

# Corporate Governance

## Basic Policy



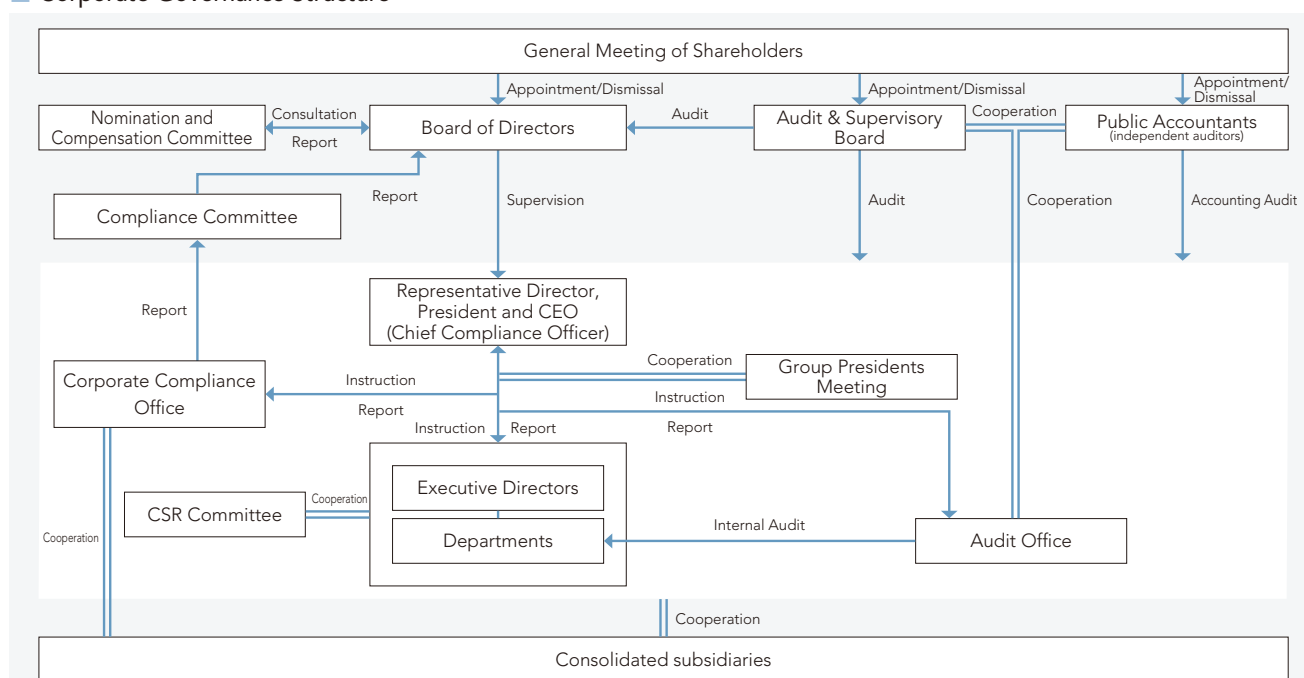
The MEDIPAL Group ensures sound, transparent management and places importance on maximizing corporate value. The Group also believes that appropriately disclosing high-quality information is one of its responsibilities to stakeholders, and that it enhances the transparency and soundness of management. Therefore, the Group takes a proactive approach to appropriate and timely disclosure.

## Change in Governance Structure/Progress of Strengthening Our Initiatives

Male Female

|  | Independent Outside Directors<br>(Number of people and ratio) | Independent Officers<br>(Number of people and ratio) | Organizational Structure/System  |
|--|---|--|--|
| Fiscal year ended March 31, 2014                                     | 1 (11.1%)   | 4 (28.6%)  | <ul style="list-style-type: none"> <li>Abolishment of the Directors' retirement benefits system (June 2006)</li> </ul>   |
| Fiscal year ended March 31, 2015                                     | 2 (20.0%)   | 6 (33.3%)  |  |
| Fiscal year ended March 31, 2016                                     | 2 (20.0%)   | 6 (33.3%)  |  |
| Fiscal year ended March 31, 2017                                     | 2 (22.2%)   | 7 (35.7%)  |  |
| Fiscal year ended March 31, 2018 to Fiscal year ended March 31, 2019 | 3 (30.0%)   | 8 (40.0%)  |  |
| Fiscal year ended March 31, 2020                                     | 3 (30.0%)   | 8 (40.0%)  | <ul style="list-style-type: none"> <li>Began third-party evaluations of the effectiveness of the Board of Directors (February 2020)</li> <li>Established Nomination and Compensation Committee (March 2020)</li> </ul> |
| Fiscal year ended March 31, 2021                                     | 4 (36.4%)   | 10 (43.8%)   | <ul style="list-style-type: none"> <li>Corporate Compliance Office established as an organization directly under the president (June 2020)</li> <li>Compliance Committee established (January 2021)</li> </ul>         |
| Fiscal year ending March 31, 2022                                    | 4 (33.3%)   | 10 (41.2%)   |  |

## Corporate Governance Structure



## Role and Composition of Board of Directors

[ Ratio of Outside Directors: **33.3%** (4/12) ] [ Ratio of Female Directors: **16.7%** (2/12) ]

The Board of Directors of MEDIPAL HOLDINGS CORPORATION (the Company) includes 12 Directors (10 men and 2 women; 4 outside directors) and considers and decides matters stipulated by management policy and by law, as well as other important matters concerning corporate management, and also supervises the status of overall business execution. The Board holds monthly meetings and, when necessary, extraordinary meetings. Audit & Supervisory Board members attend these meetings.

Representative directors of main consolidated subsidiaries are appointed as directors of the Company to share information.

The Company has also adopted the executive officer system to clearly separate the functions of management decision making and supervision from business execution. Senior managers of the main consolidated MEDIPAL Group companies are appointed as executive officers of the Company with the objective of upgrading and improving the corporate governance system. They periodically

exchange information, as well as deliberate and conduct studies, which helps maintain organizational unity.

In addition, to promote efficient Group management activities, representative directors, directors, and representative directors of consolidated subsidiaries designated by the president hold the Group Presidents Meeting. Functioning as an advisory council, the Group Presidents Meeting convenes once a month, in principle, to share information on the Group's management strategies and deliberate and consider business solutions. Meetings of the Board of Directors were held as follows in the fiscal year ended March 31, 2021.

|  |   |      |
|--|---|------|
| Meetings of the Board of Directors in the Fiscal Year Ended March 31, 2021 | Meetings:   | 13   |
|  | Outside director attendance rate:                         | 98%  |
|  | Outside Audit & Supervisory Board member attendance rate: | 100% |
|  |   |      |

## Director Appointment Policy

### ① Director Appointment Policy

The basic policy is to appoint as director individuals who will take the lead in sincerely implementing compliance initiatives as well as individuals with extensive experience, excellent judgement, and a high level of specialization in order to contribute to the Group's sustainable growth and medium-to-long-term improvement of corporate value.

#### a) Internal Directors

Candidates are chosen from among individuals with work history and skills in corporate management, healthcare, M&As, governance, IT, etc. Candidates must possess the appropriate leadership skills to promote the Group's management philosophy as well as a medium-to-long-term perspective as someone engaged in supervision of management's decision-making and business execution. We also give comprehensive consideration to factors such as personality and experience.

#### b) Outside Directors

Candidates are chosen from among individuals with knowledge and extensive experience in corporate management, healthcare, finance/accounting, judicial affairs, international affairs, etc. We also give comprehensive consideration to factors such as personality and concurrent service as an officer at another company. In principle, the total term in office is a maximum of eight or twelve years (four years as an Audit & Supervisory Board member with two or

three terms). Outside directors are prohibited from serving as an officer at more than four companies. Notwithstanding, even in the event that a candidate does not meet the separately determined independence requirements, an individual with good judgement and a high ethical viewpoint can be selected as a candidate for outside director. However, in such a case, the ratio of independent outside directors shall be one-third or higher.

### ② Director Appointment Procedure

Director candidates shall be discussed at the General Meeting of Shareholders after deliberation by and reports from the Nomination and Compensation Committee (with the majority of members being outside directors and an outside director serving as the chair of the committee), and a resolution by the Board of Directors. The selection of representative directors as well as directors with special titles is conducted by the Board of Directors after deliberation by and reports from the Nomination and Compensation Committee.

### ③ Director Dismissal Procedure

In a case where a director commits an act that violates laws and ordinances or the articles of incorporation, or in a case where a director shows inadequate ability to carry out his/her professional duties due to negligence or other reasons, the Board of Directors will deliberate on the matter after fair and rigorous consideration by the Nomination and Compensation Committee.

## About the Nomination and Compensation Committee

As a measure to enhance corporate governance, the Nomination and Compensation Committee was voluntarily established as an advisory body to the Board of Directors for the purpose of improving the fairness, transparency and objectivity of procedures related to the nomination and compensation of directors. The Nomination and Compensation Committee shall, in response to requests from the Board of Directors, discuss and report to the Board of Directors on the following matters.

- (1) Matters Related to Nomination
- ① Policy on appointment and dismissal of directors
  - ② Matters concerning appointment and dismissal of directors (matters subject to resolution by the General Meeting of Shareholders)
  - ③ Matters concerning appointment and dismissal of representative directors
  - ④ Matters concerning appointment and dismissal of executive directors
  - ⑤ Matters concerning succession plans
- (2) Matters Related to Compensation
- ① Policy on compensation of directors, etc.
  - ② Matters concerning director compensation limits (matters subject to resolution by the General Meeting of Shareholders)
  - ③ Matters concerning compensation of individual directors
- (3) Other Management Matters the Board of Directors Deems Important

The Nomination and Compensation Committee is composed of three members or more selected in accordance with the resolution of the Board of Directors. Outside directors account for a majority of the members, and the committee is also chaired by an outside director.

### Committee Composition (As of March 31, 2021)

|                        |  |
|------------------------|--|
| Nomination Committee   | Toshio Asano (Committee Chair/Outside Director)<br>Mitsuko Kagami (Outside Director)<br>Kuniko Shoji (Outside Director)<br>Koichi Mimura (Outside Director)<br>Shuichi Watanabe (Representative Director, President and CEO)<br>Yuji Sakon (Managing Director) |
| Compensation Committee | Toshio Asano (Committee Chair/Outside Director)<br>Mitsuko Kagami (Outside Director)<br>Kuniko Shoji (Outside Director)<br>Koichi Mimura (Outside Director)<br>Toshihide Yoda (Senior Managing Director)<br>Yuji Sakon (Managing Director)                     |

In the fiscal year ended March 31, 2021, the committee met a total of five times. Below is a summary of its activities.

1. Regarding nominations, the committee discussed the following matters and reported its conclusions to the Board of Directors: (1) director candidates to be voted on at the General Meeting of Shareholders in June 2021, and (2) the disclosure of a board skills matrix.
2. Regarding compensation, the committee discussed the following matters and reported its conclusions to the Board of Directors: (1) a review of director compensation (including the introduction of a stock-based compensation system), and (2) corporate officer bonuses to be paid in June 2021.
3. Going forward, the committee will continue comprehensive deliberations including (1) a review of director compensation (total amount of compensation, related evaluation items, eligible corporate officers, introduction of a stock-based compensation system, etc.), and discussion of issues identified in the evaluation of the effectiveness of the Board of Directors, (2) the composition of the Board of Directors, and (3) succession plans.

In addition, to further improve the effectiveness of the Board of Directors, we have held roundtable conferences and informal luncheon gatherings between outside corporate officers and management executives as part of efforts to increase opportunities for discussing governance-related issues with outside corporate officers.

## Role and Composition of Audit & Supervisory Board [Ratio of Outside Audit & Supervisory Board Members: **60.0%** (3/5)] [Ratio of Female Audit & Supervisory Board Members: **20.0%** (1/5)]

The Company employs an audit & supervisory board system, to which it appoints 5 members (1 female, 4 male, and three of whom are outside members).

In addition to attending the above-mentioned meetings, Audit & Supervisory Board members strictly audit the legality and adequacy of business execution by Directors, based on the standards determined by the Audit & Supervisory Board, and exchange views with the independent auditors. The Audit & Supervisory Board

members of the Group also exchange information and cooperate with each other.

Status of meetings of the Audit & Supervisory Board in the fiscal year ended March 31, 2021 is described below.

|   |  |
|---|--|
| Meetings of the Audit & Supervisory Board in the Fiscal Year Ended March 31, 2021 | Meetings: 13   |
|   | Outside Audit & Supervisory Board member attendance rate: 100% |

## Standards of Independence for Independent Officers

The Group, after receiving reports of the Nomination and Compensation Committee, enacts specific, quantitative standards for ensuring the rationality of judgements on the independence of outside directors. If none of the following cases apply, outside directors and outside Audit & Supervisory Board members as well as candidates for such positions may be judged as having sufficient independence.

- ① Executive person<sup>1</sup> of the Company and its affiliated companies (hereinafter referred to as "the Group")
- ② Major lender<sup>2</sup> to the Group or its executive person
- ③ Major client<sup>3</sup> of the Group or its executive person
- ④ Major shareholder<sup>4</sup> of the Group or its executive person
- ⑤ Financial auditors who belong to a company that audits the Group
- ⑥ Consultants, accounting specialists or legal experts who obtain large monetary payments<sup>5</sup> or other assets from the Group outside of compensation for directors (also applies to members of a corporation, association or other organization that is obtaining such assets)

- ⑦ Those receiving large donations from the Group (also applies to members of a corporation, association or other organization that is receiving such donations)
- ⑧ Executive officers of companies, parent companies or subsidiaries that take in a director from the Group.
- ⑨ Those for whom ② to ⑧ have been applicable in the past five years
- ⑩ A near relative<sup>6</sup> of those for whom ② to ⑧ above are applicable (restricted to those in important positions<sup>7</sup>)

1. An executive person is defined as an executive director, an executive, an executive officer, or others who conform to these conditions as well as their employees.
2. A major lender is defined as a financial institution with which the lending amount corresponds to 2% or more of the Group's total consolidated assets.
3. A major client is defined as one with which the annual transaction amount is 2% or more of the Group's consolidated sales.
4. A major shareholder is defined as one who directly or indirectly possesses 10% or more of the consolidated voting rights.
5. A large monetary payment is defined as ¥10 million or more annually in the case of individuals, or in the case of a corporation, association or other organization, an amount equivalent to 2% of the organization's annual consolidated income, on an average of the past three fiscal years.
6. A near relative refers to a spouse or a relation within the second degree.
7. Those in important positions refers to an executive or others who conform to these conditions with a position of director (excluding outside directors), executive, executive officer, or department manager or higher.

### Outside Directors' Attendance at Board of Directors Meetings

(Fiscal year ended March 31, 2021)

| Name           | Independent Officer | Attendance    |
|----------------|---------------------|---------------|
| Mitsuko Kagami | ○                   | 100% (13/13)  |
| Toshio Asano   | ○                   | 92% (12/13)   |
| Kuniko Shoji   | ○                   | 100% (13/13)  |
| Koichi Mimura  | ○                   | 100% (10/10)* |

\* Number of meetings held since being inaugurated on June 25, 2020

### Outside Audit & Supervisory Board Members' Attendance at Audit & Supervisory Board Meetings

(Fiscal year ended March 31, 2021)

| Name            | Independent Officer | Attendance   |
|-----------------|---------------------|--------------|
| Tetsuo Kitagawa | ○                   | 100% (13/13) |
| Tomoyasu Toyoda | ○                   | 100% (13/13) |
| Yoko Sanuki     | ○                   | 100% (10/10) |

## Support System for Outside Directors and Outside Audit & Supervisory Board Members

We have established a system that enables mutual cooperation between outside directors and outside Audit & Supervisory Board members and the Audit Office, Audit & Supervisory Board members, independent auditors, and various departments. This system enables these parties to coordinate as necessary, either directly or indirectly, through methods such as email or telephone.

In addition, outside directors and outside Audit & Supervisory Board members issue statements at meetings of the Board of Directors, and express their frank opinions through means such as creating opportunities for briefings ahead of important discussions. The Company also periodically provides opportunities to view worksites at subsidiaries.

## Evaluation of the Effectiveness of the Board of Directors

The Group periodically verifies the effectiveness of the Board of Directors. Based on those evaluations, we implement measures on an ongoing basis for the improvement of issues and the enhancement of our strengths. This analysis and evaluation of the effectiveness of the Board of Directors leads to functional improvements.

|   |   |  |
|---|---|--|
| <p><b>Analysis/<br/>evaluation<br/>process</b></p>  | <p>The Board of Directors created a questionnaire for all directors and Audit &amp; Supervisory Board members with the cooperation of a third party, and analyzed and evaluated the results. In addition, we confirmed the evaluation results and initiatives going forward based on a report from the third-party organization given at a Board of Directors meeting.</p>  |  |
| <p><b>Issues<br/>identified in<br/>previous<br/>evaluation<sup>1</sup><br/>and response</b></p> | <p style="text-align: center;"><b>Analysis/Evaluation<br/>Outline of Results</b></p> <p>The results of the analysis showed the Board of Directors was highly evaluated as a whole, and we judged that it is maintaining its effectiveness. However, we also became aware of issues that need to be addressed going forward for further functional improvements.</p> <ul style="list-style-type: none"> <li>(1) Increase number of outside directors</li> <li>(2) Revision of standards for matters to be deliberated on by the Board of Directors</li> <li>(3) Enhanced training for directors and Audit &amp; Supervisory Board members</li> </ul> | <p style="text-align: center;"><b>Initiatives in Fiscal 2020</b></p> <p>To further improve functions, we implemented the following initiatives.</p> <ul style="list-style-type: none"> <li>(1) We increased the number of outside directors by one at the General Meeting of Shareholders held in June 2020.</li> <li>(2) To enhance strategic discussions by the Board of Directors, we reviewed the criteria for selection of agenda items.</li> <li>(3) Board members were encouraged to attend external seminars and join external organizations to acquire the necessary knowledge and to promote understanding of their roles and responsibilities.</li> </ul> |
| <p><b>Issues<br/>identified in<br/>the fiscal 2020<br/>evaluation<sup>2</sup></b></p>           | <p style="text-align: center;"><b>Analysis/Evaluation<br/>Outline of Results</b></p> <p>The results of the analysis showed the Board of Directors was highly evaluated as a whole, and we judged that it is maintaining its effectiveness. Compared with other companies, the Group was rated above average in areas including open-minded and constructive debate and exchange of opinions at Board of Directors meetings, and discussion in response to changes in the external environment. However, we also became aware of issues that need to be addressed going forward for further functional improvements.</p>                             | <p style="text-align: center;"><b>Issues Going Forward</b></p> <p>The Board of Directors will take the following actions to further increase its effectiveness.</p> <ul style="list-style-type: none"> <li>(1) Review of the director compensation system</li> <li>(2) Review of the composition of the Board of Directors and the ratio of internal directors to outside directors</li> <li>(3) Coordination between directors/Audit &amp; Supervisory Board members and the Group's internal audit department</li> </ul>   |

1. Board of Directors meeting in March 2020

2. Board of Directors meeting in May 2021

## Compensation for Directors

The total amount of compensation for our Company's directors is determined by a resolution of the General Meeting of Shareholders. A director's compensation consists of base compensation and bonuses as a short-term incentive. The amount of the base compensation is determined by the Board of Directors, based on the internal rules and regulations, in accordance with the position of each director. The total amount of bonuses is determined by the Board of Directors based on consideration of the consolidated performance in each fiscal year (consolidated operating profit) as an incentive for directors to be conscious of business performance.

It is apportioned according to the standards for each position. The compensation for outside directors only consists of base compensation in view of their role and independence.

The percentage of compensation paid by category slightly differs from position to position. As a rule, the amount of bonuses accounts for about 25%.

The compensation for an Audit & Supervisory Board member only consists of base compensation in view of their role and independence. The amount of base compensation differs between full-time and part-time members.

(Fiscal year ended March 31, 2021)

| Corporate Officer Category  | Total Amount of Compensation (Millions of yen) | Total Amount of Compensation by Category (Millions of yen) |         |                     |  | Number of Relevant Corporate Officers |
|---|--|--|---------|---------------------|--|---------------------------------------|
|   |  | Fixed Compensation   | Bonuses | Retirement Benefits | Non-Monetary Compensation, etc., Included in the Left Column |                                       |
| Directors (excluding outside directors)   | 251  | 185  | 66      | —                   | —  | 7                                     |
| Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members) | 46   | 46   | —       | —                   | —  | 2                                     |
| Outside directors   | 51   | 51   | —       | —                   | —  | 4                                     |
| Outside Audit & Supervisory Board members   | 32   | 32   | —       | —                   | —  | 3                                     |

Note: There are no officers receiving a total of compensation and other benefits of ¥100 million or more.

## Concept of Cross-Shareholdings

The MEDIPAL Group considers it essential to cooperate with various companies comprising its supply chain in the wholesale business to ensure a steady supply of products, such as medicines, cosmetics and daily necessities. Accordingly, after comprehensively taking into account business strategies and our relationship with business partners we engage in cross-shareholdings when we determine that doing so can increase medium-to-long-term corporate value. The rationality of each cross-shareholding is assessed individually as to whether

or not it contributes to increasing medium-to-long-term corporate value through creation of a smooth business relationship and an enhanced partnership. The final decision on the appropriateness of the cross-shareholding is made by the Board of Directors every year.

In the fiscal year ended March 31, 2021, we sold our shareholdings, worth ¥13.1 billion, in seven cross-held stocks, reducing the number of cross-shareholdings to 68 stocks.

## Responsible Dialogue with Shareholders and Investors

### General Meeting of Shareholders

In order to provide shareholders with sufficient time to make decisions on exercising their voting rights, the Company issued the notice of convocation for the June 25, 2021 Annual General Meeting of Shareholders on June 1, 2021, which is earlier than the legal requirement. Prior to this, the Company also made an early disclosure of its notice of convocation for the General Meeting of

Shareholders on its website on May 26, 2021. In addition, since the General Meeting of Shareholders held in June 2002, the Company has enabled voting rights to be exercised electronically via the internet or mobile phone, in order to ensure that voting rights are exercised promptly and actively. Since 2006, the Company has also joined the voting rights platform for institutional investors operated by ICJ, Inc. to create an environment

in which institutional investors may directly exercise voting rights by electronic means. Other measures to invigorate the General Meeting of Shareholders and facilitate the exercise of voting rights include posting the notice of convocation and voting results on our website. At the General Meeting of Shareholders held on June 25, 2021, a total of 3,611 shareholders exercised voting rights (of whom, 3,566 did so in writing or via the internet), for a voting ratio of 84.8%.

### Dialogue with Institutional Investors

We maintain active dialogue with institutional investors through events such as financial results briefings for securities analysts and institutional investors, meetings for business executives with the President and the corporate officer in charge of IR, and participation in various conferences hosted by securities companies. Feedback from investors is reported to management and the relevant departments as necessary, where it informs policy in areas such as MEDIPAL Group management strategy and governance-related disclosure.

In the fiscal year ended March 31, 2021, to prevent the spread of COVID-19, we decided to cancel overseas IR activities and to hold all financial results briefings and individual IR events online or by conference call.

The following IR events were held for institutional investors in the fiscal year ended March 31, 2021.

| IR Event                       | Date Held   | Presenter                                    |
|--------------------------------|---|--|
| Briefings on financial results | May, August, and November 2020 (three times a year) | President, corporate officer in charge of IR |

The following individual IR interviews were held with institutional investors in the fiscal year ended March 31, 2021.

|                                  |                               |
|----------------------------------|-------------------------------|
| Number of interviews during year | 51 (35 in Japan; 16 overseas) |
|----------------------------------|-------------------------------|

Note: Figures represent cumulative numbers

### Dialogue with Individual Investors

For dialogue with individual investors, we hold corporate presentations in major cities throughout Japan every year with the aim of raising the Company's level of recognition and establishing its brand. We also send newsletters to shareholders twice a year, in June and December, to promote understanding of our corporate philosophy and business strategy.

In the fiscal year ended March 31, 2021, to prevent the spread of COVID-19, we decided not to hold corporate presentations.

## Group Governance

### Special Circumstances with a Possible Major Impact on Corporate Governance

Among the Company's subsidiaries, PALTAC CORPORATION is listed on the Tokyo Stock Exchange. PALTAC is involved in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, and cooperates to generate synergy with the Prescription Pharmaceutical Wholesale Business, which is the main business of the Group's other subsidiaries. The Group is striving to find a future growth strategy in the business of pharmaceuticals, health, and beauty together with PALTAC.

Recently, the dispensing business of drugstores, our customers, has expanded. MEDIPAL is now able to offer total solutions to the needs of its customers. This will also lead to enhanced synergy through coordination between PALTAC, which handles cosmetics, daily necessities, and OTC pharmaceuticals, and MEDICEO CORPORATION, which handles prescription pharmaceuticals.

PALTAC is highly significant in terms of the Group's efforts to achieve continuous growth. The Group will utilize the know-how of both the Prescription Pharmaceutical Wholesale Business and the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business to optimize the supply chain and expand the Group's business fields as a wholesaler engaged in the distribution of products indispensable to people's daily lives.

The Company believes that from the standpoint of Group management, it is preferable for PALTAC to increase its corporate value by ensuring its independence, procuring its own financing, and aggressively developing its business based on swift decision making. PALTAC decides its business strategy and human resources policies after its own independent analysis.

In addition, in order to ensure minority shareholder protection and independent decision making at PALTAC, the ratio of independent outside directors is one out of three or more, and independent outside directors are not chosen from among former members of the Company.

The Company plans to retain a majority of PALTAC's shares and maintain its position as a consolidated subsidiary from the viewpoint of contributing to the improvement of corporate value for both companies, while ensuring appropriate governance in accordance with its percentage of voting rights going forward. However, while preserving PALTAC's current level of independence, from the viewpoint of ensuring the management's degree of freedom, there will be no changes, and we plan to continue our relationship of co-existence and co-prosperity while respecting the intentions of PALTAC.