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AIN HOLDINGS INC.

Kiichi Otani, President and Representative Director

Contact: Toshihide Mizushima,

Representative Senior Managing Director

Securities Code: 9627

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

The state of corporate governance of AIN Holdings, Inc. (the “Company”) is described below.

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

### 1. Basic Views

Dispensing pharmacy and cosmetic and drug store are the key business areas being developed by the AIN Group (the Group). As this business is characterized by responsibilities for people’s health, we recognize it is indispensable to continue the sound and transparent business activities that prioritize compliance.

To achieve this goal, we have adopted a corporate auditor system to oversee not only important decision-making in the management and the business execution, but also general corporate management.

The Internal Audit Office which is under the direct control of the President serves to ensure thorough compliance with relevant laws and regulations and internal rules and regulations through field audits.

In addition, as part of our efforts to enhance corporate governance, we have established a Compliance Committee composed of all the Company’s directors, corporate auditors and legal advisors to ensure that our business ethics and legal compliance system are permeated and established not only among the management but also among all employees, and a Sustainability Committee chaired by the President and Representative Director to further strengthen CSR and ESG activities.

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

The Company complies with all principles of the Corporate Governance Code.

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

[Principle 1.4 Cross-shareholdings]

The Company holds shares that are expected to have synergistic effects on business alliances related to our business and maintenance and enhancement of business transactions, and shares that are necessary for maintaining relationships with local communities.

According to its policy, the Company in principle holds and maintains the cross-shareholdings which account for 5% or less of the total assets recorded on the consolidated balance sheet, and if the total amount of shares exceeds such percentage, the Company will promptly consider selling the shares.

In addition, the Company will examine at the Board of Directors whether the purpose of cross-shareholding is appropriate, whether the benefits and risks from each holding cover the Company’s cost of capital, and whether there is any other effective use of funds, and decide whether to continue holding shares or reducing shares by selling them.

We do not uniformly judge whether to exercise the voting rights as to their cross-shareholdings, but consider and determine each proposal from the viewpoint of improving corporate value and enhancing shareholder returns by emphasizing dialogue with companies into which the Company makes investment.

[Principle 1.7 Related party transactions]

The Rules of the Board of Directors provide that the approval of the Board of Directors is required for conducting transactions with any of the directors. In addition, in order to confirm conflicts of interest transactions by officers of the Group, the Company regularly confirms with each officer whether the existence or nonexistence and the content of transactions between officers of the Group and their related parties and the Group.

[Supplementary Principle 2.4.1 Ensuring diversity in promotion of mid-career hires, etc.]

The Company is actively putting in place various measures and systems such as performance evaluation systems and frameworks to support the development of different career paths, regardless of gender, age, nationality, background and other attributes.

The Company will continue to improve systems and working environments and support career development by selecting managerial candidates from a wider a pool of employees and by providing them with opportunities in new

roles and divisions.

With respect to promoting female employees to managerial positions, the Company is accelerating efforts to overhaul the Group's corporate culture. As of April 2023, women accounted for 25.0% of the Company's directors and 35.9% of managerial positions. The Company aims to increase these ratios to at least one-third and 40%, respectively, by fiscal 2026, ending April 2026. As of November 2023, women accounted for 36.4% of the Company's directors.

With respect to promoting non-Japanese employees, the Company has not set measurable targets, as almost all the Group's business operations are conducted in Japan.

The Company has also not set measurable targets for mid-career hires in managerial roles, as the Group's requirements for new technologies and skills vary due to changes in the external environment and other factors.

Information about the Company's diversity initiatives is disclosed on the website.

<https://www.ainj.co.jp/corporate/sustainability/social/employees/diversity.html> (Japanese only)

[Principle 2.6 Roles of corporate pension funds as asset owners]

The Human Resources Department of the Company which is in charge of management of corporate pension funds ensures the appropriateness of the management of corporate pension funds and checks the soundness of pension funds management in general in coordination with staff of the Accounting Department who have advanced expertise in financial accounting. In addition, persons in charge of pension funds management participate in various seminars related to pension funds to improve their skills.

[Principle 3.1 Full disclosure]

(1) Company objectives (e.g., business principles), business strategies and business plans

The Company objectives and mid-to long-term business strategies are made available on the Company's website and in the financial results briefing materials.

Group principles: <https://www.ainj.co.jp/corporate/about/principle.html> (Japanese only)  
<http://www.ainj.co.jp/about/principle.html>

Financial results briefing materials: <https://www.ainj.co.jp/corporate/english/ir-library.html>

(2) Basic views and guidelines on corporate governance

These are provided in this Report I-1 "Basic Views."

(3) Board policies and procedures in determining the remuneration of the senior management and directors by the Board of Directors

The remuneration consists of monthly remuneration, bonuses and non-monetary remuneration. Bonuses are determined after comprehensive consideration of consolidated operating income and ROE for each period and value not directly manifested by financial value including such as contribution to environmental and social issues in each period, as well as dividends, balance with employee bonuses, trends of other companies in the same industry, and past payment history.

We have established a nomination and remuneration committees, the majority of whose members are independent outside directors with the aim of enhancing the fairness, transparency and objectivity of proceedings related to the determination of the amount of remuneration for directors. The President and Representative Director, to whom delegated by the above committees, determines matters related to the amount of remuneration for directors, in accordance with the above policy.

(4) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and corporate auditors' candidates by the Board of Directors

Candidates of the senior management and directors are comprehensively appointed/dismissed or nominated on the basis that they are capable of making accurate and prompt decisions and that each of them achieves popularity and ensures thorough compliance with laws and regulations and corporate ethics by taking into account the balance between knowledge, experience and abilities among the senior management and the Board of Directors as a whole. In addition, we have established a nomination and remuneration committees, the majority of whose members are independent outside directors with the aim of enhancing the fairness, transparency and objectivity of proceedings related to the appointment/dismissal of directors. The appointment/dismissal of directors will be determined after deliberation by the nomination and remuneration committees.

Candidates of corporate auditors are appointed from the comprehensive viewpoint of placing the right person in the right place, while ensuring balance of various perspectives between knowledge on financing and accounting, knowledge on the Company's business and corporate management.

Based on the above policy, corporate auditors are proposed by the president and decided by resolution of the Board of Directors.

(5) Explanation on individual appointment/dismissal of the senior management and appointment and the nomination of individual directors and corporate auditors' candidates

Reasons for individual appointment/dismissal and nomination in the appointment/dismissal of officers and the nomination of directors' candidates are disclosed in a notice of the meeting of shareholders.

[Supplementary Principle 3.1.3 Initiatives on sustainability, etc.]

After organizing our management issues, we identify materiality and disclose information about sustainability and information based on TCFD recommendations on our website. We also disclose information on human capital and other initiatives along with our management strategy.

<https://www.ainj.co.jp/corporate/english/sustainability.html>

<https://www.ainj.co.jp/corporate/sustainability/about/materiality.html> (Japanese only)

<https://www.ainj.co.jp/corporate/sustainability/> (Japanese only)

<https://www.ainj.co.jp/corporate/sustainability/environment/climate-change.html> (Japanese only)

<https://www.ainj.co.jp/corporate/ir/stockholder/#profile> (Japanese only)

[Supplemental Principle 4.1.1 Roles and responsibilities of the Board]

The Board of Directors establishes the Rules of the Board of Directors and other internal regulations to clarify matters that the Board of Directors should make decisions and those that the management should do.

The Board of Directors decides whether decision-making authority on matters other than execution of important business operations is granted to the management in light of the size and nature of the transaction, and such decision is provided in internal regulations.

[Principle 4.9 Independence standards and qualification for independent outside directors]

When appointing candidates for independent outside directors, the Board of Directors prioritizes not only external requirements under the Companies Act but also their abundant experience and extensive knowledge in the company management. Regarding the independence of outside directors, we make assessments in accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company. The Company's Independence Criteria is as follows:

An outside director and/or an outside corporate auditor of the Company (hereinafter referred to as the "outside officer") will be determined as sufficiently independent from the Company if the said outside officer satisfies the requirements set forth below:

1. Presently or at any time within the past ten years, the person has never been an executing person of the Company or a consolidated subsidiary (hereinafter referred to as the "AIN Group.")

2. Presently or at any time within the past five years, the person has not fallen under any of the following items:

(1) A person who directly or indirectly holds 10% or more of voting rights of the Company, or its executing person;  
(2) A person of a company of which the AIN Group holds directly or indirectly 10% or more of the total voting rights, or its executing person;

(3) A counterparty which has transactions principally with the AIN Group (total amount of transactions with the AIN Group exceeding 2% of annual consolidated sales of the party), or its executing person;

(4) A principal counterparty of the AIN Group (total amount of transactions with the party exceeding 2% of annual consolidated sales of the AIN Group), or its executing person;

(5) A consultant, accounting professional or legal professional who has been paid by the AIN Group a large amount of money exceeding the greater of 10 million yen or 2% of the gross income of the person or other assets in addition to the remuneration for directors. (in the event that the consultant, accounting professional or legal professional is an organization such as an artificial person or association, a person who belongs to such organization is included);

(6) A person/organization who receives a donation of a large amount of money exceeding the greater of 10 million yen or 30% of the gross expense of the person/organization from the AIN Group, or an executive person;

(7) A person who is a major lender of the AIN Group (total amount of borrowings from the person exceeding 2% of total consolidated assets of the AIN Group), or its executing person;

(8) A person who belongs to auditing firm, which is an accounting auditor of the Company;

(9) An executing person in other company of which the executing person of the Company is an outside officer of the other company

3. If an executing person of the Company or a person listed Clause 2 of this criteria is correspond to an important person (director except outside director, corporate auditor except outside corporate auditor, executive officer, department manager and higher management grades), a person is not a spouse of, relative within the second degree of relationship with said person.

[Principle 4.10.1 Establishment of advisory committees with independent outside directors in key roles]

To enhance fairness, transparency and objectivity in processes for the appointment/dismissal of directors and determining remuneration for directors, the Company has established a non-mandatory Nomination and Remuneration Committee as an advisory body for the Board of Directors. The committee discusses succession plans, director and corporate auditor remuneration systems and other matters. The Nomination and Remuneration Committee has a system in which a majority of its members are independent outside directors to ensure their independence and to enable them to provide accurate advice and recommendations.

[Supplementary Principle 4.11.1 Policy on the Board of Directors' balance of knowledge, experience and skills, diversity and size]

When appointing directors, the Board of Directors endeavors to have a view on the appropriate balance covering every function and every business department of a company, the right person in the right place for prompt and appropriate decision-making, and diversity as a whole.

The Company currently appoints eleven directors including outside directors, and this is considered to be an appropriate size for prompt and appropriate decision-making. Policies and procedures are described in Principle 3.1(4).

The skills matrix for the Board of Directors is disclosed in the Notice of Convocation of the Ordinary General Meeting of Shareholders and on the Company's website.

<https://www.ainj.co.jp/corporate/english/ir-library.html>

<https://www.ainj.co.jp/corporate/sustainability/governance/corporate-governance.html> (Japanese only)

[Supplemental Principle 4.11.2 Concurrent roles at other listed companies held by directors and corporate auditors]

Important concurrent posts of each director and corporate auditor, including those at other listed companies, are disclosed in the "Status on Corporate Officers" in the business report (notice of convocation of annual meeting of shareholders), and "Status on Officers" in the securities report.

[Supplementary Principle 4.11.3 Ensuring the overall effectiveness of the Board of Directors]

For purposes of enhancing effectiveness of the Board of Directors, the Board of Directors annually conducts a self-assessment of 17 items in a questionnaire for directors on a five-point scale (5: Very satisfactory, 4: Satisfactory, 3: Average, 2: Not very satisfactory, 1: Not satisfactory) , and corporate auditors also evaluate the Board using the same questionnaire. As for the evaluation for the fiscal year ended April 30, 2023, each item in the questionnaire for internal directors, outside directors and corporate auditors is evaluated at “3: Average” or more, and accordingly, the Company analyzes and evaluates that the Board of Directors functions effectively in general. Nevertheless, the Company recognizes that further enhancement of discussions is expected, such as explanations regarding the Company’s business strategy and various initiatives at stores aimed at increasing business value in addition to peripheral information including the environment of the industry.

[Supplementary Principle 4.14.2 Training policy for directors and corporate auditors]

The Company appoints directors and corporate auditors who fully perform the required roles and responsibilities (including legal responsibilities) and are familiar with the Company’s business, finance and organization, and provides them with a continuing opportunity of training.

The Company gives directors opportunities to attend lectures by internal and external lecturers regarding the Companies Act and the circumstances of the times and participate in external seminars, aiming to acquire legal knowledge and promote understanding of the roles and responsibilities of directors.

The Company also gives corporate auditors opportunities to attend lectures by internal and external lecturers and participate in external seminars in order to promote the acquisition of necessary knowledge and the understanding of roles and responsibilities.

The Company will bear the expenses for such training.

[Principle 5.1 Dialogue with shareholders]

Officers in charge of investor relations (IR) and the Corporate Planning Division oversee dialogue with shareholders and investors, and are actively implementing such dialogue through a variety of initiatives including financial results briefings. Internal related departments that support dialogue have established a system to realize constructive dialogue by coordinating with each other, such as planning opportunities of dialogue and sharing necessary information.

Measures to promote opportunities for dialogue include financial results briefings for investors which are explained by the representative director and the relevant officers and explanations for individual investors. We will further enhance opportunities for dialogue based on the opinions and requests of shareholders and investors that we have gained through such opportunities.

Opinions and requests that we have obtained through dialogue are relayed to the management and related departments as necessary to share information. During the period before the announcement of financial results as a silent period, we restrict dialogue with shareholders and investors and keep internal information confidential. In addition, we manage and keep insider information occurred internally confidential.

[Action to implement management that is conscious of cost of capital and stock price]

The Company has not formulated a medium-term management plan at this time.

However, we accurately grasp the long-term target level considering the cost of capital using the cost of equity and WACC. Through daily IR activities, we strive to explain the qualitative and quantitative basis for the profitability, capital and human resource investment in both dispensing pharmacy business and cosmetic and drug store business in order to achieve the target.

[Status of dialogue with shareholders]

The officers in charge of IR and the Corporate Planning Division oversee other departments related to IR activities, such as Accounting, Human Resources, General Affairs, and Finance, and ensure daily coordination among these departments.

The Company semiannually holds financial results briefings for analysts and institutional investors, at which the representative director and the officers in charge of IR provide explanations, and actively gives IR interviews at the Corporate Planning Division such as telephone interviews and small meetings for investors. The Company also considers conducting overseas IR activities as appropriate, in light of demand from overseas investors and overseas conditions.

The period prior to the announcement of financial results is a silent period during which dialogue with shareholders and investors is restricted and internal information management is strictly enforced.

## 2. Capital Structure

Foreign shareholding ratio	30% or more
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[Status of Major Shareholders]

Name / Company name	Number of shares owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	3,411,200	9.71
Kiichi Otani	3,238,909	9.22
Seven & i Holdings Co., Ltd.	2,750,000	7.83

North Pacific Bank, Ltd.	1,743,700	4.96
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd.	1,594,500	4.54
The Hokkaido Bank, Ltd.	1,472,000	4.19
Custody Bank of Japan, Ltd. (Trust account)	1,257,200	3.58
STATE STREET BANK AND TRUST COMPANY 505103	1,168,136	3.33
JP MORGAN CHASE BANK 385151	978,500	2.79
THE BANK OF NEW YORK MELLON 140044	713,187	2.03

Controlling shareholder (except for Parent Company)	-----
Parent company	None

#### Supplementary explanation

1. Major Shareholder data as of April 30, 2023.
2. All shares held by The Master Trust Bank of Japan, Ltd. (Trust account) and Custody Bank of Japan, Ltd. (Trust account) are in connection with the respective bank's trust business.
3. Shares held in the Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. are held for fiduciary services purposes.
4. According to the Large Shareholding Report (change in holding report) provided for public inspection on June 16, 2023, Sprucegrove Investment Management Ltd. held 4,451,950 shares as of June 12, 2023 (ratio of stock certificates 12.57%). However, as the Company cannot confirm the actual number of shares held, the above list of Major Shareholders is based on the number of shares held recorded in the Register of Shareholders.

### 3. Corporate Attributes

Listed stock market and market section	Tokyo Stock Exchange Prime Market and Sapporo Securities Exchange
Fiscal year-end	April
Type of business	Retail trade
Number of employees (consolidated) as of the end of the preceding fiscal year	1,000 or more
Sales (consolidated) in the preceding fiscal year	100 billion yen or more but less than 1 trillion yen
Number of consolidated subsidiaries as of the end of the preceding fiscal year	10 or more but less than 50 companies

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

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

The Company dispatches its personnel as directors or corporate auditors to the subsidiaries to participate in the decision-making in management through the Board of Directors. In addition, we are striving to strengthen corporate governance through field audits by the Company's Internal Audit Office, corporate auditors and accounting auditors.

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

### 1. Organizational Composition and Operation

Organization Form	Company with Corporate Auditors
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#### [Directors]

Maximum number of directors stipulated in the Articles of Incorporation	20
Term of office of directors stipulated in the Articles of Incorporation	1 year
Chairman of the Board	President
Number of directors	11
Status on election of outside directors	Elected
Number of outside directors	4
Number of outside directors appointed as an independent director	4

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

Name	Attribute	Relationship with the Company (※)										
		a	b	c	d	e	f	g	h	i	j	k
Noriko Endo	From other companies									△		
Junro Ito	From other companies											
Shigeru Yamazoe	From other companies											
Hideki Kuriyama	Scholar											

※ 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. Executive or non-executive director 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 compensation 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 another company in cases where an executive of the Company is an outside director/corporate auditor of such other company (the director himself/herself only)

- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2) **Updated**

Name	Designation as independent director	Supplementary explanation of the relationship	Reasons for appointment
Noriko Endo	○	Ms. Endo had been the Company's advisor until May 2018 but the Company has judged that there is no impact as the annual advisor fee was not considerable amount of not more than ten million yen.	<p>Ms. Endo has extensive knowledge gained from experience in the editing department of an economics magazine in charge of various fields including retail and distribution sectors. She is also well-versed in energy and environmental issues, having conducted public policy research on energy policy. In addition, she has deep knowledge of corporate management from her experience as an outside director at other listed company, and was appointed as an outside director to broadly contribute to the Company's management activities by providing advice to the Board of Directors and other bodies and by monitoring business execution.</p> <p>The Company designated her as an independent director because she is judged to have no conflicts of interest with general shareholders in accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company.</p>
Junro Ito	○	The description is omitted pursuant to the Company's "Immaterial Criteria for the judgement that the relationship with the Company is unlikely to affect shareholder's decision concerning the exercise of voting rights" (refer to [Matter concerning Independent Officers] Other matters concerning independent officers).	<p>Mr. Ito has wide range of knowledge on management as a representative director of a major retailer, and on ESG (Environment, Social and Governance) and Sustainability as a CSuO of the retailer in charge of promoting sustainability as a whole value chain. He also has broad knowledge on risk management, accounting and finance and social marketing, and was appointed as an outside director to broadly contribute to the Company's management activities by providing advice to the Board of Directors and other bodies and by monitoring business execution.</p> <p>The Company designated him as an independent director because he is judged to have no conflicts of interest with general shareholders in accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company.</p>
Shigeru Yamazoe	○	The description is omitted pursuant to the Company's "Immaterial Criteria for the judgement that the relationship with the Company is unlikely to affect shareholder's decision concerning the exercise of voting rights" (refer to [Matter concerning Independent Officers] Other matters concerning independent officers).	<p>Mr. Yamazoe has wide range of knowledge on management based on his experience as the director of a major trading company. He also has expertise knowledge gained from as a CEO in charge of electric and plant of said company group, and also well-versed in overseas management. He was appointed as an outside director to broadly contribute to the Company's management activities by providing advice to the Board of Directors and other bodies and by monitoring business execution.</p> <p>The Company designated him as an independent director because he is judged to have no conflicts of interest with general shareholders in accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company.</p>

Hideki Kuriyama	○	Not applicable.	<p>Mr. Kuriyama has wide range of knowledge and experience regarding governance and human resource development in organizations of having served as a manager of a professional baseball team and as a professor at universities, among others. He was appointed as an outside director to broadly contribute to the Company's management activities by providing advice to the Board of Directors and other bodies and by monitoring business execution.</p> <p>The Company designated him as an independent director because he is judged to have no conflicts of interest with general shareholders in accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company.</p>
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Voluntary establishment of committee(s) corresponding to nomination committee or remuneration committee	Established
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#### Committee's Name, Composition, and Chairperson's Attributes

	Committee's name	Total committee members	Full-time members	Internal directors	Outside directors	Outside experts	Other	Chairperson
Committee equivalent to nomination committee	nomination and remuneration committees	3	-	1	2	-	-	Internal directors
Committee equivalent to remuneration committee	nomination and remuneration committees	3	-	1	2	-	-	Internal directors

#### Supplementary Explanation

The committee members of the nomination and remuneration committees are appointed by a resolution of the Board of Directors, and more than half of them comprise independent directors.

#### Corporate Auditors

Establishment of the board of corporate auditors	Established
Maximum number of corporate auditors stipulated in the Articles of Incorporation	4
Number of corporate auditors	3

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Office

Corporate auditors and accounting auditors exchange opinions for each accounting audit to improve the accuracy of audits by corporate auditors related to laws and regulations, the Articles of Incorporation, and accounting. In addition, accounting auditors and corporate auditors exchange opinions on the results of audits of our subsidiaries to strengthen mutual cooperation.

Status on appointment of outside corporate auditors	Appointed
Number of outside corporate auditors	2
Number of outside corporate auditors appointed as an independent director	2

Outside Corporate 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		
Akira Ibayashi	From other companies													△		
Osamu Muramatsu	From other companies															

- ※ 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 accounting advisor of the Company or its subsidiaries
- c. Executive or non-executive director of a parent company of the Company
- d. Corporate auditor of the 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 compensation as a director/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 director himself/herself only)
- k. Executive of another company in cases where an executive of the Company is an outside director/corporate auditor of such other company (the director himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- m. Others

Outside Corporate Auditors' Relationship with the Company (2) **Updated**

Name	Designation as an Independent Officer	Supplementary explanation of the relationship	Reasons for appointment
Akira Ibayashi	○	Mr. Ibayashi had worked for the Hokkaido Bank, Ltd., which is the main bank of the Company, as an auditor until June 2009 but the Company has judged that there is no impact as it has been over 10 years since Mr. Ibayashi retired from the bank.	Mr. Ibayashi has expertise for finance obtained at financial institutions as a director and an auditor, and was appointed as an outside corporate auditor to contribute to our better internal control by providing his opinions at the Board of Directors, the Board of Auditors, etc. of the Company and by monitoring our execution of business. In accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company, we believe that no risk of interest conflict with our general shareholders would arise, which caused us to appoint him as an outside auditor.
Osamu Muramatsu	○	The description is omitted pursuant to the Company's "Immaterial Criteria for the judgement that the relationship with the Company is unlikely to affect shareholder's decision concerning the exercise of voting rights" (refer to [Matter concerning Independent Officers] Other matters concerning independent officers).	Mr. Muramatsu has expertise for finance obtained at a major securities company as a director, and was appointed as an outside corporate auditor to contribute to our better internal control by providing his opinions at the Board of Directors, the Board of Auditors, etc. of the Company and by monitoring our execution of business. In accordance with the independence standards established by the Tokyo Stock Exchange and "Independence Criteria for outside directors and outside corporate auditors" set by the Company, we believe that no risk of interest conflict with our general shareholders would arise, which caused us to appoint him as an outside auditor.

**[Matter concerning Independent Officers]**

Number of Independent Officers <b>Updated</b>	6
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Other matters concerning independent officers

(Independence Standards)

For detail of Company's "Independence Criteria for outside directors and outside corporate auditors," please refer to "1. Basic views [Disclosure Based on the Principles of the Corporate Governance Code] [Principle 4.9 Independence standards and qualification for independent outside directors]" in this report.

(Immaterial Criteria for the judgement that the relationship with the Company is unlikely to affect shareholder's decision concerning the exercise of voting rights)

In the event that an outside director or an outside corporate auditor of the Company (hereinafter referred to as the "outside officer") satisfies the requirements set forth below, the Company judges that the attribute information of the outside officer is unlikely to affect shareholder's decision concerning the exercise of voting rights:

1. A counterparty with the total amount of transactions with the AIN Group not exceeding 1% of the annual consolidated sales of the AIN Group nor the sales of the party in the previous fiscal years, or its executing person.
2. A person that has received a donation not exceeding 10 million yen from the AIN Group in the previous fiscal years, or its executing person.

The Company omits the description of the applicable circumstances of transaction and donation which are within the scope of the Immaterial Criteria.

## [Matter concerning Incentives]

Implementation of measures concerning incentives for directors

Introduced Performance-linked Remuneration and Others

### Supplementary explanation

The Company has introduced performance-linked remuneration for directors. For details, please refer to "II. 1. Organizational Composition and Operation [Matter concerning Directors' Remuneration] Content disclosed out of the policy for determining the amount of remuneration or the method to calculate this amount" in this report.

Eligible persons for stock options

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## [Matter concerning Directors' Remuneration]

Status of disclosure (of individual directors' remuneration)

No individual remuneration is disclosed.

### Supplementary explanation

The Company discloses the total remuneration amount of each of its internal and outside directors in the securities report/business report.

Policy established to determine the amount of remuneration or method to calculate this amount

Yes

### Content disclosed out of the policy for determining the amount of remuneration or the method to calculate this amount

(Basic Policy)

The remuneration for directors of the Company is a remuneration system consisting of monthly fixed remuneration according to roles and responsibilities, bonuses which are performance-linked remuneration and non-monetary remuneration for recognizing the same perspectives on sustainable growth as shareholders. However, the remuneration of outside directors shall be a remuneration system suitable for the roles and responsibilities of supervising the management of the Company from an independent and objective standpoint.

(Monthly remuneration decision policy)

Monthly remuneration shall be determined after comprehensive consideration of position, responsibilities, years in office, balance with employee wages, trends of other companies in the same industry, and past payment history.

(Bonus decision policy)

Bonuses are determined after comprehensive consideration of consolidated operating income and ROE for each period and value not directly manifested by financial value including such as contribution to environmental and social issues in each period, as well as dividends, balance with employee bonuses, trends of other companies in the same industry, and past payment history.

(Non-monetary remuneration decision policy)

Non-monetary remuneration shall be paid by restricted stock (RS), and a standard amount of monetary remuneration claim determined by position and responsibility shall be granted each year up to a total of 50 million yen, with allocation of common stock through in-kind contribution of monetary remuneration claim. The number of shares of the Company's common stock to be allocated as restricted stock remuneration shall be no more than 50,000 shares per year.

(Remuneration composition ratio)

Taking into consideration the characteristics of the business, business environment, and trends of other companies, the composition ratio of remuneration for directors other than outside directors is designed so that the composition ratio of monthly remuneration, bonuses, and non-monetary remuneration is approximately 70:20:10. Only monthly remuneration will be paid to outside directors.

(Decision policy for details of individual remuneration)

The specific details for amounts of remuneration for each individual is commissioned to the President and Representative Director within the scope of determined parameters by resolution of the Board of Directors after the Nomination and Remuneration Committee prepares a draft of the range of monthly remuneration for each position, the content of evaluation of performance related to bonuses, and the amount of non-monetary remuneration for each

position. The Nomination and Remuneration Committee is comprised of a majority of independent outside directors for the purpose of enhancing the fairness, transparency, and objectivity of the procedures for determining remuneration for directors with matters pertaining to remuneration of directors determined based on the above policy.

### **[System for Supporting outside directors (outside corporate auditors)]**

Full-time directors or corporate auditors are in charge of the system for supporting the outside directors (outside corporate auditors), and the General Affairs Department serves to share necessary information in advance with them. The staff in administrative departments assists in the necessary clerical work depending on the nature of the work.

## **2. Matters concerning Functions of Business Execution, Audit and Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

### **1. Matters concerning business execution**

The Company has adopted an executive officer system to clearly separate management decision-making/supervisory functions from the execution of business, with which we intend to vitalize the Board of Directors and enhance agility and flexibility of business execution. In addition to the above, the business execution in each department is discussed at the regular management meetings with attendance of department managers and above to monitor the practical operations of each department, which serves to provide mutual checks among the departments.

### **2. Matters concerning functions of audit and supervision**

The Internal Audit Office of the Company conducts operation audits on the Headquarters and the stores at least once a year, as a rule, and checks the status of audits on our subsidiaries and the status of their internal audits.

Furthermore, the effectiveness of internal audits is enhanced by discussing and reviewing the internal auditing method of the Company and its effect based on internal auditing materials submitted to the corporate auditors and field audits conducted with them as well as by consulting and cooperating with the accounting auditors on auditing methods, etc. at the time of accounting audits.

The status of internal audits is reported at the management meetings, and efforts are made to improve compliance through individual guidance and reexamination in cooperation with each department.

In addition to the above-mentioned activities, the corporate auditors exchange opinions with the accounting auditors at the time of the accounting audits, and endeavor to improve the accuracy of the corporate audits in terms of the relevant laws, the Articles of Incorporation and accounting. The corporate auditors attend the accounting audits conducted by the accounting auditors on the subsidiaries in order to strengthen the functions.

The outside corporate auditors, together with the full-time corporate auditors, develop audit policies and audit plans, inspect important documents related to management, audit financial documents and reference documents, audit agenda to be submitted at shareholders meetings, and confirm status of directors' business execution. Based on discussions on the results thereof at the Board of Corporate Auditors, the outside corporate auditors provide advice, proposals and recommendations to the directors and the Board of Directors.

Regarding the function of management supervision, although prompt decision-making is required at all times to promote the aggressive business expansion policy, the Company strives to make the function of management supervision work mutually among the directors when making important decisions by holding the management meetings regularly with the participation of the directors and the full-time corporate auditors and by requiring outside directors to participate in the management of the Company through appropriate advice from a multifaceted perspective provided at the Board of Directors.

## **3. Reasons for Adopting Current Corporate Governance System**

The Board of Directors, which is the current important decision-making body of the Company, is composed of eleven members. The outside directors participate in the management of the Company with appropriate advice from a multifaceted perspective in making important decisions.

Currently, the Company has four outside directors. The head of the Internal Audit Office is in charge of internal control and internal audit. The person in charge of internal audit and internal control cooperates with the Board of Corporate Auditors in a position equivalent to that of the Directors. Such person effectively maintains a system that ensures the confidence of the shareholders and the investors by giving a report on internal audit and internal control at the meetings of the Board of Directors when required.

In order to clearly separate management decision-making and supervisory functions from business execution functions, the Company has adopted an executive officer system to vitalize the Board of Directors and enhance the ability and flexibility of business execution.

In addition to the above, the business execution in each department is discussed at the regular management meetings with attendance of department managers and above to monitor their practical operations, which serves to provide mutual checks among the departments.

## III Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary explanation
Early notification of General Shareholders Meeting	The Company sends the notice of convocation three weeks prior to the General Meeting of Shareholders.
Scheduling AGMs avoiding the peak day	The Company is a company that closes its books in April, and, holding the General Meeting of Shareholders at the end of July, organizes it on a date that does not overlap with general shareholder meetings of other companies.
Allowing electronic or magnetic exercise of voting rights	The Company adopts Smart Voting utilizing smartphones, in addition to the website for the exercise of voting rights, as methods to exercise voting rights via the Internet.
Participation in Electronic Voting Platform and other efforts to enhance the voting environment for institutional investors	The Company has been utilizing the Electronic Voting Platform since the General Meeting of Shareholders held in July 2017.
Provision of convocation notice (summary) in English	Before dispatching the notice of convocation, the Company posted the notice of convocation in English (summary, reference documents) on its website.

### 2. Investor Relations Activities

	Supplementary explanation	Explanation by the Representative
Preparation and publication of disclosure policy	The disclosure policy is posted on our website.	
Periodic presentation for analysts and institutional investors:	In principle, a briefing session is held for each settlement and interim settlement.	Yes
IR Information on website	In addition to financial closing documents, a video of the last briefing session for analysts and institutional investors is also available on our website.	
Creation of an IR-related dept. (IR Personnel)	The Corporate Planning Division is in charge of IR-related services.	

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

	Supplementary explanation
Provisions on Respect for the Positions of Stakeholders in Internal Rules	The AIN Group Basic Financial Reporting Policy provides for timely disclosure of information that contributes to investors' decisions, which ensures transparency and fairness in information disclosure.
Environmental preservation activities and CSR activities	<p>The Company conducts a range of measures in line with its Environmental Protection Action Plan. For more details, please visit our website. Protecting the environment and reducing environmental impact: <a href="https://www.ainj.co.jp/corporate/sustainability/environment/protection.html">https://www.ainj.co.jp/corporate/sustainability/environment/protection.html</a> (Japanese only)</p> <p>The Company has been actively conducting CSR activities for some time, such as establishing endowed courses at national universities and conducting joint research projects to advance research in the field of medicine. Information about these initiatives is disclosed on the Company's website. <a href="https://www.ainj.co.jp/corporate/sustainability/social/industry-development.html">https://www.ainj.co.jp/corporate/sustainability/social/industry-development.html</a> (Japanese only)</p>

Other

<Policy on diversity>  
Please refer to [Supplementary Principle 2.4.1] (Ensuring diversity in promotion of mid-career hires, etc.)

## *IV Matters Related to Internal Control System*

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

Pursuant to the Companies Act of Japan and the Regulation for Enforcement of the Companies Act, the Company shall set forth the following basic policies on the development of systems required to ensure the appropriateness of the business conducted by the corporate group consisting of the Company and its subsidiaries (hereinafter referred to as the "Group"):

#### 1. System to ensure that the execution of duties by the directors and the employees complies with relevant laws and the Articles of Incorporation

(1) The Board of Directors shall, pursuant to the provisions of the relevant laws, the Articles of Incorporation and the Rules of Board of Directors, make decisions on important matters relating to the business execution and supervise the execution of duties by the directors.

(2) In order to maintain and enhance the supervisory function of the directors in the execution of their duties, the Group shall continuously appoint outside directors in consideration of independence adopt the executive officer system in consideration of the execution function and the supervisory function.

(3) The officers and the employees of the Group (hereinafter referred to as the "Officers and Employees") shall, in accordance with the Group's Code of Conduct, strive for corporate activities with common sense and ethics, always recognizing that they are engaged in the health-related business as well as complying with the relevant laws, the Articles of Incorporation, etc.

(4) For the purpose of fulfilling the duties of the Group in accordance with the relevant laws, the Articles of Incorporation and the Group's internal rules and enhance compliance therewith, the Company shall create the Compliance Committee to manage compliance throughout the Group.

(5) The Group shall develop the Compliance Hotline that enables direct notification to outside contractors in order to detect and correct violations of the relevant laws and other compliance-related problems as early as possible.

(6) Based on the "Anti-insider Trading Rules", the Group shall conduct thorough management on the undisclosed material facts, make appropriate efforts to disclose information as required, and develop a system to prevent insider trading.

(7) The corporate auditors shall, as an independent organization, audit the execution of duties by the directors, including the construction and operation status of the internal control system.

(8) The Internal Audit Office shall, from a viewpoint independent from the business execution organizations, conduct audits on the status of compliance by the Officers and Employees with the relevant laws, the Article of Incorporation and the like.

(9) The Group shall declare in the Group's Code of Conduct that it has no relationship with any anti-social forces, shall develop the "Rules for Dealing with Anti-social Forces" and shall strive as a whole organization to block involvement from anti-social forces in cooperation with the police, corporate lawyers, etc.

#### 2. Systems related to the retention and management of information relating to the execution of the duties by the directors

The Company shall, in accordance with the "Document Handling Rules," retain and manage information relating to the execution of duties by the directors appropriately, by recording such information in writing or in electromagnetic media in a manner that is accessible from the directors and the corporate auditors as required.

#### 3. Rules and other systems related to management of the risk of loss

(1) The Company shall formulate the "Risk Management Rules" and the "Risk Management Guidelines" both of which stipulate the risk management for the entire Group, shall designate the departments in charge for each risk category and shall manage the risks for the entire Group exhaustively and comprehensively.

(2) The Company shall create the Risk Management Office as a section that supervises the risk management status of all group companies and shall manage issues and countermeasures relating to the promotion of group-wide risk management.

(3) The Internal Audit Office shall conduct field audits to inspect the compliance by and effectiveness of the risk management system of the Group.

(4) The Company shall formulate the "Group's Business Continuity Plan (BCP)" in order to ensure the continuity of the businesses of the Group in the event of a crisis and shall ensure that all Officers and Employees are fully aware of it.

#### 4. System for ensuring efficient execution of duties by the directors

(1) Each director of the Group shall execute one's allocated area of duties at one's own responsibility pursuant to the "Rules for Segregation of Duties." The Internal Audit Office and the Board of Corporate Auditors shall check whether the directors follow the above appropriately.

(2) The Company shall develop the management plan of the Group, and, for the purpose of giving shape to such plan, shall set management targets and allocate budget for the entire Group for each business year.

#### 5. Systems to ensure the propriety of business activities in the Group and systems to give reports to the Company on matters concerning the execution of the duties by the subsidiaries' directors

(1) In order to ensure the propriety of business activities as a corporate group, the Company shall apply the "Rules for Management of Affiliated Companies" to each of its subsidiaries, which obliges them to give periodic reports on their important management matters requiring careful decision-making (including facts of occurrence).

(2) The Company shall hold a group management meeting regularly attended by the directors of the Company and of its subsidiaries and shall oblige the subsidiaries to report any significant event at such meeting.

6. Matters concerning the employee if the corporate auditors have requested that an employee be appointed to assist with their duties

In the event that the corporate auditors request to appoint an employee who assists them in their duties, the Company shall appoint an appropriate employee as an assistant to them after consultation with them.

7. Matters concerning independence of the employee described in the preceding clause from the directors and matters concerning ensuring effectiveness of instructions given to the employee who should assist the duties of the corporate auditors

(1) In order to ensure the independence of the employee described in the preceding clause from the directors, the Company shall inform the corporate auditors of personnel changes or evaluations of such employee in advance and shall request their opinions.

(2) The Company shall specify in the "Corporate Audit Standards" the authority to give directions and instructions to the employees who should assist the corporate auditors.

8. The following systems and other systems relating to reporting to the Company's corporate auditors

(1) System to require the Company's directors and employees to give reports to the corporate auditors

- In the event that the directors detect any fact which is likely to cause significant damage to the Company in the course of the business execution, they shall report the matters relating to such fact to the corporate auditors.
- The Internal Audit Office shall report the execution of its business to the corporate auditors on a regular basis.
- The corporate auditors shall request reports from the directors or the employees if deemed necessary to fulfill their duties.

(2) System to report to the corporate auditors from the directors, the corporate auditors and the employees of the subsidiaries or from the persons who are reported such directors, the corporate auditors and the employees

- The Officers and Employees of the Group shall give an appropriate report promptly when they are requested by the corporate auditors of the Company to report on the matters concerning the execution of their duties.
- The Officers and Employees of the Group shall report to the corporate auditors if they find any fact which is likely to cause substantial damage to the Company in the course of the execution of the business.
- The Internal Audit Office shall report the execution of its business to the corporate auditors on a regular basis.
- The Risk Management Office, which is in charge of the whistle-blowing system, shall report the status of whistle-blowing from the Officers and Employees of the Group to the corporate auditors of the Company on a regular basis.

9. System to ensure that the persons who have made a whistle-blow set forth in the preceding clause will not be treated unfavorably on the basis of making such whistle-blow

The Company shall prohibit from treating the Officers and Employees of the Group who have made a whistle-blow to the corporate auditors of the Group unfavorably on the grounds of such whistle-blow and shall ensure that all Officers and Employees of the Group are fully aware of it.

10. Matters concerning the policy for expenses and debts arising from the execution of duties by the corporate auditors

(1) In the event that a corporate auditor requests to make an advance payment of expenses or disposal of debts that arise in connection with the execution of their duties, the Company shall dispose of such expenses and debts in accordance with the Corporate Audit Standards.

(2) In the event that the Board of Corporate Auditors requests outside experts, such as attorneys and certified public accountants, to fulfill their duties, the Company shall bear the cost thereof.

(3) The Board of Corporate Auditors shall budget in advance for expenses deemed necessary to fulfill their duties.

11. Other systems to ensure effective audits by the corporate auditors

In the event that the corporate auditors determine it necessary to cooperate with outside experts, such as attorneys and certified public accountants, in order to fulfill their duties, the Company shall request such cooperation.

## **2. Basic Concept for Elimination of Antisocial Forces and Status Thereof**

In the Group's Code of Conduct, the Company shall declare to all its employees that we conform to social norms and a sense of justice and have no relationship with anti-social forces or similar organizations. At the same time, the Company shall collect necessary information and shall ensure safety by taking practical preventive measures under the Rules for Dealing with Anti-social Forces, by attending training sessions targeted for persons in charge of preventing unjust demands held by the National Center for the Elimination of Boryokudan and by working in close cooperation with police authorities and lawyers. The General Affairs Department is taking the lead in working to block involvement from anti-social forces on an organizational basis.

# V Other

## 1. Introduction of Anti-takeover Measures

Introduction of anti-takeover measures

None

Supplementary Explanation

## 2. Other Matters Concerning Corporate Governance System

<Overview of the timely disclosure system>

The Company's current system for timely disclosure of corporate information is as follows.

The Company discloses its corporate information in a timely manner jointly by the Operational Support Division and the Corporate Planning Division under the supervision of the Representative Senior Managing Director in charge of operational support, who is the officer in charge of information disclosure.

(1) The head of each division in charge promptly reports to the division manager of the Operational Support Division any information or facts that may fall under the category of material information. The division manager of the Operational Support Division examines the possibility of the occurrence or determination of material facts.

(2) The division manager of the Operational Support Division, after consulting with the officer in charge of information disclosure, examines whether such information should be disclosed in accordance with the Regulations for Timely Disclosure, etc. Then, with regard to the material information of the Company and the information or facts that should be disclosed, the general manager prepares for disclosure after thorough and prompt exchange of information with the Corporate Planning Division and relevant divisions.

(3) After the President makes final confirmation on appropriateness of such disclosure and the Board of Directors resolves the same (excluding matters relating to some facts of occurrence), the Corporate Planning Division shall implement the procedures for timely disclosure.

Corporate Governance System

