not yet introduced a remuneration system linked to mid-term and long-term results or an employee stock ownership plan, we recognize that the introduction of these systems is an issue to be considered in the future.

[Disclosure Based on the Principles of the Corporate Governance Code] UPDATED

[Principle 1.4]
The Board of Directors will inspect and confirm the rationality and economic significance regarding the purpose of holding each individual cross-shareholding, taking into consideration the capital requirements, the market environment, etc., and the Company will in turn proceed to reduce cross-shareholdings in which the significance of retention is immaterial.

Regarding the exercise of voting rights pertaining to cross-shareholdings, we will judge the situation based on whether or not it contributes to improving the corporate value of the Company or the issuing company, and will respond appropriately.

[Principle 1.7]
"Basic Policy on Transactions with Related Parties" is detailed in the "Corporate Governance Basic Policy" (see Article 7).

[Principle 2.6]
We fully recognize that management of our corporate pension funds has influence on the stable asset formulation of our employees as well as our own financial condition, and Nippon Shinyaku Corporate Pension Fund have established an Asset Management Committee composed of internal experts, including members from the financial division and the planning division, to decide on management policy and formulate an appropriate management system.

[Principle 3.1]
(i) Our business philosophy, management policy, guidelines for action, the 6th Five-year Medium-term Management Plan, etc., have been disclosed on our website, the Integrated Report (Annual Report), etc.
http://www.nippon-shinyaku.co.jp/english/ir/ir_library/annual_report.php
(ii) Our basic views and basic policies on corporate governance have been compiled in the "Corporate Governance Basic Policy" mentioned above, and have been disclosed on our website, the Integrated Report, and elsewhere.
http://www.nippon-shinyaku.co.jp/english/company_profile/governance.php
(iii) The policy, procedures, etc., that the Board of Directors follows upon determining the remuneration of Directors is detailed in the "Corporate Governance Basic Policy" (see Article 34).
(iv) The policy, procedures, etc., that the Board of Directors follows upon nominating candidates for Directors and Corporate Auditors and appointing or dismissing Directors and Corporate Auditors is detailed in the "Corporate Governance Basic Policy" (see Article 14, Article 19, and Article 20).
(v) Regarding the appointment and nomination of candidates for Directors and Corporate Auditors, their individual careers and reasons for appointment are detailed in the Reference Documents for the General Meeting of Shareholders.

[Supplementary Principle 4.1.1]
At the Company, resolutions by the Board of Directors and matters delegated to management are clearly defined in the Rules of the Board of Directors and other internal rules, etc.
The Board of Directors carries resolutions on matters that require resolution by the Board of Directors provided for in laws, regulations or the Articles of Incorporation, matters delegated to be determined by the Board of Directors at the General Meeting of Shareholders, important matters related to management, and other matters deemed necessary by the Board of Directors. Furthermore, the Company has established a Management Policy Review Group and adopted a corporate officer system to perform swift and smooth decision-making and business operations.

[Principle 4.9]
The "criteria for judgment of independence" used when appointing Independent External Directors and Independent External Auditors is detailed under Attachment 2 "Criteria for Judgment of Independence" of the "Corporate Governance Basic Policy."

[Supplementary Principle 4.11.1]
Our views on the diversity of the Board of Directors are detailed in the "Corporate Governance Basic Policy" (see Article 19, Paragraph 2).

[Supplementary Principle 4.11.2]
The status of concurrently held positions by Directors and Corporate Auditors are disclosed every year in the Notice of the General Meeting of Shareholders and securities reports.
In addition, important information on positions concurrently held by External Directors and External Auditors as of the publishing of this report is detailed under "[Directors] External Directors' Relationship with the

Company (1)" in "II. 1. Organizational Composition and Operation" and "[Corporate Auditors] External Auditors' Relationship with the Company (1)" in the same section of this report.

[Supplementary Principle 4.11.3]
Our policy on the analysis and evaluation of the effectiveness of the Board of Directors is detailed in the "Corporate Governance Basic Policy" (see Article 33).
In order to analyze and evaluate the overall effectiveness of the Board of Directors in FY2018, we implemented a self-evaluation survey for all Directors. As a result, we were able to confirm that within the Board of Directors, each Executive Director and External Director continued to actively make remarks, that open-minded and constructive discussion was pursued from a wide-angle perspective, and that appropriate judgment was being performed by the management, whereby we determined that the overall effectiveness of the Board of Directors was properly maintained.
Based on the results of this analysis and evaluation, the Board of Directors will focus on further invigorating and enhancing the discussions at the meetings of the Board of Directors, and continue to ensure and improve the effectiveness of the Board of Directors moving forward.

[Supplementary Principle 4.14.2]
Our policy on the education and training of Directors and Corporate Auditors is detailed in the "Corporate Governance Basic Policy" (see Article 29 and Article 30).

[Principle 5.1]
Our policy on promoting constructive dialogue with shareholders is detailed in Attachment 3 "Policy for Constructive Dialogue with Shareholders" of the "Corporate Governance Basic Policy."

2. Capital Structure

Foreign Shareholding Ratio UPDATED	30% or more

[Status of Major Shareholders] UPDATED

Name / Company Name	Number of Shares Owned	Percentage (%)
Meiji Yasuda Life Insurance Company	6,486,000	9.63
The Master Trust Bank of Japan, Ltd. (trust account)	4,924,600	7.31
Japan Trustee Services Bank, Ltd. (trust account)	4,115,900	6.11
MUFG Bank, Ltd.	3,315,450	4.92
The Bank of Kyoto, Ltd.	3,090,050	4.59
STATE STREET BANK AND TRUST COMPANY 505001	2,508,684	3.72
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL ACCOUNT NO.1	2,288,566	3.40
Nippon Life Insurance Company	2,082,670	3.09
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	1,436,700	2.13
Japan Trustee Services Bank, Ltd. (trust account 9)	1,060,800	1.57

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation **UPDATED**

MUFG Bank, Ltd. and its two joint holders were recorded to hold shares as listed below as of April 9, 2018 in the Report of Possession of Large Volume (Amended Report) that was submitted for public inspection on April 16, 2018. However, as the Company could not confirm the number of shares held as of the end of the fiscal year ended March 31, 2019, they are not included in the above list on the status of major shareholders.
The shareholding status presented in the Report of Possession of Large Volume (Amended Report) is as follows.

Name / Company Name	Number of Shares Held (Thousand shares)	Percentage (%)
MUFG Bank, Ltd.	3,315	4.72
Mitsubishi UFJ Trust and Banking Corporation	2,368	3.37
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	339	0.48

Two joint holders of Mizuho Securities Co., Ltd. were recorded to hold shares as listed below as of August 15, 2018 in the Report of Possession of Large Volume (Amended Report) that was submitted for public inspection on August 22, 2018. However, as the Company could not confirm the number of shares held as of the end of the fiscal year ended March 31, 2019, they are not included in the above list on the status of major shareholders.
The shareholding status presented in the Report of Possession of Large Volume (Amended Report) is as follows.

Name / Company Name	Number of Shares Held (Thousand shares)	Percentage (%)
Asset Management One Co., Ltd.	3,356	4.78
Asset Management One International Ltd.	271	0.39

Wellington Management Company LLP and its joint holder were recorded to hold shares as listed below as of February 15, 2019 in the Report of Possession of Large Volume that was submitted for public inspection on February 21, 2019. However, as the Company could not confirm the number of shares held as of the end of the fiscal year ended March 31, 2019, they are not included in the above list on the status of major shareholders.
The shareholding status presented in the Report of Possession of Large Volume is as follows.

Name / Company Name	Number of Shares Held (Thousand shares)	Percentage (%)
Wellington Management Company LLP	3,225	4.59
Wellington Management Japan Pte Ltd.	301	0.43

Artisan Investments GP LLC was recorded to hold shares as listed below as of March 15, 2019 in the Report of Possession of Large Volume (Amended Report) that was submitted for public inspection on March 20, 2019. However, as the Company could not confirm the number of shares held as of the end of the fiscal year ended March 31, 2019, they are not included in the above list on the status of major shareholders.
The shareholding status presented in the Report of Possession of Large Volume (Amended Report) is as follows.

Name / Company Name	Number of Shares Held (Thousand shares)	Percentage (%)
Artisan Investments GP LLC	4,602	6.55

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Pharmaceuticals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to 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 in Conducting Transactions with Controlling Shareholder

—

5. Other Special Circumstances which may have Material Impact on Corporate Governance

—

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 a Board of Auditors

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Maximum number not stipulated
Term of Office Stipulated in Articles of Incorporation	One year
Chairperson of the Board	President
Number of Directors UPDATED	12
Appointment of External Directors	Appointed
Number of External Directors UPDATED	4
Number of Independent External Directors UPDATED	4

External Directors' Relationship with the Company (1) UPDATED

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yukio Sugiura	Academic											
Hitoshi Sakata	Lawyer											
Miyuki Sakurai	Lawyer											
Yoshinao Wada	Other											

* 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/corporate auditor
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 external directors/auditors 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

External Directors' Relationship with the Company (2) **UPDATED**

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yukio Sugiura	○	—	We believe that, from an independent standpoint as a pharmacologist, his expertise and insight will benefit the management of the Company. In addition, since he meets the requirements to be an Independent Director and presents no risk of conflict of interest with general shareholders, he is designated as an Independent Director.
Hitoshi Sakata	○	—	We believe that, from an independent standpoint as a lawyer, his expertise and insight will benefit the management of the Company. In addition, since he meets the requirements to be an Independent Director and presents no risk of conflict of interest with general shareholders, he is designated as an Independent Director.
Miyuki Sakurai	○	—	We believe that, from an independent standpoint as a lawyer, her expertise and insight will benefit the management of the Company. In addition, since she meets the requirements to be an Independent Director and presents no risk of conflict of interest with general shareholders, she is designated as an Independent Director.
Yoshinao Wada	○	—	We believe that, from an independent standpoint as a physician, his expertise and insight will benefit the management of the Company. In addition, since he meets the requirements to be an Independent Director and presents no risk of conflict of interest with general shareholders, he is designated as an Independent Director.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nominating Committee	Remuneration Committee
All Committee Members	4	4
Full-time Members	0	0
Inside Directors	2	2
External Directors	2	2
Outside Experts	0	0

Other	0	0
Chairperson	External Director	External Director

Supplementary Explanation

In order to strengthen independence, objectivity, and accountability of the Board of Directors in regard to the nomination of Directors and Corporate Auditors and the provision of remuneration, the Company has established a Nominating Committee and Remuneration Committee under the Board of Directors.

[Corporate Auditors]

Establishment of Board of Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	Maximum number not stipulated
Number of Corporate Auditors	4

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Department

To ensure the independence of the Accounting Auditor, Corporate Auditors oversee the Board of Directors. In addition, through regular meetings with the Accounting Auditor, Corporate Auditors receive reports on the implementation status of audit plans and interim audits, etc., maintain close contact by being physically present during visiting audits, etc., and strive to mutually enhance the effectiveness and efficiency of audits. In addition to audits by Corporate Auditors, the Audit Department is an organization composed of eight members that reports directly to the Representative Director and conducts operational audits in accordance with the Internal Auditing Regulations. Corporate Auditors and the Audit Department conduct mutual reports on audit plans and the results of audit implementations, etc., hold discussions, and exchange opinions through regular meetings for close cooperation and other appropriate methods as necessary.

Appointment of External Auditors	Appointed
Number of External Auditors	2
Number of Independent External Auditors	2

External Auditors' Relationship with the Company (1) **UPDATED**

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Tsuyoshi Kondo	Lawyer													
Sumitaka Maruyama	Tax Accountant													

* Categories for "Relationship with the Company"

* "○" when the corporate auditor presently falls or has recently fallen under the category;
"△" when the corporate auditor fell under the category in the past

* "●" when a close relative of the corporate auditor presently falls or has recently fallen under the category;
"▲"when a close relative of the corporate auditor fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. A corporate auditor of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a corporate auditor
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the corporate auditor himself/herself only)
k. Executive of a company, between which and the Company external directors/auditors are mutually appointed (the corporate auditor himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the corporate auditor himself/herself only)
m. Others

External Auditors' Relationship with the Company (2) UPDATED

Name	Designation as Independent Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Tsuyoshi Kondo	○	—	He is a legal specialist who provides appropriate oversight of management functions and satisfies the requirements to be an Independent Auditor.
Sumitaka Maruyama	○	—	He has extensive expertise and insight as a tax specialist and satisfies the requirements to be an Independent Auditor.

[Independent Directors/Auditors]

Number of Independent Directors/Auditors UPDATED	6

Matters relating to Independent Directors/Auditors

All External Directors/Auditors who satisfy the qualifications to be Independent Directors/Auditors are designated by the Company as Independent Directors/Auditors.

[Incentives]

Implementation Status of Measures to Grant Incentives to Directors	Introduction of Performance-linked Remuneration

Supplementary Explanation on the above Item UPDATED

This is detailed in the "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" of this report.

Recipients of Stock Options	

Supplementary Explanation on the above Item

—

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation on the above Item **UPDATED**

The previous fiscal year (from April 1, 2018 to March 31, 2019)
- Remuneration for Directors: ¥394 million
- Remuneration for Corporate Auditors: ¥53 million

Policy on Determining Remuneration Amounts and Calculation Methods **UPDATED**	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company determines the amount of remuneration, etc. of officers within the total amount of remuneration of officers resolved at the General Meeting of Shareholders.

As for the resolution date of the General Meeting of Shareholders and its content pertaining to the remuneration, etc. of officers of the Company, the maximum amount of remuneration for Directors was determined at ¥600 million per year at the 154th Annual General Meeting of Shareholders held on June 29, 2017, while the maximum amount of remuneration for Corporate Auditors was determined at ¥80 million per year at the 143rd Annual General Meeting of Shareholders held on June 29, 2006.

The Board of Directors has the authority to determine the policies concerning the remuneration amount, etc. of officers and calculation methods thereof. Specifically, such policies shall be determined by the Board of Directors based on reports from the Remuneration Committee with over half of its members being External Directors as well as an External Director acting as the Chairperson, using an objective benchmark with reference to information such as survey data from external institutions.

Remuneration of Directors (excluding External Directors) of the Company comprises monthly remuneration and bonuses. Monthly remuneration is determined by evaluating the performance of each Director (excluding External Directors) and adding the amount to a fixed amount corresponding to their position. The amount of bonuses commensurate with business performance for a period is linked to operating income and determined by adjusting an amount multiplied by a certain percentage corresponding to their position in consideration of performance evaluation of each Director (excluding External Directors). As for the individual remuneration amount of each Director, monthly remuneration as well as bonuses are determined based on reports from the Remuneration Committee presented in response to inquiries by the Board of Directors, provided, however, that in cases where the authority to determine the individual remuneration amount of each Director is delegated to the President by the Board of Directors, the President determines such amount based on the reports from the Remuneration Committee presented in response to inquiries by the President and in accordance with the calculation method approved by the resolution of, as well as the performance evaluation of individual Directors (excluding External Directors) ratified by the Board of Directors.

Operating income is an indicator selected for calculating performance-linked remuneration of Directors (excluding External Directors), as it is considered to be an indicator that best reflects the actual earnings of the core business of the Company, and the adoption of operating income is also in consideration for keeping the remuneration in balance with the treatment of employees.
Targeted operating income for FY2018 to calculate performance-linked remuneration of Directors was ¥18,500 million, while actual operating income was ¥20,644 million.

Remuneration of External Directors comprises fixed remuneration only to ensure that their function to supervise management can best be fulfilled. As for the individual remuneration amount of each External Director, fixed remuneration is determined based on reports from the Remuneration Committee presented in

response to inquiries by the Board of Directors, provided, however, that in cases where the authority is delegated to the President by the Board of Directors, the President determines such amount based on the reports from the Remuneration Committee presented in response to inquiries by the President.

Remuneration of Corporate Auditors comprises fixed remuneration only to ensure that their function to audit and supervise management can best be fulfilled. As for the individual remuneration amount of each Corporate Auditor, it is determined by deliberation of the Corporate Auditors.

Regarding the activities of the Board of Directors and the Remuneration Committee in the process to determine the remuneration, etc. of Directors for FY2018, the Board of Directors' meeting held in April 2018 ratified the performance evaluation of each Director (excluding External Directors) for the purpose of determining the monthly remuneration of Directors, while the Board of Directors' meeting held in June 2018 resolved to delegate to the President the authority to determine the remuneration amounts of individual Directors. Afterward, the President has duly determined the individual remuneration amounts based on the report from the Remuneration Committee presented in June 2018, and in accordance with the performance evaluation of each Director (excluding External Directors) ratified at the Board of Directors' meeting held in April 2018.
Meanwhile, with respect to bonuses for Directors (excluding External Directors), the Board of Directors' meeting held in June 2019 resolved to delegate to the President the authority to determine the amounts of bonus for individual Directors, in accordance with the calculation method approved by the resolution at the Board of Directors' meeting held in May 2019 on the basis of the performance evaluation of each Director (excluding External Directors) ratified at the Board of Directors' meeting held in April 2019, along with the report presented in May 2019 by the Remuneration Committee. Afterward, the President has duly determined the individual bonus amounts based on the report from the Remuneration Committee presented in June 2019, and in accordance with the performance evaluation of each Director (excluding External Directors) ratified at the Board of Directors' meeting held in April 2019 and the calculation method approved by the resolution at the Board of Directors' meeting held in May 2019.

[Supporting System for External Directors and/or External Auditors]

When convening meetings of the Board of Directors and the Board of Auditors, staff of the Secretarial Section will send documents related to each proposal and matters to be reported to External Directors and External Auditors in advance.

[Retired Presidents Holding Advisory Positions (Counselor, Advisor, etc.)]

Information on Retired President, etc. Holding Advisory Positions (Counselor, Advisor, etc.)

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/without remuneration, etc.)	Date when former role as President, etc. ended	Term
—	—	—	—	—	—

Number of retired President, etc. holding advisory positions (Counselor, Advisor, etc.) UPDATED	0

Others UPDATED

We have introduced a counselor and advisor system in order to ensure appropriate judgment on management. The Counselor has experience as the Representative Director of the Company, the Advisor has experience as the Senior Managing Director or Managing Director of the Company, and together, the Counselor and Advisor provide advice on necessary matters related to the management of the Company.

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

The Board of Directors consists of the President, two Managing Directors, five Directors, and four External Directors for a total composition of 12 members, and holds a role as the highest decision-making organization of management, convening a meeting once a month in principle, making decisions on important operations as stipulated in the Rules of the Board of Directors and overseeing business execution. The Board of Directors held 12 meetings in the previous fiscal year (from April 1, 2018 to March 31, 2019). Of items to be proposed to the Board of Directors, particularly for important cases which require prior examination, a preliminary explanation is presented by the drafting division with all Directors and Corporate Auditors present, and a question-and-answer session on the details of the case is held as well.
The Company has adopted a corporate auditor system. The Board of Auditors consists of four Corporate Auditors including two Standing Corporate Auditors and two part-time External Auditors. Corporate Auditors attend meetings of the Board of Directors to enhance auditing functions.
In addition to audits by the Corporate Auditors, the Audit Department which reports directly to the President also conducts operational audits in accordance with the Internal Auditing Regulations.
In order to strengthen independence, objectivity, and accountability of the Board of Directors in regard to the nomination of Directors and Corporate Auditors and the provision of remuneration, the Company has established the Nominating Committee and the Remuneration Committee under the Board of Directors. Each Committee is composed of three or more members, with over half of those members being Independent External Directors, and an Independent External Director acting as the Chairperson.
In response to inquiries by the Board of Directors, the Nominating Committee deliberates on matters concerning the appointment and dismissal, etc., of Directors and Corporate Auditors, whereas the Remuneration Committee deliberates on matters concerning the remuneration, etc., of Directors and Corporate Auditors. Both Committees subsequently report back to the Board of Directors with the results of their deliberations.
An auditing agreement has been signed with Deloitte Touche Tohmatsu LLC as an Accounting Auditor, and we will endeavor to ensure proper accounting and transparent management. The names and number of continuous audit years of the certified public accountants assigned as Designated Limited Liability Partners of Tohmatsu are as follows. Mr. Teruhisa Tamai: four years, Mr. Kenji Tanaka: three years.
Furthermore, based on the regulations of Article 427, Paragraph 1 of the Companies Act, the Company has signed a contract with each External Director/Auditor to limit liability for compensation as mentioned in Article 423, Paragraph 1 of the same Act in order to ensure that External Directors and External Auditors can fully demonstrate their expected roles. These contracts limit the amount of their liability for compensation to the amount which is stipulated by laws and regulations. The aforementioned liability limitation shall be applied only in cases where the duties of the External Directors/Auditors which led to liabilities have been performed in good faith and without gross negligence.

3. Reasons for Adoption of Current Corporate Governance System UPDATED

At the Company, Directors' terms of service are set at one year in order to clarify their managerial responsibilities and to flexibly form an organization conducive to optimal governance in response to the business climate. The appointment of four External Directors is intended to ensure higher level of oversight of Directors' business execution and further improve managerial transparency and objectivity. Corporate Auditors also attend all meetings of the Board of Directors as well as important business-related meetings with independence of the two External Auditors from the Company guaranteed, whereby we believe that management supervising functions of the Board of Auditors is working properly.

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
Early Notification of General Shareholder Meeting	—
Allowing Electronic Exercise of Voting Rights	—
Participation in Electronic Voting Platform	—
Providing Convocation Notice (Summary) in English	—

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Preparation and Publication of Disclosure Policy	—	
Regular Briefings for Analysts and Institutional Investors	Held four times yearly, once every quarter	Yes
Posting of IR Materials on Website	Updated every quarter	
Establishment of Department and/or Manager in Charge of IR	Department in Charge of IR: Corporate Planning Department	

3. Measures to Ensure Due Respect for Stakeholders UPDATED

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Stipulated in the "Nippon Shinyaku Group's Code of Conduct."
Implementation of Environmental Activities, CSR Activities etc.	Established the "Basic Environmental Policy." Published an Environmental Report every year until 2008, and began publishing the CSR Report from 2009. Published the Annual Report in 2012, with the content further enhanced.
Development of Policies on Information Provision to Stakeholders	Established "Information Disclosure Regulations." Held IR Committee on a monthly basis.
Other	Nippon Shinyaku values "Develop Each Employee" as a management policy, enhancing individual ability and productivity to increase corporate value, and promoting talented personnel regardless of gender in an effort to create a vibrant organizational culture. In promoting the active participation of women, we launched the "Maruenu Supplement" project in 2011 to support women, and have continued to promote the reform of internal awareness. In addition, we have maintained a worker-friendly environment with activities such as the "Good Job" work-life balance promotion and life balance support systems for female MRs. Between April 1, 2019 and March 31, 2024, we aim to employ 15% or more of female employees in management positions (currently 13.1%). We will strive to actively recruit women in accordance with numerical targets, continue raising awareness and providing skill-up training sessions for both women and superiors, and support further active participation by women.

IV. Matters Related to the Internal Control System

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

The Company is striving to act with higher ethical sense, putting human dignity first and taking consistently into consideration of social contribution. The Company recognizes the aforementioned is involved closely to the progress of corporate value. Internal control system is a measure to achieve it and shall be practiced by all the people who comprise a business organizer. The reliability of financial reporting shall be ensured based on compliance with law and enhancement of effectiveness and efficacy in business. The Company thinks that internal control system shall provide the rational assurance, aiming at its goal to ensure the above reliability.

<Basic Policy on Establishment of Internal Control System>

1. System to ensure that Directors and employees of the Company execute their duties in compliance with laws and regulations and the Articles of Incorporation
   (a) In addition to complying with the Nippon Shinyaku Group's Code of Conduct, the standard on which we place the highest priority in our corporate activities, we promote compliance based on the Nippon Shinyaku Group's Compliance Operating Rules.
   (b) The execution of duties by the Directors shall be audited by the Corporate Auditors based on the Auditing Standards for Corporate Auditors.
   (c) The Internal Audit Department shall implement regular internal audits.
   (d) The employee hotline for compliance reporting is operated as a whistleblowing contact point for compliance violations.
2. System for storage and management of information related to the execution of duties of Directors of the Company
   (a) Information related to the execution of duties of Directors shall be stored and managed in accordance with the relevant laws and regulations or internal rules, etc.
   (b) The status of the preparation, storage, and management of information related to the execution of duties of Directors shall be audited by the Corporate Auditors.
   (c) A system in which Directors and Corporate Auditors can inspect and receive transcripts of information whenever occasion demands shall be established.
3. The Company's regulations or any other systems for management of risk of loss
   (a) The supervisory divisions promote risk management activities throughout the Nippon Shinyaku Group based on the Nippon Shinyaku Group's Basic Risk Management Rules.
   (b) In preparation for situations in which a loss would seriously affect business operations, the necessary response policies and a response manual shall be formulated in advance, and necessary measures will be taken in the event of loss occurrence to minimize any potential damage.
4. System to ensure that the execution of duties of the Directors of the Company is efficient
   (a) The Representative Director, Executive Directors and Corporate Officers execute business based on their assigned duties, the Director Regulations, and the Corporate Officer Regulations.
   (b) Meetings of the Board of Directors shall be held once a month in principle, and also held on extraordinary occasions as necessary. Also, in cases that require urgent decision-making, the Board of Directors may carry written resolutions based on the laws and regulations, Articles of Incorporation, and other internal rules.
   (c) The Board of Directors formulates the Medium-term Management Plan and other plans for each fiscal year, while setting targets and maintaining the executive structure for the Nippon Shinyaku Group as a whole.
5. System to ensure proper business execution within the corporate group consisting of the Company and its subsidiaries

(1) Systems related to reporting to the Company on matters regarding the execution of duties by Directors of the Company's subsidiaries
   (a) The Group Companies Management Rules specifies matters that require reports from subsidiaries and the responsible parties, and the said rules shall be referred to in an appropriate manner.
   (b) Directors of subsidiaries shall provide reports and explanations to the Board of Directors as necessary.

(2) Regulations or any other systems for management of risk of loss at the Company's subsidiaries
   (a) Supervisory divisions promote risk management activities throughout the Nippon Shinyaku Group based on the Nippon Shinyaku Group's Basic Risk Management Rules.

(b) In preparation for situations in which a loss would seriously affect business operations, the necessary response policies and a response manual shall be formulated in advance, and necessary measures shall be taken in the event of loss occurrence to minimize any potential damage.

(3) System to ensure that the execution of duties of directors of the Company's subsidiaries is efficient

(a) The administrative divisions, etc., established at each subsidiary provide comprehensive management of overall business operations of these subsidiaries based on the Group Companies Management Rules.

(b) The Board of Directors, meetings of which are held regularly or in extraordinary cases, carries resolutions on important matters related to subsidiaries based on the Rules of the Board of Directors.

(4) System to ensure that directors and employees of the Company's subsidiaries execute their duties in compliance with laws and regulations and the Articles of Incorporation

(a) Information on the compliance with the Nippon Shinyaku Group's Code of Conduct shall be thoroughly disseminated.

(b) Compliance shall be promoted based on the Nippon Shinyaku Group's Compliance Operating Rules.

(c) The employee hotline for compliance reporting is operated as a whistleblowing contact point for compliance violations.

(d) In accordance with the Internal Auditing Regulations, the Internal Audit Department shall carry out internal audits of subsidiaries as necessary based on the Group Companies Management Rules.

6. Systems to ensure the effectiveness of audits by Corporate Auditors of the Company

(1) Matters concerning employees in the event that the Corporate Auditors of the Company request the assignment of employees to support the execution of their duties

(a) In the event that the Corporate Auditors request the assignment of employees to support the execution of their duties, employees shall be assigned who possess abilities corresponding to the content of those duties.

(2) Matters concerning employees' independence from Directors of the Company when supporting the duties of the Corporate Auditors of the Company and matters concerning ensuring the effectiveness of instructions for these employees

(a) Employees who support the Corporate Auditors are independent from the Directors, and perform their duties under the order and command of the Corporate Auditors.

(b) Personnel reassignment or evaluation of these employees requires the advance approval of the Board of Auditors.

(3) Systems for reporting to Corporate Auditors of the Company

(a) The Representative Director and Executive Directors shall issue reports to the Corporate Auditors on the execution of the business they are responsible for as required at important meetings such as the meeting of Board of Directors.

(b) Directors and employees of the Company and directors, corporate auditors, and employees of the Company's subsidiaries shall provide information required by the Corporate Auditors of the Company. In addition, they shall cooperate in the provision of reports when requested by the Corporate Auditors of the Company as needed.

(4) System to ensure that persons reporting to Corporate Auditors of the Company do not receive detrimental treatment as a result of making a report

(a) Persons who issue reports to the Corporate Auditors of the Company shall not receive any sort of detrimental treatment as a result, and this policy shall be thoroughly disseminated.

(5) Matters concerning policies for processing expenses or liabilities arising from the execution of duties by Corporate Auditors of the Company

(a) If the Corporate Auditors request prepayment or reimbursement for expenses related to the execution of duties, such request shall be handled in an appropriate manner.

(b) Expenses resulting from information collection, education, reference materials, etc., related to the execution of auditing duties pursuant to the audit plan shall be included in the budget and reserved.

(6) Other systems to ensure the effectiveness of audits by Corporate Auditors of the Company

(a) The Representative Director meets regularly with the Corporate Auditors to cultivate mutual understanding.

(b) The Board of Auditors is allowed to work in close cooperation with the Internal Audit Department.

We have focused on promoting compliance over the past years. Since 2007, we have established the "Nippon Shinyaku Group's Code of Conduct" for the Nippon Shinyaku Group and our affiliated companies, prepared the "Nippon Shinyaku Group's Compliance Operating Rules," and strived to raise awareness and enhance compliance with corporate ethics even further. In addition, we have made efforts to expand the scope of overall

internal controls including risk controls to Group companies, and worked on functional enhancement mainly led by CSR and the Internal Control Promotion Department. Furthermore, the Audit Department, a division which reports directly to the President, will perform internal audits to confirm the execution status of each business.

7. The operational status of the system to ensure proper business execution

(1) System to ensure that Directors and employees of the Company execute their duties in compliance with laws and regulations and the Articles of Incorporation

The Compliance Council comprised of members appointed by the compliance officer and the CSR Committee comprised of Executive Directors is convened to review and deliberate on the implementation, policy, and plan regarding compliance within the Group. In addition, departmental compliance training, training on the Code of Conduct, and level-based training covering managerial positions are implemented for all employees. The execution of duties of the Directors and employees is audited by the Corporate Auditors based on the Auditing Standards for Corporate Auditors or by the Internal Audit Department based on the internal audit plan. Furthermore, the employee hotline for compliance reporting (established at internal and external points) is operated as a whistleblowing and counseling contact point for compliance violations, through which cases of whistleblowing and counseling are reported to the Board of Directors semiannually.

(2) System for storage and management of information related to the execution of duties of Directors of the Company

Information is stored and managed appropriately in accordance with relevant laws and regulations such as the Companies Act and the "Information Handling and Management Rules," and is audited by the Corporate Auditors based on the Auditing Standards for Corporate Auditors. In addition, preparing for the cases where the Directors and Corporate Auditors request to inspect any materials, etc., a system that can respond to such request has been established.

(3) Other systems and regulations for management of risk of loss

We specify the major risks that may affects the entire Group and the major risks particular to each division based on the "Nippon Shinyaku Group's Basic Risk Management Rules," whereby we formulate and execute action plans with the aim of handling those risks. Furthermore, preparing for the event that a risk materializes, preventive measures for each risk and countermeasures, etc., are compiled in risk management sheets and reviewed as necessary.

(4) System to ensure that the execution of duties of Directors of the Company is efficient

Regular meetings of the Board of Directors were held once a month. There were also seven instances in which the resolution in writing without meeting was executed by electronic means. The Board of Directors confirmed the progress of the fiscal year plan, which was formulated in accordance with the Medium-term Management Plan, on a quarterly basis.

(5) System to ensure proper business execution within the corporate group consisting of the Company and its subsidiaries

On a quarterly basis, the Director (Chief Administrative Officer) who performs comprehensive management for all subsidiaries provided an overview, etc. on the business conditions of all subsidiaries, while the Directors (Administrative Officers) who manage each individual subsidiary provided overviews of the business conditions and management conditions, etc., of responsible subsidiaries, in accordance with the "Group Companies Management Rules." Additionally, the directors of the subsidiaries provided progress reports as appropriate at the meetings of the Board of Directors. Compliance training and risk management measures are implemented as appropriate based on the "Nippon Shinyaku Group's Compliance Operating Rules" and the "Nippon Shinyaku Group's Basic Risk Management Rules." In addition, the employee hotline for compliance reporting (established at internal and external points) is operated as a whistleblowing (counseling) contact point for compliance violations. Furthermore, audits are conducted based on the internal audit plan composed by the Internal Audit Department in order to guarantee the appropriateness of business operations.

(6) Systems to ensure the effectiveness of audits by Corporate Auditors of the Company

The Representative Director and Executive Directors issue reports with respect to performance status at meetings of the Board of Directors attended by the Corporate Auditors. Directors and employees of the Company as well as directors, corporate auditors, and employees of the Company's subsidiaries comply with requests by the Corporate Auditors to provide required information and cooperate with them. In addition, necessary expenses for auditing are included in the budget and reserved. Furthermore, it is disseminated that parties who issue reports to Corporate Auditors do not receive any sort of detrimental

treatment in accordance with the "Nippon Shinyaku Group's Compliance Reporting System Operational Regulations." In addition to holding two opinion exchange meetings attended by the Representative Director and the Board of Auditors, the Board of Auditors and the Internal Audit Department held an audit liaison meeting every month.

2. Basic Views on Eliminating Anti-Social Forces and Status of Related Efforts

In order to prevent any involvement in the Company's management activities by anti-social forces and organizations, and also to prevent the damage due to such forces, the basic views of the Company have been established in the Nippon Shinyaku Group's Code of Conduct.
The Company has established a responsible department to deal with issues related to anti-social forces, appointed personnel in charge of countering unjustified demands, and promotes activities in cooperation with regional corporate defense countermeasures associations, other related organizations, and related departments at the police headquarters, etc., in order to properly respond to anti-social forces.
We endeavor to gather information from regional organizations and related departments at the police headquarters to share such information with relevant parties within the Company through the documentation and distribution thereof. For information on specific cases, response procedures are compiled in a manual which is utilized for the education and training of internal relevant parties. Furthermore, we hold a conference for representatives of all domestic business sites, at which training sessions are provided based on a manual and other materials, and representatives from the Company's head office are dispatched to carry out workshops upon the request of business sites and related subsidiaries as occasion demands. As for the efforts within the Company, we ensure that report is made to confirm that we have not accommodated any requests for illegal profits from any specific shareholders or any other shareholders, and that there have been no illegal profits offered by anti-social forces, etc. On the other hand, in the case that such illegal profits are detected, we ensure that report is made immediately to the responsible department and take necessary countermeasures.

V. Other

1. Adoption of Anti-Takeover Measures

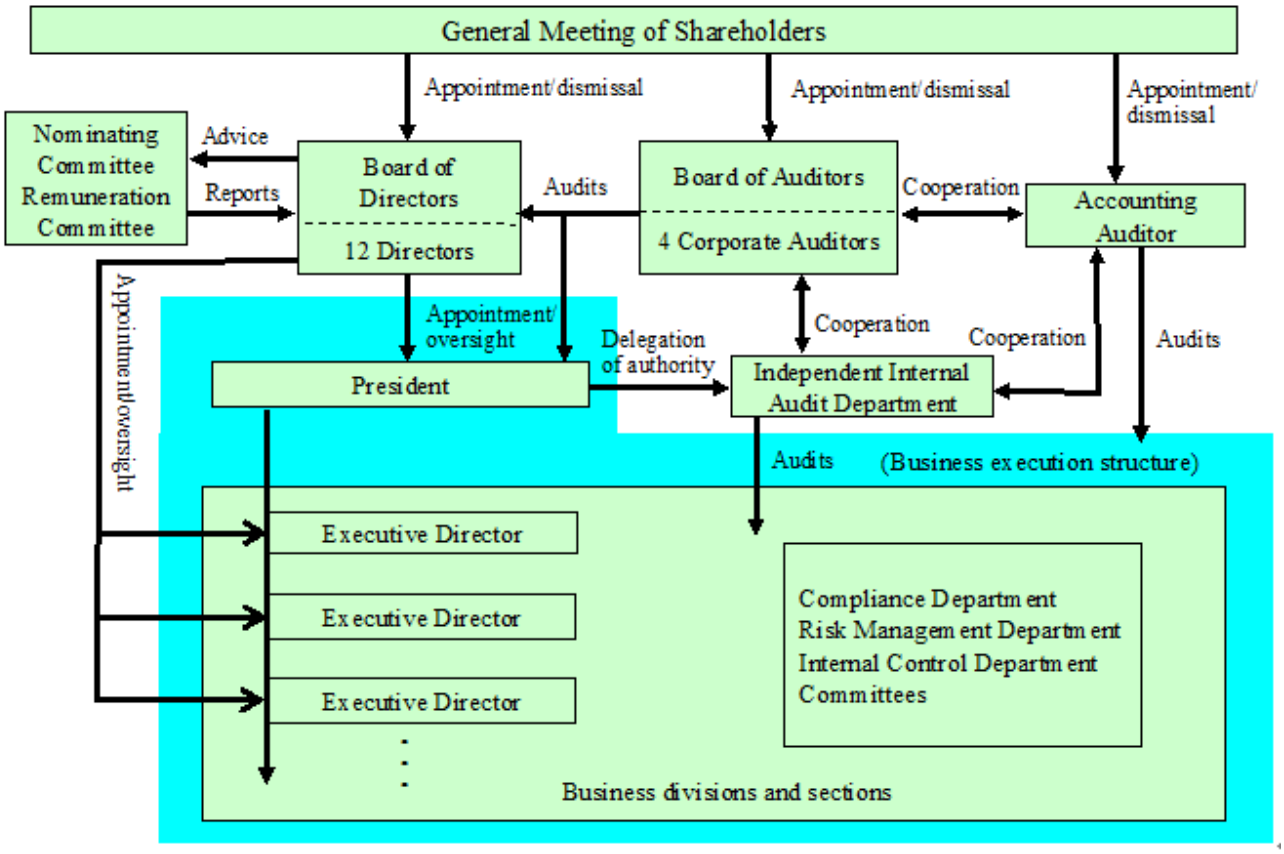
Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation on the above Item

The Company asks those who seek to make any Large-Scale Purchases of the Company's shares to provide information necessary and sufficient for the shareholders to decide properly on the appropriateness of the Large-Scale Purchase. The Company will also take other appropriate measures to the extent permitted under the Financial Instruments and Exchange Act, the Companies Act and other relevant laws and regulations, and the Articles of Incorporation of the Company through such initiatives as disclosure the opinions, etc., of its Board of Directors and efforts to ensure time and information for shareholders' review.
At the Annual General Meeting of Shareholders held in June 2007, we received the approval of the shareholders on the introduction of "Policies concerning Large-Scale Purchases of the Company's Shares (Takeover Defense Measures)." Although we renewed these policies with the approval of the shareholders at the Annual General Meeting of Shareholders held in June 2010 and June 2013, the effective term of these policies expired at the conclusion of the Annual General Meeting of Shareholders held in June 2016.

2. Other Matters Concerning to Corporate Governance System

"Overview of Timely Disclosure System"
Based on the criteria and procedures of information disclosure detailed in the "Information Disclosure Regulations," the Company makes timely, proper, and fair disclosure of important corporate information notified by the Board of Directors or proposed as subject to disclosure by the information retention divisions.
Regarding timely disclosure information for which disclosure is required under the "Securities Listing Regulations" stipulated by the Tokyo Stock Exchange,
1) Information related to financial results will be disclosed by the Finance & Accounting Department immediately after the resolution of the Board of Directors.
2) Timely disclosure information not related to the financial results, and information not subject to timely disclosure but still necessary to provide stakeholders with opportunities to accurately understand and properly evaluate the Company will be disclosed by the Corporate Communications Department.
Upon the disclosure of information which is not subject to timely disclosure, the "IR Committee," which is a division responsible for information disclosure in the Corporate Communications Department and was established in accordance with the aim of "Information Disclosure Regulations," will issue a report to the President for approval and make timely and proper disclosure therewith, following the examination of the necessity, timing and method of disclosure for the cases reported by each division.


General Meeting of Shareholders
Appointment/dismissal
Appointment/dismissal
Appointment/ dismissal
Nominating Committee Remuneration Committee
Advice
Reports
Board of Directors
12 Directors
Audits
Board of Auditors
4 Corporate Auditors
Cooperation
Accounting Auditor
Appointment/oversight
Appointment/ oversight
Delegation of authority
Cooperation
Cooperation
Audits
President
Independent Internal Audit Department
Audits
(Business execution structure)
Executive Director
Executive Director
Executive Director
Compliance Department
Risk Management Department
Internal Control Department
Committees
Business divisions and sections