Corporate Governance
CORPORATE GOVERNANCE

Nichi-Iko Pharmaceutical Co., Ltd.
Last update: January 24, 2020
Nichi-Iko Pharmaceutical Co., Ltd.
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The following is a description of our corporate governance structure.

I. Basic approach to corporate governance; capital structure, corporate attributes, and other basic information
1. Basic approach
The Nichi-Iko Group believes that the fundamental element of corporate governance is to ensure strict compliance with laws and regulations, enhance transparency in business management, raise awareness of corporate ethics, and make proper decisions and execute business transactions promptly. Enhancing and strengthening corporate governance is one of the key issues facing the group's business management unit. At present, we are in the process of developing internal control systems to strengthen our corporate governance structure.
We are also improving our auditing scheme and boosting our efforts to establish, maintain, and improve corporate ethics, compliance, internal controls, and risk management as a pharmaceutical company.

[Disclosure under the rules of the Corporate Governance Code] [Updated]
[Rule 1-4] Policy shareholdings
<Basic policy on policy shareholdings>
For mid- to long-term policy shareholding purposes, we invest in companies expected to have a significant effect on our business strategies. We review our policy shareholdings periodically and dispose of any if the significance of holding them has been lost or we conclude through dialogues with the investee that such holdings will not affect our business results.
Every year, the board of directors will evaluate individual policy shareholdings in terms of the purposes of ownership, benefits, risks, and capital costs associated with ownership in order to determine whether they should be held or not. These evaluation results are then disclosed.
<Criteria for exercising the voting rights of policy shareholdings>
We examine the proposals and exercise our voting rights in line with our business policies, the criterion here being whether the corporate value and return to shareholders will increase over the mid to long term.

[Rule 1-7] Related party transactions
Our company's transactions with its officers or any potential conflict-of-interest transactions are executed with the approval of the board of directors, and the results of such transactions are reported to the board of directors. Transactions with major shareholders, affiliated companies, or other related parties are also examined with regard to their business terms, and various procedures established under internal rules are conducted.

[Rule 2-6] Acting as a pension plan asset owner
All employees are entitled to participate in a defined contribution pension plan.

As the asset owner, our company provides plan participants with asset investment education and training and distributes investment return reports and the like to them periodically. We will continue to strengthen education and training for plan participants and encourage the utilization of the plan.
As mentioned above, some of our employees participate in independent corporate pension funds instead of in our plan. By monitoring these plan management organizations, we will ensure that such employees and our company will not be negatively affected.

[Rule 3-1] Expanded disclosures
<Management philosophies, strategies, and plans>
(i) We formulate and announce mid-term management plans continuously to define our management strategies and provide IR information proactively for institutional and individual investors both at home and abroad in an effort to gain wider acceptance for our plans.
<Basic approach and policy>
(ii) Our basic policy on corporate governance can be found on our website and in our corporate governance and securities reports.
<Policy and procedure for determining remuneration>
(iii) With regard to remuneration for management team executives and directors, the remuneration committee (established in February 2019) discussed a basic remuneration policy, including the basic structure and amounts for specific positions. This policy was approved by the board of directors. Officer remuneration consists of two components: basic remuneration (paid in cash) and performance-based remuneration (paid in shares). Remuneration levels are established in light of remuneration at other companies within the same industry or of similar scale, domestic and abroad, and our company's financial status.
<Appointment and removal policies and procedures>
(iv) Decisions on the appointment and removal of management team executives are made after all relevant factors have been taken into consideration, such as whether they have extensive experience and insight that will contribute to the company's sustainable growth and mid- to long-term increases in its corporate value. When prospective directors and auditors are proposed, we consider the balance of their potential impact across all our business operations, such as business management, sales, production, development, medicine, pharmaceuticals, finance and accounting, legal service, and auditing.
With regard to the appointment of directors and auditors, the nominating committee (established in February 2019) will discuss the nominations and advance proposals to the board of directors, which is the decision-making body. The appointments will take effect if approved at the shareholders meeting.
If any director or auditor is found to have done anything dishonest or detrimental to the company's credibility or to be unfit for the post, the nominating committee will discuss the matter and advance proposals to the board of directors. The board of directors will then approve a recommendation to encourage the director or auditor to resign. Such removal will take effect if approved at the shareholders meeting.
<Information on individual appointments, removals, or nominations>
(v) Candidates to become executive officers are discussed by the nominating committee (established in February 2019) and proposed to the board of directors. The board of directors makes appointment/removal decisions after considering all relevant factors, such as character, knowledge, and competence. Information concerning the proposed directors and auditors is provided in the notice of the shareholders meeting. Information about individual proposed directors and auditors can be found in the notice of the shareholders meeting.

[Supplementary Rule 4-1-1] An overview of the board of directors' roles and duties and of matters delegated to the management team

At our company, the board of directors is in charge of decision making and monitoring of the matters specified in the Companies Act, relevant laws and regulations and the company's Articles of Incorporation as well as the matters set forth below. The board of directors also supervises business management activities to ensure they are aligned with the company's business plans and management philosophies.
(1) Matters regarding shareholders meetings, etc.
(2) Matters regarding officers, etc.
(3) Matters regarding shares, etc.
(4) Basic business management policies and similar matters
(5) Matters regarding internal controls
(6) Matters regarding important business activities

The board of directors may delegate matters pertaining to business executive decisions other than those set forth above to directors and executive officers in order to introduce stricter supervision of business management in general. The board of directors ensures the establishment of appropriate structures within the Nichi-Iko Group, such as management meetings, internal control systems, and risk management schemes, so that decision making regarding the delegated matters is done in a rational manner.
To fulfill the roles and duties set forth above, directors are considered apart from executive officers. The directors' responsibilities for business management and supervision and the executive officers' responsibilities for business execution are clearly defined. Directors are assigned certain business management issues based on their expertise and are required to seek to ensure, by exercising supervision and direction across divisions and organizations, that issues are resolved and optimal decisions made by the board of directors.

[Rule 4-9] Criteria for evaluating the independence of independent outside directors and their qualifications
We have established our criteria for evaluating the independence of independent outside directors in line with those of a similar nature established by the Tokyo Stock Exchange and rely on these criteria when evaluating the independence of our independent outside directors.
Independent outside directors are chosen to make direct, decisive, and constructive contributions to the board. When making selections, we seek to expand diversity in terms of gender; we also seek to promote diversity with respect to nationality.

[Supplementary Rule 4-11-1] The balance, diversity, and size of the board of directors
Our board of directors has nine directors and four auditors. The basic qualification for placement on the board is expertise and experience in business management, sales, production, development, medicine, pharmaceutics, finance and accounting, legal services, or auditing. While paying attention to gender diversity, as we have always done, we will further promote diversity in nationalities.

Our outside directors include a president of a chamber of commerce and industry, a university professor, a lawyer, and a physician. All meet high standards for expertise and impartiality. Our outside auditors, including a certified public accountant and a certified tax accountant, also have high standards of expertise. Due attention has been paid to the balance of knowledge, experience, and competence on the board.

[Supplementary Rule 4-11-2] Directors and auditors who have positions with other organizations
Positions with other organizations held by outside directors and auditors are disclosed every year in the notice of shareholders meeting and in securities reports.
Some of the outside directors and auditors concurrently serve as officers of other listed companies, but only to a reasonable extent.

[Supplementary Rule 4-11-3] The evaluation of the overall effectiveness of the board of directors
From April to May 2019, we asked all directors and auditors to respond to a questionnaire intended to help us evaluate, following a fiscal 2017 evaluation, whether our directors in fiscal 2018 fulfilled their expected roles and the duties specified in our basic approach to corporate governance and to identify matters we must examine to increase the effectiveness of the board.

Major questions were asked concerning the following:
(1) composition of the board, (2) administration of the board, (3) agenda of the board, and (4) organizational support for the board.

Based on our analysis of their answers to 42 questions, we exchanged opinions at a board meeting in June 2019. As a result, we confirmed that our board was highly effective. At the same time, we confirmed that we could do more to make board meeting discussions more productive, including providing better preliminary explanations concerning important matters. Based on the results of this effectiveness evaluation, we will endeavor to make board meetings a more effective forum for discussion.

An overview of the results of this board effectiveness evaluation can be found on our website.
http://nichiiko-ir.irbridge.com/ja/CorporateGovernance.html

[Supplementary Rule 4-14-2] Training for directors and auditors
We provide our directors and auditors with opportunities to participate in internal training sessions and outside seminars and the like so that they can collect new information on current events, pharmaceutical affairs, and revisions to relevant laws and acquire knowledge in their respective areas of responsibility, thereby fulfilling their expected roles and duties.

[Rule 5-1] A policy on constructive dialogues with our shareholders
We are committed to dialogues with our shareholders through IR activities in order to promote sustainable growth and mid- to long-term increases in our corporate value.
Specifically, our president and CEO, directors, and the senior executive officer and head of the Administrative Division attend IR activities to engage in constructive dialogue with shareholders.
The Corporate Communication Department was established within the President Office in order to improve information disclosure to our investors and other stakeholders.
We hold semi-annual financial briefings and small meetings for our shareholders and investors. Further, given our shareholder composition, we hold briefing sessions for domestic individual investors from time to time, while the basic policy is to pay regular visits to foreign investors in the United States, Europe, and Asia.

2. Capital structure

Foreign shareholder ratio	10% or more but less than 20%

[Status of major shareholders] [Updated]

Name	Number of shares owned	Percentage
TAMURA Co., Ltd.	4,539,041	6.97
The Hokuriku Bank, Ltd.	2,831,850	4.35
The Master Trust Bank of Japan, Ltd. (Trust account)	2,599,300	3.99
Hiraku Co., Ltd.	2,122,600	3.26
Japan Trustee Service Bank, Ltd. (Trust account 9)	2,023,400	3.11

Japan Trustee Service Bank, Ltd. (Trust account)	2,014,300	3.09
Yuichi Tamura	1,790,507	2.75
Nipro Corporation	1,321,000	2.03
JPMC GOLDMAN SACHS TRUST JASDEC LENDING ACCOUNT	1,109,100	1.70
Japan Trustee Service Bank, Ltd. (Trust account 5)	967,400	1.48

Controlling shareholders (other than the parent company)	―――
Parent company	None

Supplementary explanation

Hiraku Co., Ltd. is a wholly owned subsidiary company of TAMURA Co., Ltd.

3. Corporate attributes

Stock exchange listing and market segment	First Section of the Tokyo Stock Exchange
Fiscal year end	March
Line of business	Pharmaceutical products
Number of (group) employees at the end of the immediately preceding business year	1,000 persons or more
(Consolidated) Sales in the immediately preceding business year	100 billion yen or more but less than one trillion yen
Number of consolidated subsidiary companies at the end of the immediately preceding business year	10 or more but less than 50

4. Guidelines on the protection of minority shareholders in transactions with a controlling shareholder

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5. Other special circumstances that may have material effects on corporate governance

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II. Status of management control organizations and other corporate governance structures regarding business decision making, execution, and supervision

1. Structure of organs: matters regarding the structure of organs and organization management, etc.

Form of organization	A company with company auditors

[Matters regarding directors]

Number of directors prescribed in the Articles of Incorporation	Nine
Term of director's office prescribed in the Articles of Incorporation	One year
Chairperson of the board of directors	President
Number of directors	Nine
The appointment of outside directors	Appointed
Number of outside directors	Four
Number of outside directors designated as independent officers	Four

Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Shigeo Takagi	From another company					△						
Hideki Sakai	Scholar										○	
Hajime Imamura	Lawyer											
Kyoko Tanebe	Other											

* Options regarding the type of relationship with the Company

* A white circle (○) indicates that the person falls or recently fell under the relevant category, and a white triangle (△) indicates that the person fell under the relevant category in the past.

* A black circle (●) indicates that the person's relative falls or recently fell under the relevant category, and a black triangle (▲) indicates that the person's relative fell under the relevant category in the past.

a. An executive of a listed company or its subsidiary company

b. An executive or a non-executive director of the parent company of a listed company

c. An executive of a fellow subsidiary company of a listed company

d. A person who mainly does business with a listed company, or its executive

e. A main business counterparty of a listed company, or its executive

f. A consultant or accounting or legal specialist who receives a large amount of money or other property from a listed company in addition to executive compensation

g. A major shareholder of a listed company (or an executive of that major shareholder if it is a juridical person)

h. An executive of a business counterparty of a listed company (one that does not fall under any of the categories d, e, and f above) (applicable only to the person under consideration)

i. An executive of a legal entity that accepts cross-installation of outside officers (applicable only to the person under consideration)
j. An executive of a legal entity that receives a donation from a listed company (applicable only to the person under consideration)
k. Other

Relationship with the Company (2) [Updated]

Name	Independent officer	Supplementary explanation about conformity	Grounds for selection
Shigeo Takagi	○	President of Toyama Chambers of Commerce and Industry	He developed extensive experience and insight through many years of service in the banking industry. He can be expected to deliver useful advice and judgment as an independent outside director, helping to increase board transparency and governance. This is why he has been appointed as an outside director and independent officer.
Hideki Sakai	○	Professor at University of Toyama, Graduate School of Medicine and Pharmaceutical Sciences for Research	He has developed extensive expertise and insight as a university professor. He can be expected to deliver useful advice and judgment as an independent outside director, helping to increase board transparency and governance. This is why he has been appointed as an outside director and independent officer.
Hajime Imamura	○	Head of Imamura Law Office	He has developed legal expertise and insight as a lawyer. He can be expected to deliver useful advice and judgment as an independent outside director, helping to increase board transparency and governance. This is why he has been appointed as an outside director and independent officer.
Kyoko Tanebe	○	Representative of Ladies' Clinic We! Toyama, Touseikai Medical Corporation	She has developed high levels of medical expertise and insight as a physician. She can be expected to deliver useful advice and judgment as an independent outside director, helping to increase board transparency and governance. This is why she has been appointed as an outside director and independent officer.

Establishment of a voluntary committee equivalent to a nominating or remuneration committee [Updated]	Established

Establishing voluntary committees, composition of committees, and attributes of chairpersons [Updated]

	Name of committee	Total number of members	Full-time members	Inside directors	Outside directors	Outside experts	Others	Chairperson
Voluntary committee equivalent to nominating committee	Nominating committee	5	0	2	2	0	1	Inside director

Voluntary committee equivalent to remuneration committee	Remuneration committee	5	0	2	2	0	1	Inside director

Supplementary explanation

Each committee has two independent outside directors, one independent outside auditor, and two inside directors.

[Matters regarding auditors]

Establishment of audit and supervisory board	Established
Number of auditors prescribed in the Articles of Incorporation	Four
Number of auditors	Four

Cooperation among the auditors, the accounting auditor, and the internal audit department

Tripartite information exchange meetings are held periodically to facilitate coordination among internal audits, the auditors' audits, and accounting audits. The internal control department receives various proposals from the auditing department, etc.

Appointment of outside auditors	Appointed
Number of outside auditors	Two
Number of outside auditors designated as independent officers	Two

Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)											
		a	**b**	c	d	e	f	g	h	i	j	k	l	m
Hitoshi Hori	Certified public accountant													
Ko Sato	Certified public accountant										△			

* Options regarding the type of relationship with the Company
* A white circle (○) indicates that the person falls or recently fell under the relevant category, and a white triangle (△) indicates that the person fell under the relevant category in the past.
* A black circle (●) indicates that the person's relative falls or recently fell under the relevant category, and a black triangle (▲) indicates that the person's relative fell under the relevant category in the past.
a. An executive of a listed company or its subsidiary company
b. A non-executive director or an accounting councilor of a listed company or its subsidiary company
c. An executive or a non-executive director of the parent company of a listed company
d. An auditor of the parent company of a listed company
e. An executive of a fellow subsidiary company of a listed company
f. A person who mainly does business with a listed company, or its executive

g. A main business counterparty of a listed company, or its executive
h. A consultant or accounting or legal specialist who receives a large amount of money or other property from a listed company in addition to executive compensation
i. A major shareholder of a listed company (or an executive of that major shareholder if it is a juridical person)
j. An executive of a business counterparty of a listed company (one that does not fall under any of the categories f, g, and h above) (applicable only to the person under consideration)
k. An executive of a legal entity that accepts cross-installation of outside officers (applicable only to the person under consideration)
l. An executive of a legal entity that receives a donation from a listed company (applicable only to the person under consideration)
m. Other

Relationship with the Company (2)

Name	Independent officer	Supplementary explanation about conformity	Grounds for selection
Hitoshi Hori	○	Representative partner of Hori Tax Accountant Corporation	He has reasonable knowledge about finance and accounting and would be very helpful with audits.
Ko Sato	○	General Manager of Certified Public Accountant Sato Ko Office	Having developed extensive experience and deep insight at an audit corporation, he would be very helpful with audits.

[Matters regarding independent officers]

Number of independent officers	Six

Other matters regarding independent officers

We have a board of independent officers of which all the independent outside directors (four persons) and independent outside auditors (two persons) are members. A lead independent officer is chosen by mutual vote. The board meets semi-annually, in principle.
Through its meetings, the board endeavors to make its independent and objective business supervision even more effective.

[Matters regarding incentives]

The status of plans granting incentives to directors	A stock option plan has been introduced.

Supplementary explanations about applicable items

We offer short-term and long-term incentive stock options.

Persons eligible for stock options [Updated]	Inside directors and other officers

Supplementary explanations about applicable items [Updated]

We offer a stock option plan to inside directors, entrusted executive officers, and entrusted administration officers.

[Matters regarding directors' remuneration]

Disclosure (of remuneration for individual directors)	Remuneration for each individual director is not disclosed.

Supplementary explanations about applicable items

Disclosed are the totals for all directors, auditors, and outside officers, respectively.

Policy for determining the amount of remuneration or its calculation method [Updated]	Provided

Disclosure of the policy for determining the amount of remuneration or its calculation method

The remuneration committee discussed a basic remuneration policy, including its basic structure and amounts for specific positions. This policy was approved by the board of directors. Officer remuneration consists of two components: basic remuneration (paid in cash) and performance-based remuneration (paid in shares). Remuneration levels are established in light of remuneration at other companies within the same industry or of similar scale, domestic and abroad, and our company's financial status.

[Support for outside directors (outside auditors)]
Outside directors are informed through the Administrative Division.
Outside auditors are informed through inside auditors.

2. Matters regarding business execution, audit and oversight, nomination, determination of remuneration, and other functions (an overview of our current corporate governance structure) [Updated]
The Nichi-Iko Group believes that the fundamental element of corporate governance is to ensure strict compliance with laws and regulations, enhance transparency in business management, raise awareness of corporate ethics, and make proper decisions and execute business transactions promptly. Enhancing and strengthening corporate governance is one of the key issues facing the group's business management unit. Our corporate governance structure rests on the strength of the board of directors and the audit and supervisory board.
The board of directors is composed of nine directors, including four outside directors, so that we can fully discuss and make decisions concerning management strategy. The board meets at least once a month to discuss and determine basic management policies and strategies so that the changes and demands of the times can be met promptly. A management meeting, composed of directors, auditors, executive officers, etc., meets once a week in principle to receive reports on, discuss, and make decisions on the execution of important issues. The management meeting endeavors to promptly form proper business judgments and instructions based on shared awareness of issues and solidarity in execution among all the participants, raising transparency and soundness and achieving efficiency and agility with respect to our company activities in general.

The audit and supervisory board is composed of two full-time auditors and two outside auditors. The auditors attend meetings of the board of directors and other important meetings to deliver their opinions on the legality and validity of certain business transactions and to properly audit overall business management from an impartial standpoint.
The audit and supervisory board periodically holds tripartite information exchange meetings with the internal audit department and the accounting auditor. The board advances necessary proposals to the internal control department on corporate ethics, compliance, risk management, and the establishment, improvement and application of internal checks, all of which are required of a pharmaceutical company.
With regard to the nomination of directors, we have a nominating committee, which submits proposals to the board of directors based on deliberations. With regard to remuneration for directors, we have established a remuneration committee, which submits proposals to the board of directors based on deliberations. These represent efforts to ensure the transparency of business management by enhancing functional independence and objectivity and the accountability of the board of directors.

3. Rationale for the current corporate governance structure
We believe that the quality of our corporate governance structure is critical to implementing good business management and winning the trust of our shareholders and other investors.
The rationale for our current corporate governance structure is our belief that enhanced supervision by highly independent outside directors and enhanced auditing by outside auditors, coupled and synergized with internal audits, the auditors' audits, and accounting audits, enables us to make useful proposals to the internal control department and thus is the most appropriate means for strengthening corporate governance.

III The status of measures regarding shareholders and other stakeholders

1. Initiatives to invigorate a shareholders meeting and ensure the smooth exercise of voting rights

	Supplementary explanation
Early delivery of a notice of shareholders meeting	The notice is delivered more than two weeks in advance, as prescribed.
Avoidance of common meeting dates	Common meeting dates are avoided so that as many shareholders as possible can be present.
Exercise of voting rights by electromagnetic means	Voting rights can be exercised online.
Participation in an electronic voting platform and other initiatives to facilitate the exercise of voting rights by institutional investors	We have opened an electronic voting platform.
Provision of a notice of meeting (summary) in English	A notice of meeting and reference documents for the meeting, in their narrow senses, are provided in English.
Other	At shareholders meetings, our management policies, business strategies, business reports, etc., are presented in an easy-to-understand way, using visuals and other presentation tools.

2. The status of IR activities

	Supplementary explanation	Explanation by the representative himself/herself
Creation and announcement of a disclosure policy	It is announced on our website.	
Periodic briefing sessions for individual investors	We hold briefing sessions for individual investors from time to time.	Provided
Periodic briefing sessions for analysts and institutional investors	We hold Q2 and whole-year financial briefings in Tokyo.	Provided
Periodic briefing sessions for foreign investors	We periodically visit individual foreign investors in order to engage in dialogue with them. We also participate in conferences organized by securities firms in order to have dialogues with investors.	Provided
Online release of IR materials	Reference materials for financial briefings, mid-term management plans, financial summaries, securities reports, and the like are available on our website. The reference materials for financial briefings, mid-term management plans, and financial summaries are available in English, too.	
Appointment of a department (person) in charge of IR activities	The Corporate Communication Department within the President Office is in charge of IR activities. Contact ir@nichiiko.co.jp	
Other	We hold meetings with individual institutional investors both at home and abroad.	

3. Initiatives for respecting stakeholders' position

	Supplementary explanation
Internal rules, etc., that respect the position of stakeholders	We wrote the Nichi-Iko Group Corporate Charter of Conduct to ensure respect for the position of stakeholders and distributed a mission statement handbook to all employees.
Environmental protection and CSR activities, etc.	Since 2005, we have been supporting seeing-eye dog training projects. We support the Cool Biz campaign to prevent global warming.
Formulation of policies on the provision of information to stakeholders	The Nichi-Iko Group Corporate Charter of Conduct provides for information disclosure to stakeholders and its protection.

IV Matters regarding internal control systems, etc.

1. Basic approach to internal control systems [Updated]

Pursuant to the Companies Act and the Regulation for Enforcement of the Companies Act, we have established a structure for ensuring the conformity of the execution of duties by directors to laws and regulations, the Articles of Incorporation, and other structures prescribed in a Ministry of Justice ordinance as necessary to ensure the appropriate conduct of a stock company's business ("Internal Control Systems"), as described below.

1. Structures for ensuring appropriate business conduct

1) The establishment of structures for ensuring the conformity of the execution of duties by directors to laws and regulations and the Articles of Incorporation

As foundations for its compliance structure, we will establish the Nichi-Iko Group Corporate Charter of Conduct, the Nichi-Iko Group Code of Conduct for Officers and Employees, and the Nichi-Iko Group Compliance Rules to establish codes of conduct that will ensure compliance with laws and regulations and the Articles of Incorporation. The President and CEO will repeatedly communicate the spirit behind these materials so that compliance will be the fundamental element of all corporate activities. To this end, we will establish an internal control committee composed of the President and CEO as the chairperson and division heads and directors, etc., as members in order to promote the establishment, maintenance, and improvement of Internal Control Systems. We will further establish a compliance committee in order to improve and maintain the Internal Control Systems.

The compliance committee, chaired by the director in charge of compliance, will identify, analyze, and address compliance issues for the Nichi-Iko Group and develop relevant rules and guidelines and provide training in them.

If any compliance issue is discovered at a division or subsidiary company, it must be promptly reported to the compliance committee. The committee will then endeavor to collect information pursuant to the Whistleblower System Rules, investigate what has been reported, determine recurrence prevention measures after consultations with relevant business departments, ensure their implementation across the Group, and submit reports to the risk management committee, the President and CEO, and the board of directors.

The director in charge of compliance, the audit and supervisory board, the internal audit department, and the accounting auditor will meet periodically to exchange information and report their results to the compliance committee.

We will take an uncompromising attitude towards antisocial forces and groups that are threats to the order and safety of civil society. If we receive any undue or unlawful demands, we will make systematic responses in close cooperation with the police, lawyers, and other outside specialist organizations.

2) The establishment of other structures prescribed in a Ministry of Justice ordinance as necessary to ensure the appropriate conduct of the business of a stock company and of an enterprise group composed of that stock company and its subsidiary companies

① Structures regarding the storage and management of information on the execution of duties by directors

Pursuant to the document handling rules, document management rules, and confidential document management rules, we will record and store information on the execution of duties by directors in writing or using electronic media ("Documents"). Directors and auditors can access these Documents at any time pursuant to the document handling rules, the document management rules, and the confidential document management rules. The Documents will be kept available for at least 10 years, as appropriate.

Pursuant to the basic information security policy and other information security rules, we will protect and manage electronic information and promote its smooth and effective utilization.

② Rules regarding management of loss risk and other structures

As a foundation for our risk management structure, we will establish the Nichi-Iko Group Risk Management Rules and organize a risk management committee composed of the President and CEO as the chairperson and division heads and directors, etc., as members. Pursuant to our basic risk management policy, we will identify and properly address (by establishing structures and series of processes for risk management) material risks to the Group, including potential risks to the promotion and expansion of its business and to its corporate value, to ensure that its business can grow continuously and steadily.

③ Structures for ensuring the efficient execution of duties by directors

We will set goals for ourselves and communicate them across the Group. Each business director will determine efficient ways to attain these goals, including exactly what should be done by each department and how necessary authorities should be apportioned, and carry out business activities accordingly. We will establish IT-based systems that will promptly digitize the results, enable the board of directors to conduct periodic reviews, and encourage the elimination or reduction of hindrances to efficiency improvement, thereby helping to increase the probability of achieving our goals and enhancing business efficiency across the Group.

④ Structures for ensuring the conformity of the execution of duties by employees to laws and regulations and the Articles of Incorporation

The basic policy regarding the “establishment of structures for ensuring the conformity of the execution of duties by directors to laws and regulations and the Articles of Incorporation” in 1) above will be applied *mutatis mutandis*.

⑤ The structures set forth below and other structures for ensuring the appropriate conduct of the business of an enterprise group composed of our company and its subsidiary companies (“Nichi-Iko Group”)

Our company’s internal control committee will establish structures and systems for achieving efficiency in internal control discussions, the sharing of information, and the relaying of instructions and requests within the Nichi-Iko Group. The directors, executive officers and Directors of our company, and the presidents of its subsidiary companies will have authority and responsibility to establish and operate internal structures for ensuring appropriate business execution at their respective departments. Our company’s Compliance & Internal Auditors Office will conduct internal audits of the Nichi-Iko Group and report the results to the internal control committee and relevant department managers. The internal control committee will provide guidance, support, and advice on internal control improvements, as appropriate.

Pursuant to the Financial Instruments and Exchange Act, we will establish and operate necessary and appropriate internal control systems to ensure the reliability of financial reports for the Nichi-Iko Group. The Compliance & Internal Auditors Office will evaluate the effectiveness of internal controls, propose corrective actions if any inadequacies are found, and report the results (including the results of such corrections) to the board of directors.

a. Structures regarding the reporting to our company of matters regarding the execution of duties by the directors, etc., of subsidiary companies

- Pursuant to its affiliate management rules, our company will request the submission of relevant documents, etc., from its subsidiary companies so that our company can have an accurate picture of their business management activities.

- Our company will hold subsidiary company meetings at which its subsidiary companies will report on their operating results, financial condition, and other important information to our company.

b. Rules regarding management of loss risk and other structures for subsidiary companies

- Our company will require risk management by its subsidiary companies in its Nichi-Iko Group Risk Management Rules, which provide for risk management by and for the Nichi-Iko Group. Our company will also act as a general and chief risk manager for the Nichi-Iko Group.
- Our company will administer the risk management committee as an organ responsible for risk management for the Nichi-Iko Group, discussing issues and measures regarding the promotion of risk management for the Nichi-Iko Group.

c. Structures for ensuring the efficient execution of duties by the directors, etc., of subsidiary companies

Our company will formulate a mid-term management plan for the Nichi-Iko Group and establish annual management plans and budgets, etc., for the Nichi-Iko Group as a means of giving a concrete form to the mid-term management plan.

d. Structures for ensuring the conformity of the execution of duties by the directors, etc., and employees of subsidiary companies to laws and regulations and the Articles of Incorporation

- Our company will cause structures to be established that will notify all the officers and employees of the Nichi-Iko Group that their business activities must be conducted in a legal and fair way as demanded by society, pursuant to the Nichi-Iko Group Corporate Charter of Conduct and the Nichi-Iko Group Code of Conduct for Officers and Employees.
- Our company will provide the officers and employees of the Nichi-Iko Group with annual compliance training and establish whistleblower systems that will enable our company to discover and respond to any violations of laws and other compliance issues early on.

⑥ Matters regarding employees, if any, that the auditors want like to seek assistance from regarding their duties (assistant employees)

Our company will assign certain employees to assist the auditors with their duties on a full-time basis. These employees will be selected jointly by the auditors and the directors.

⑦ Matters regarding the independence of assistant employees from the directors

Employees engaged to assist the auditors with their duties are independent of and do not take any instructions or orders from the directors in terms of the implementation of auditing operations pursuant to the auditors' instructions.

⑧ Matters regarding how to ensure the effectiveness of instructions to employees engaged to assist the auditors with their duties

Our company will notify its officers and employees that employees engaged to assist the auditors with their duties will follow the auditors' instructions and orders.

⑨ The structures set forth below and other structures regarding reporting to our company's auditors

a. Structures by which our company's directors and employees report certain matters to the auditors

- Directors and employees will give periodical reports to the auditors on legal matters as well as matters that have material effects upon the Nichi-Iko Group, the status of internal audits, and reports received under the Whistleblower System Rules, including their contents.

b. Structures by which the directors and auditors, etc., and employees of subsidiary companies or persons receiving reports from them report certain matters to our company's auditors

- The officers and employees of our company's subsidiary companies will promptly make proper reports to our company's auditors on matters regarding business execution if so requested.

- If any officer or employee of any of our company's subsidiary companies discovers any violation of laws or other illegal acts or any other thing that may cause substantial damage to the Nichi-Iko Group, he or she will immediately report to our company's subsidiaries management department or the designated contact for whistle blowers.
- Departments within our company that are responsible for internal auditing, compliance, risk management, and the like will make periodical reports to our company's auditors on the status of its subsidiary companies.
- Departments assigned to receive whistle blowers' reports will make periodical reports to our company's directors and auditors on such reports from officers and employees of the Nichi-Iko Group, ensuring the anonymity of the whistle blowers.

⑩ Structures for ensuring that persons making reports to auditors will not receive unfavorable treatment because of such reporting

Our company will introduce a policy against giving unfavorable treatment to officers and employees of the Nichi-Iko Group who have made reports to auditors because of such reporting, and we will thoroughly notify the officers and employees of the Nichi-Iko Group of this policy.

⑪ Matters regarding procedures for paying in advance or returning expenses incurred in connection with the execution of duties by the auditors, and other policies on the handling of expenses or debts incurred in connection with the execution of such duties

Expenses incurred in connection with the execution of duties by the auditors will be borne by the company pursuant to prescribed procedures within the limits of the company's expense budgets.

⑫ Other structures for ensuring effective auditing by the auditors

The audit and supervisory board will meet the President and CEO and the accounting auditor periodically, but separately, to exchange opinions.

2. An overview of how structures for ensuring appropriate business conduct function

1) Compliance by our company and subsidiaries

・The officers and employees of the Nichi-Iko Group are required to undergo annual compliance training to ensure appropriate business conduct in accordance with the Nichi-Iko Group Corporate Charter of Conduct, the Nichi-Iko Group Code of Conduct for Officers and Employees, the Nichi-Iko Group Compliance Rules, and other applicable standards. Compliance-related information is periodically distributed across the Group to inform everyone in the Group.

・Reports from whistleblowers are submitted to the compliance committee, which meets periodically, for early detection and correction of any issues.

2) Risk management at our company and subsidiaries

・A risk management committee is periodically convened to evaluate the Nichi-Iko Group's risk exposure and to take any necessary actions.

・The risk management committee identifies and revisits potentially serious business management risks. The committee implements appropriate risk management actions, such as organizing committees or project teams for marked risks.

・The Nichi-Iko Group has established both information security measures and business continuity plans (BCPs). A disaster handbook has been formulated and distributed to officers and employees.

3) Audits by auditors

・All auditors attend meetings of the board of directors and regular meetings with the president and CEO. The auditors also exchange opinions with the accounting auditor and the internal audit department.

・Full-time auditors attend weekly management meetings and other important meetings; inspect important documents, such as those for circular-based approval; and submit reports to the monthly meeting of the audit and supervisory board. These activities are in fulfillment of their obligation to audit the execution of duties by directors. The auditors also monitor overall Nichi-Iko Group’s internal control systems through interviews with Group directors and employees.
・We employ one assistant to the auditors.
4) Establishing nominating and remuneration committees
・At its February 12, 2019 meeting, the board of directors decided to establish a nominating committee and a remuneration committee as voluntary advisory organs to further upgrade and strengthen corporate governance.
・The nominating committee and remuneration committee were established to enhance the functional independence, objectivity, and accountability of the board of directors with regard to matters such as the appointment and removal of directors and the determination of their remuneration and to ensure the transparency of business management.
・The nominating committee discusses the appointment of directors, the selection and removal of representative directors and directors with titles and the like, and makes proposals to the board of directors.
・The remuneration committee discusses director remuneration policies and amounts and submits proposals to the board of directors.

2. Basic approach to the exclusion of antisocial forces, and the status of structures for this purpose pursuant to the Guideline on How Companies Can Prevent Damage from Antisocial Forces, our company has established its Antisocial Force Response Management Rules and notified all group companies on how they should respond to antisocial forces.

V Other

1. Antitakeover measures

Antitakeover measures	Provided

Supplementary explanations about applicable items

At our company’s 53rd annual shareholders meeting held on June 16, 2017, a proposal was made to introduce measures against the purchasing of our company’s shares in large quantities in order to protect against any abusive acquisition of our company and secure and enhance its corporate value (and hence all common interests with its shareholders). This proposal was passed with a majority of the voting rights of shareholders present and took effect as of the day of the annual shareholders meeting.

2. Other matters regarding corporate governance structures, etc. [Updated]

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