



NIHON CHOUZAI

Integrated Report 2022



To give people the closest possible support

Our Mission

The Nihon Chouzai Group's Unchanging Significance to Society

As the value the Nihon Chouzai Group provides continues to expand significantly, what is our unchanging significance to society? We consider that the value shared across the Group is being involved in giving people the closest possible support in all facets of their lives.

We have long worked to support people in various crucial aspects of their lives, and many people consider us to be an indispensable part of their lives.

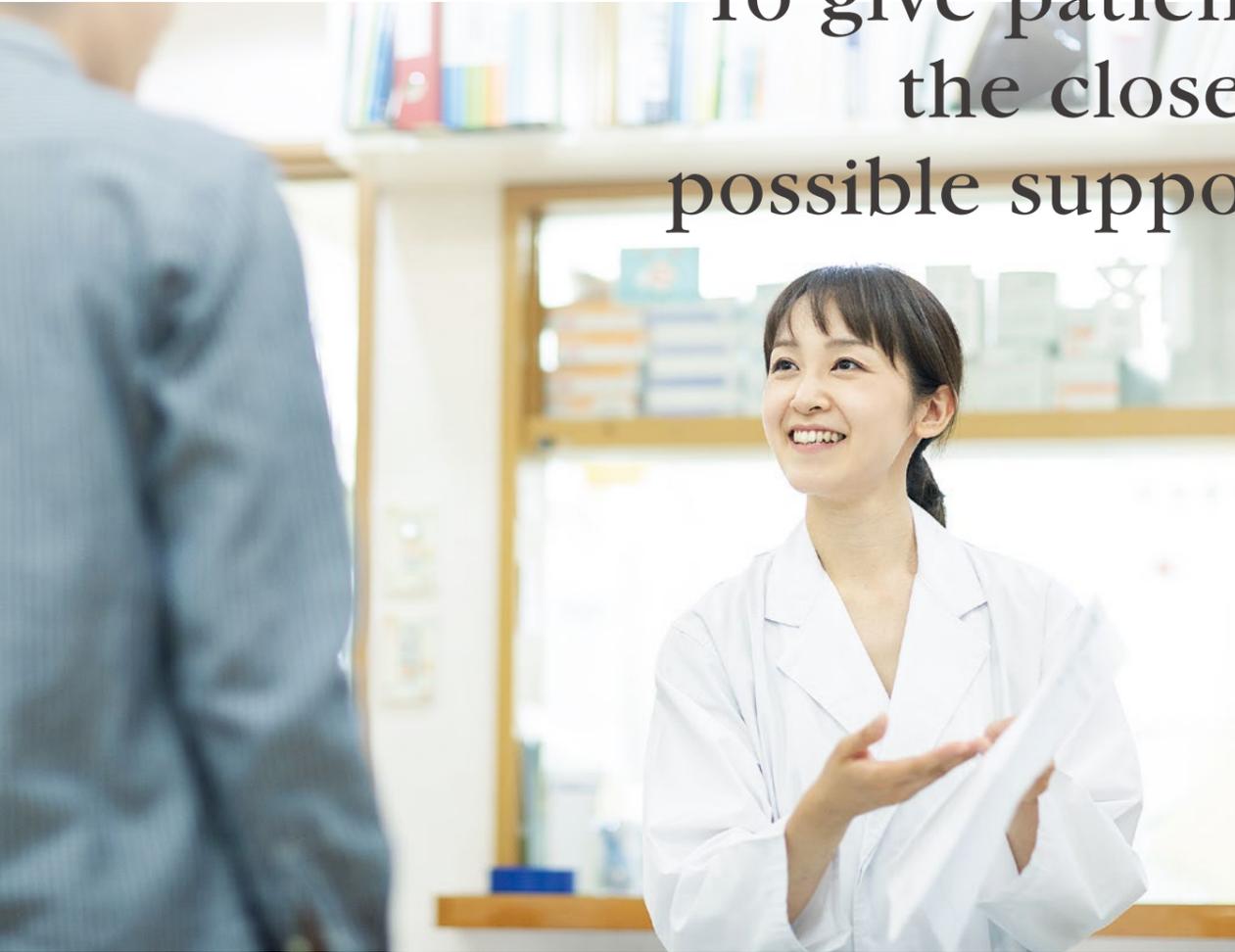
Our Mission encapsulates the pride we take in Nihon Chouzai's significance to people's lives.

From the start, our primary aim has been to contribute to the health of all people. This is as true today as ever. We have worked to ensure that healthcare is available to every part of society, regardless of the many challenges involved. Driven by this commitment, we will continue doing our utmost to provide lifelong support for our customers going forward, serving as the healthcare professionals most closely involved in their wellbeing.

Our Mission

The Nihon Chouzai Group's Unchanging Significance to Society

To give patients the closest possible support



To give an aging society the closest possible support

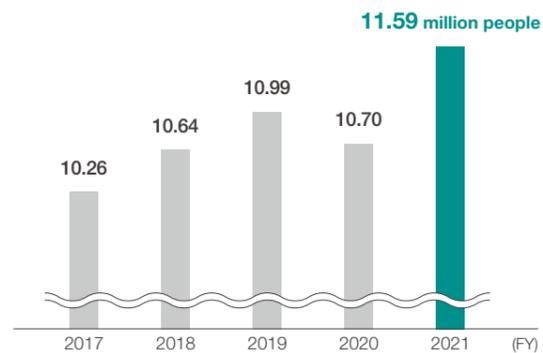


11.59 million people

This is the number of patients who used our dispensing pharmacy in one year. We will continue to give close support to patients, squarely facing the fact that we are involved in the health and lives of so many people*.

*Total number of pharmacy visits.

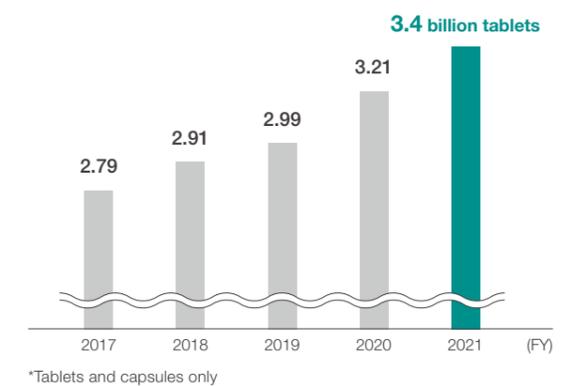
Yearly Patient Use of Nihon Chouzai Pharmacies



3.4 billion tablets*

This is the number of drugs delivered to medical institutions through our Pharmaceutical Manufacturing and Sales Business in one year. By supplying high-quality, low-cost generic drugs, we not only address drug therapy for patients, but also help reduce the financial burden on both patients and the healthcare system.

Pharmaceutical Sales Volume in the Pharmaceutical Manufacturing and Sales Business



*Tablets and capsules only

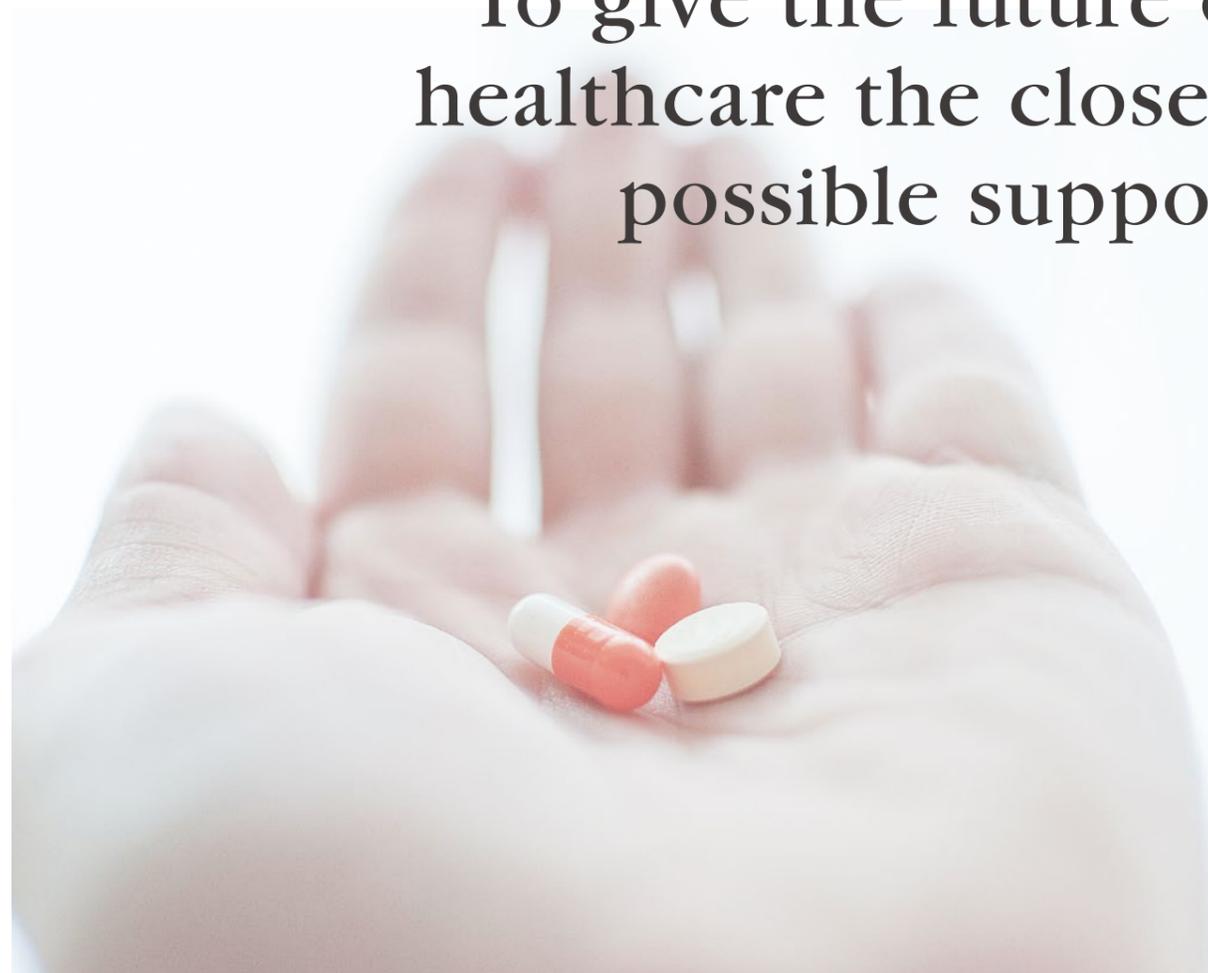
Our Mission

The Nihon Chouzai Group's Unchanging Significance to Society

To give the medical front line the closest possible support



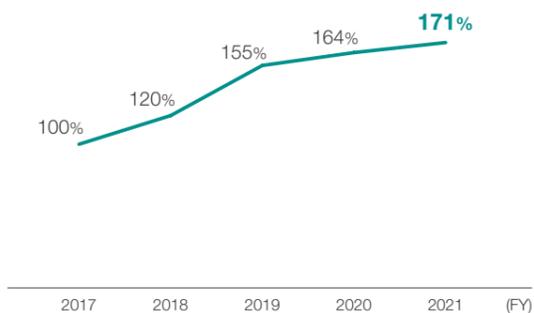
To give the future of healthcare the closest possible support



171% (versus FY2017)

This figure represents the growth rate in the number of clients to whom we have placed medical professionals through our Medical Professional Staffing and Placement Business. Japan is facing a so-called "2025 Problem," when the nation's baby boomer generation will reach 75 or older (late-stage elderly). Given the projected shortage of medical personnel in Japan, the roles of pharmacists and nurses are expected to expand significantly. We will address this social issue head on, ready to provide medical professionals to medical and healthcare facilities through staffing and placement services.

Number of Medical Institutions to Which We Placed Medical Professionals* Through Our Medical Staffing and Placement Business (Versus FY2017)



*Pharmacists, Doctors, Nurses, Registered Pharmaceutical Sellers

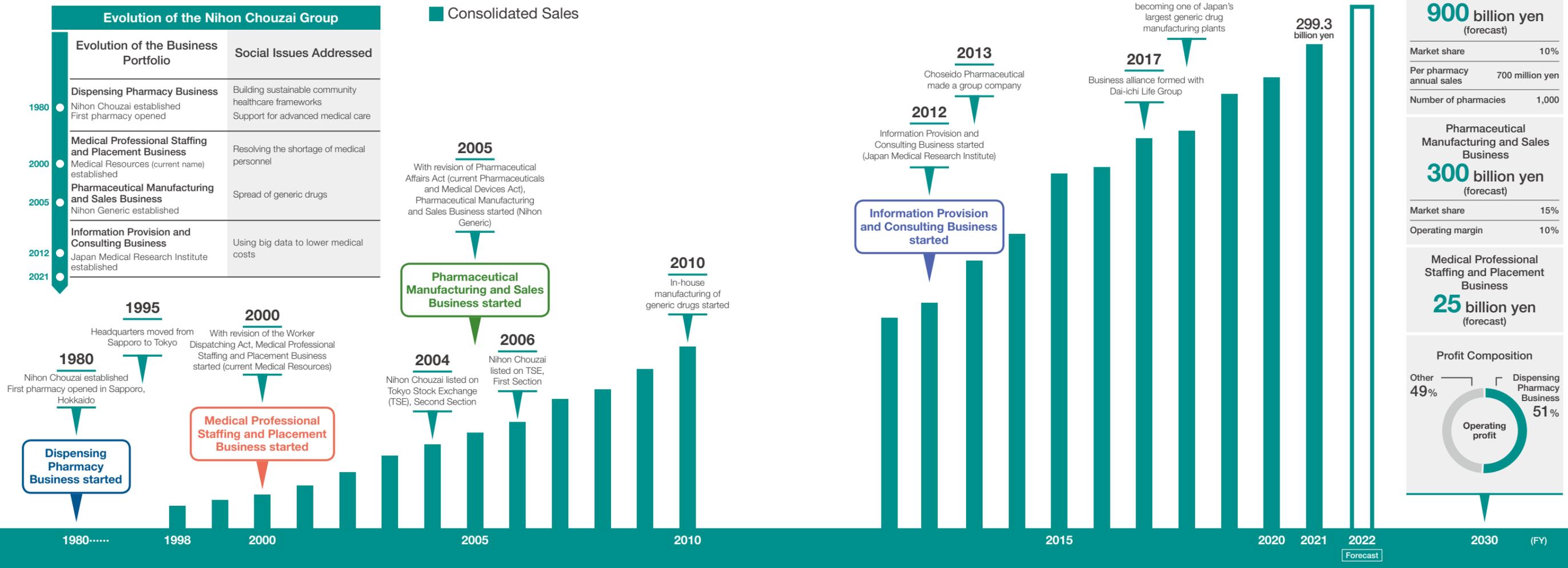
Our Vision (Our Ideal for the Group in 2030)

The most trusted partner in healthcare

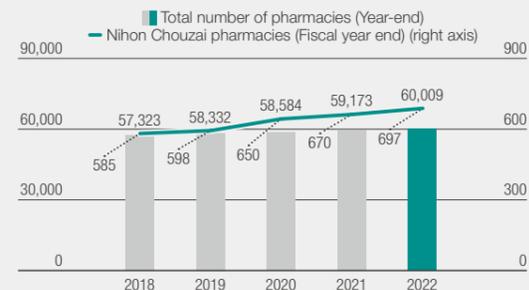
To give people the closest possible support. We cannot fulfill this great mission in isolation, but will embrace input from everyone we serve, including patients, healthcare professionals, research institutions, companies, and government agencies as we work together to create new standards of care.

Looking toward 2030, as a team of medical professionals always a step ahead of the times, we will endeavor to become the most trusted partner in healthcare for all of our stakeholders.

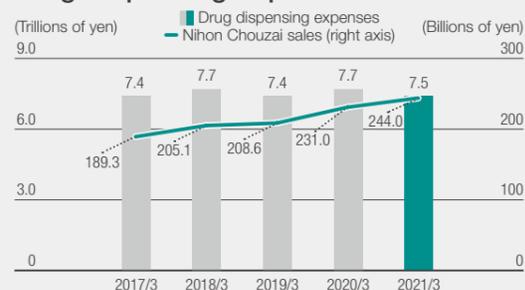
Becoming a healthcare group equipped with a business portfolio specializing in healthcare to help resolve medical issues in Japan.



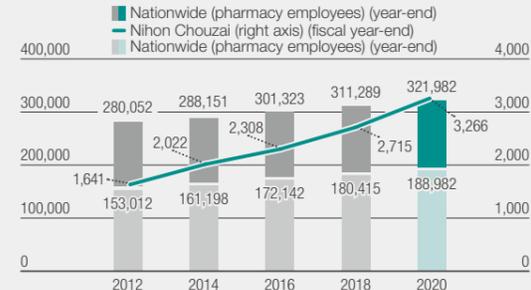
Number of Pharmacies



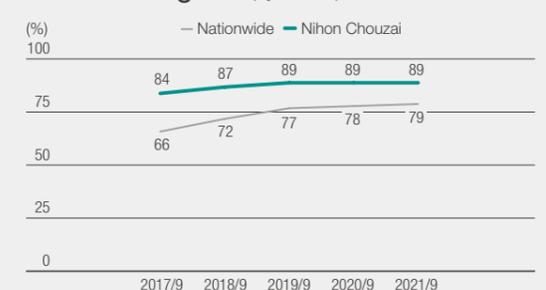
Drug Dispensing Expenses



Number of Full-Time Pharmacists



Generic drug use (by volume)



Nihon Chouzai Group News

(April 2021- August 2022)



May 2021

Kurumin Certification as a Company that Supports Parenting

About 60% of our employees are pharmacists, of whom about 70% are women. For the company to grow, creating a framework that allows women to play an active role over the long term is essential. Our efforts to achieve a high standard of parenting support were recognized in May 2021 with Kurumin certification from the Ministry of Health, Labour and Welfare.



August 2021

First* FINDAT Service Provided to an Educational Institution, Meiji Pharmaceutical University (MPU)

FINDAT is a drug information platform for medical professionals. We broadened our focus in 2022 to include providing the service to educational institutions. Our first success was at MPU, where faculty members in charge of medical treatment and drug information practicums will use FINDAT to train students in evidence-based drug selection.
*As of August 2, 2021



October 2021

Full-Fledged Operation of Online Insurance Eligibility Verification System

Online insurance eligibility verification allows medical institutions and pharmacies to verify patient insurance eligibility information using patients' Individual Number Cards (like tax ID number cards) or health insurance cards. Nihon Chouzai has participated in this government initiative since shortly after the trial launch began. In line with the start of full-fledged operations in October 2021, we rolled out the system to all of the 663 pharmacies that had opened by the end of March 2021.



November 2021

MHLW Accreditation as an Appropriate Fee-Charging Job Placement Agency in the Healthcare Field

Medical Resources was recognized as an Appropriate Fee-Charging Job Placement Agency in the healthcare field under a Ministry of Health, Labour and Welfare (MHLW) system for certifying job placement agencies in the fields of healthcare, long-term care, and childcare. The shortage of human resources in Japan is particularly marked in the fields of medical care, long-term care, and childcare. The MHLW system was created to address various issues involving the job placement agencies that work to respond to such shortages, such as rapid staff turnover and the improper charging of referral fees. Industry groups and experts compiled standards for job placement agencies, and those that meet certain criteria are certified as "appropriate business operators." The goal of the certification system is to help secure the human resources needed in each field and improve the quality of job matching. It allows job providers to get an overview in advance of agencies, including the content, quality, and cost of services, which informs their selection of the appropriate agency.

March 2022

METI Recognition as 2022 Health & Productivity Management Outstanding Organization in the Large enterprise category

The Nihon Chouzai Group is committed to creating a workplace where employees can work safely, healthily, and energetically as a key management theme. In September 2021, we issued a Declaration of Health and appointed the president as Chief Health Management Officer. Under this health and productivity management framework, we have been working to reinforce health management in the Group. With the recent recognition from the Ministry of Economy, Trade and Industry (METI), and from the standpoint of sustainability, we will further step up health and productivity management initiatives, working together across the Group to pursue an ambitious health promotion agenda as a top runner in the healthcare industry.

2022 健康経営優良法人
Health and productivity



April 2022

No. 1 in Healthcare/Welfare/ Pharmacy and Chemistry/ Pharmacology Category in the Desirable Hiring Company Ranking, Voted Industry Leader in Two Other Categories

In a company popularity ranking among job-seeking graduates carried out by leading recruiting information provider Mynavi and newspaper publisher Nikkei, which targeted undergraduate and graduate students due to complete their studies in March 2023, Nihon Chouzai ranked No. 1 in both the healthcare/welfare/pharmacy and chemistry/pharmacology categories. In two other categories as well, the Group received the most votes for the pharmacy/drugstore sector.

Nihon Chouzai ranked No. 1 in the pharmacy/drugstore sector in the recent survey

- Healthcare/welfare/pharmacy majors: 1st place (last year: 2nd)
- Chemistry/pharmacology majors: 1st (last year: 1st)
- Science majors overall: 20th (last year: 24th)
- Female science majors: 7th (last year: 8th)



Nihon Chouzai Shimadai Pharmacy

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COVER STORY

Nihon Chouzai's new Group philosophy is "to give people the closest possible support." Together with formulating this philosophy, we sought to envision how the four businesses of the Group can embrace input from everyone we serve, including patients, healthcare professionals, research institutions, companies, and government agencies, as we work together to create new standards of care. Looking toward 2030, as a team of medical professionals always a step ahead of the times, we will endeavor to become the most trusted partner in healthcare for all of our stakeholders.

Note on Forward-Looking Statements

Integrated Report 2022 contains forward-looking statements about the plans, strategies, and performance of the Nihon Chouzai Group. These statements are based on management's judgments derived from currently available information. Please note that actual business performance is subject to various risks and uncertainties and results may differ significantly from the statements. Factors that can affect the outlook include economic conditions surrounding the various business areas, the status of revisions to relevant laws and regulations, the status of revisions to medical fees, and the status of product development. However, factors that can affect business performance are not limited to these.

Editorial policy

In addition to discussing the management policies and business strategies of the Nihon Chouzai Group, Integrated Report 2022 provides comprehensive financial and non-financial information, with the goal of gaining a clearer understanding among our shareholders, investors, and other stakeholders about our medium- and long-term corporate value creation. The reporting period is FY2021 (April 2021–March 2022). However, the report also refers as necessary to FY2022 (April 2022–March 2023).



Aiming to be the most trusted partner in healthcare.

We redefined Nihon Chouzai's value to society and formulated a philosophy shared across the entire Group

Since its founding, the Nihon Chouzai Group has been intimately involved in the lives of patients. We have sought to serve them by growing the business under the banner of healthcare, including efforts to realize advanced pharmaceutical management and at-home healthcare, health management for patients, the more widespread use of generic drugs, staffing and placement of medical professionals, and data health services. I believe these accomplishments are the fruit of deep reflection on our mission, which has guided our actions and our efforts to address a range of social issues. The times continue to change dramatically, though, and the roles that pharmacies and pharmacists are expected to play are expanding. We are called upon as a society, as organizations, and as individuals to work together to address various issues. The Nihon Chouzai Group is able to provide an array of value to society, and for just that reason, expectations on us are also mounting. Recognizing this, we thought carefully about the Group's significance to society and the kind of Group we should strive to become. As a result of these reflections, we decided to formulate a shared Group philosophy for the entire organization.

The value shared across the Group is being involved in supporting people in all facets of their lives. In the Dispensing Pharmacy Business, our pharmacies and pharmacists support the lives of patients as the medical institution and as the healthcare professionals most closely involved in their wellbeing. In the Pharmaceutical Manufacturing and Sales Business, we offer support from various angles for patients who continue taking medication by providing a stable supply of high-quality, low-cost drugs. In the Medical Professional Staffing and Placement Business, we are contributing to the lives of patients throughout Japan, helping to redress regional disparities in healthcare by supplying appropriate medical personnel to medical institutions facing staff shortages. We also give individual medical professionals seeking fulfilling work the close support. In the Information Provision and Consulting Business, we see ourselves as giving sophisticated

support to patients from behind the scenes by harnessing a broad range of data. Desiring to provide deep and long-lasting support for people's lives, we established our mission, describing the Group's significance to society, as: "To give people the closest possible support." As it has been, our unwavering desire going forward is to contribute to people's lives in ways that are grounded in healthcare but go beyond the boundaries of healthcare, because there are still countless issues in society that our Group can help resolve.

Moreover, to fulfill this great mission, we cannot rely only on our own strengths. It is essential that we embrace input from everyone we serve, including patients, healthcare professionals, research institutions, companies, and government agencies as we work together to create new standards of care. With this mission in mind, we have set out our ideal vision for the Group in 2030 as becoming "The most trusted partner in healthcare." As a team of medical professionals always a step ahead of the times, we will endeavor to become the most trusted partner in healthcare for all of our stakeholders.

Seizing dramatic changes in the business environment as opportunities, we will create a framework capable of providing new healthcare solutions

COVID-19 continues to impact society in various ways. The environment for the medical and healthcare industry of which Nihon Chouzai is a member remains difficult, as medical institutions continue to place restrictions on patient health consultations, while pharmacies are expected to provide healthcare service after taking rigorous measures to prevent infection. The pandemic has also had a major impact on public healthcare policy, including spurring the government to more active debate about reforms to the healthcare system.

The Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare (MHLW) in 2015 reframed the roles required of pharmacists and pharmacies, calling for a shift from materials- to patient-centered work. The April 2022 revision of medical treatment fees reflected this new emphasis. Meanwhile, the Pharmaceuticals and Medical Devices Act, revised in August 2021, introduced a certification system for pharmacies with specific functions.



Yosuke Mitsuhashi
President and CEO

Mitsuhashi joined Nihon Chouzai in 1999. After serving as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, he became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins University Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives.



Under this system it is possible to obtain certification from each prefecture in Japan as a regional cooperation pharmacy or as a specialized medical institution cooperation pharmacy. **P35** The Group had already been actively expanding the functions of pharmacies in its nationwide network to address emerging social demands. As a result, we lead the industry in the number of certified regional cooperation pharmacies and specialized medical institution cooperation pharmacies, far out ahead of any other drugstore or pharmacy chain.

We are also pursuing our own initiatives to equip pharmacies in our network to fulfill the roles expected of them going forward. We currently have 28 certified Nutrition Care Stations, **P35** accredited by the Japan Dietetic Association as hubs supporting community-based nutritional care; 80 pharmacies equipped with Health Check-Up Stations, **P35** providing health support functions; and 26 At-Home Medical Care Support Centers **P35** specializing in a wide range of at-home healthcare. We recognize that the responsibilities expected of pharmacies are not limited to patients currently taking medication, but are growing to include ways of helping local residents stay healthy and deal with pre-symptomatic illness and disease prevention.

The government set a target of 80% or more of generic drug use by volume in all prefectures in Japan by the end of FY2023. Nihon Chouzai Group pharmacies have already surpassed 80% generic drug use in all prefectures, with the Group-wide average reaching 89.3% as of the end

of March 2022. I believe we have been able to lead the industry in contributing to healthcare in Japan by harnessing synergies with the Group's drug manufacturing operations.

We will radically revise Group governance and promote sustainability management

In April 2022, Nihon Chouzai was relisted from the First Section of the Tokyo Stock Exchange to the new Prime Market. Companies listed on the Prime Market are called to maintain even higher standards of corporate governance and a clearer market presence than ever before. Our Group is also working to enhance corporate governance, targeting further business growth.

For our Pharmaceutical Manufacturing and Sales Business, the quality and stable supply of drugs have always been top management priorities. Unfortunately, this past year, a quality issue was discovered with regard to some of the generic drugs manufactured by Group company Choseido Pharmaceutical. This issue highlighted once again the importance of quality and stable supply, and led us to reflect seriously on vulnerabilities in Group governance. The issue arose not only from inadequate self-awareness on the part of officers and employees of being personnel involved in healthcare, but was also due to a lack of perspective in the Nihon Chouzai Group on preventing issues from arising through a Group governance framework. We are

Number of pharmacies with support functions (as of June 2022)

Number of pharmacies with certified Nutrition Care Stations
28

Number of pharmacies with Health Check-Up Stations
80

Number of At-Home Medical Care Support Centers
26

already working to strengthen Group governance, including increasing headcount in the Risk Management and Compliance Office and building a comprehensive risk management and compliance framework to extend across the entire Group. We also established a new Audit Office at Nihon Generic, which has become the parent company of Choseido Pharmaceutical, and formed a framework for collaboration between the audit offices of each Group company. Moreover, we revised the framework, which existed since the Group's founding, in which the president of Nihon Chouzai also served as the president of Group subsidiaries. Consequently, I have handed over the position of president of Nihon Generic, Medical Resources, and Japan Medical Research Institute to a new president at each subsidiary. My role going forward under the new framework will be to concentrate on Group management and Group governance as the president of Nihon Chouzai.

We also introduced an executive officer system in April 2022. The aim was to better separate management decision-making and oversight functions from business execution functions, further clarifying the authority and duties of business execution, speeding up decision-making, and enhancing management agility, while also enhancing corporate

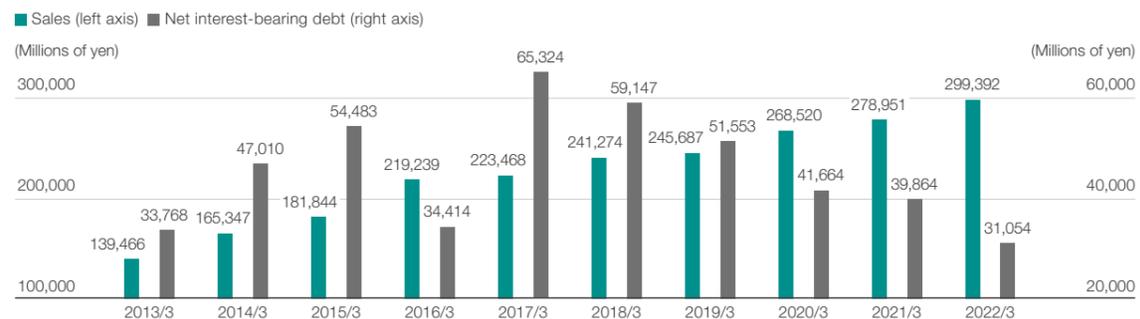
governance and responding more flexibly to changes in the business environment. These efforts will feed into improved corporate value. Also, at the General Meeting of Shareholders in June 2022, we welcomed Shio Harada, an attorney, as an outside director. I expect her to provide management advice and oversight based on her wealth of experience and knowledge as a lawyer, but I would also like to see her bring women's perspectives into discussions of the Board of Directors—women account for 70% of the officers and employees of the Group. I am looking to Ms. Harada to help us promote greater diversity and inclusion. **P66**

We are also working across the Nihon Chouzai Group to promote sustainability management. To this end, we established a Sustainability Committee in 2021, which I chair. I hope to take a leading role in bringing about sustainability management. In December 2021, we identified 21 material issues related to sustainability, which are broadly divided into six groups. Going forward, we will set key performance indicators for each material issue and monitor them annually. These will help us accelerate our efforts toward achieving more robust sustainability management.

Formulation of 21 Material Issues **P55**

| Materiality Group | Material Issue |
|---|--|
| A Healthcare quality and accessibility | 1 Increase the effectiveness of drug treatments for patients by strengthening pharmacy functions (accommodate advanced healthcare and regional healthcare) |
| | 2 Expand the functions of pharmacies to support the health of the community (e.g., illness prevention and pre-symptomatic illness) |
| | 3 Contribute to social security by ensuring appropriate use of pharmaceuticals at pharmacies |
| | 4 Ensure the continuous operation of pharmacies as a regional healthcare/welfare infrastructure, and respond effectively to disasters, pandemics, and other crises |
| | 5 Ensure the medical safety at pharmacies |
| | 6 Leverage digital transformation to promote online healthcare and create new business |
| | 7 Publish surveys and research that contribute to the development of healthcare |
| B Quality and stable supply of pharmaceuticals | 8 Undertake R&D and manufacturing of safe, high quality pharmaceuticals |
| | 9 Ensure a stable supply of pharmaceuticals |
| C Resolving human issues at healthcare institutions | 10 Provide "human" support in providing high-quality healthcare services |
| | 11 Support occupational health and general health, including mental health, by introducing occupational physicians |
| D Contributing to a carbon-neutral, circular economy | 12 Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants |
| | 13 Reduce CO ₂ emissions by increasing energy usage efficiency and promoting the use of renewable energy |
| | 14 Build environment-friendly and society-friendly supply chains with outstanding transparency |
| E Fostering and utilizing diverse workforce | 15 Secure human resources that supports the company's growth, and put in place HR systems that promote the growth of employees |
| | 16 Promote diversity, respect for human rights, and the participation of women in the workplace |
| | 17 Establish a workplace environment that enhances employee health and motivation |
| F Strengthening governance to fulfill social responsibilities | 18 Support the healthcare and welfare fields (e.g., persons with intractable diseases or disabilities) |
| | 19 Continuously strengthen corporate governance, and disclose information with a high level of transparency |
| | 20 Continuously strengthen compliance, and prevent corruption |
| | 21 Create opportunities by appropriately evaluating and responding to risks |

Consolidated Sales and Net Interest-Bearing Debt



Reinforcing financial stability and investing in sustainable growth

The financial policies of the Nihon Chouzai Group reflect an awareness of the need for management that stresses balance between investing in growth and maintaining financial stability. In FY2021, we were able to pay back roughly 17 billion yen in long-term loans payable and reduced net interest-bearing debt to 31 billion yen, the lowest level since FY2012. In FY2012, consolidated net sales were 139.4 billion yen and consolidated operating profit was 3.2 billion yen. In the nine years to FY2021, both figures had more than doubled even as we have drawn down interest-bearing debt.

The equity ratio also continued to improve, reaching 29.6%, its highest level since FY2006.

Meanwhile, we are in a phase of accelerated growth investment. In the Dispensing Pharmacy Business, we are investing in large-scale overhaul of the core dispensing system. Further, as the pace of industry restructuring continues to accelerate, we see opportunities for further growth investment in the Dispensing Pharmacy Business, including large-scale acquisitions. Accordingly, we will continue to pursue business growth, striking a balance between greater financial stability and growth investment.

As accelerated growth investments bear fruit, we are entering a phase of capturing greater market share

As we head toward achieving the targets of our long-term vision for 2030, we are staying a step ahead of the times, stepping up growth investments ahead of other industry players. The COVID-19 pandemic gave significant momentum to government efforts to reform the healthcare system. This dovetails with the growth investments we have made, which are now beginning to bear fruit. Now, we are equipped with the resources to move into a phase of capturing greater market share.

In the Dispensing Pharmacy Business, our pharmacy network strategy emphasizing a balance between pharmacies with differentiated functions has contributed significantly to

earnings. In particular, our unique hybrid pharmacies are driving growth. In addition, our industry-leading digital transformation initiatives are providing us with a major competitive advantage. We expect a combination of brick-and-mortar pharmacies with NiCOMS, Nihon Chouzai's online pharmacy service, and the electronic medication notebook *Okusuri Techo Plus* to feed into further growth in performance. **P38**

In the Pharmaceutical Manufacturing and Sales Business, we are putting a number of business improvement measures in place to address quality issues at Choseido Pharmaceutical. Based on recommendations of a special fact-finding team, we are building a Group-wide framework for manufacturing and quality control. We are also optimizing the number of drugs in the lineup by revising the product portfolio. In addition, we will work to generate synergies by building an efficient manufacturing framework and expanding personnel recruitment and training, taking advantage of the integration of Nihon Generic and Choseido Pharmaceutical. Alongside these efforts, we aim to realize high quality control and stable supply by expanding the proportion of in-house manufactured drugs through the development, manufacturing, and sales of new drugs. Meanwhile, we are targeting an operating margin of 10% over the medium term. **P43**

In the Medical Professional Staffing and Placement Business, the pandemic has put strong downward pressure on the market for pharmacist staffing and placement. However, by enhancing value of the Group's Medical Resources brand, I believe we can boost market share and increase sales and earnings. In the doctor HR business, a strategic focus for growth, the scale of the business is steadily expanding nationwide. We will continue taking steps to make this business a growth driver as we move toward 2030. **P49**

We will further accelerate Group-wide digital transformation to augment the strengths of each business

COVID-19 has given tremendous impetus to the digital transformation of healthcare in Japan, including in the dispensing pharmacy industry. My sense is that this growing trend will revolutionize the way the healthcare sector operates. In 2018, the government issued

guidelines outlining three directions for online medical consultation and medication guidance, as follows.

Guidelines for the Proper Implementation of Online Medical Consultation

- 1 Further improve the quality of healthcare by obtaining information on the daily lives of patients.
- 2 Ensure accessibility to healthcare and increase access to better healthcare for patients in need of healthcare.
- 3 Maximize treatment effectiveness by enabling patients to actively participate in treatment.

Based on these guidelines, the government is enacting reforms to encourage the digital transformation of the healthcare system, including lifting the ban on online medication guidance in 2020 and launching an online insurance eligibility verification service in 2021. In 2023, it will allow prescriptions, which must currently be written down on paper, to be digitized—this promises to further step up the pace of digital transformation in healthcare.

Our Group is also stepping up the pace of initiatives out in front of our competitors. **P31** We announced a digital transformation strategy in 2021. In December of that year, we were recognized as a DX Certified business operator based on a certification system established by the Ministry of Economy, Trade and Industry—the first company specializing in drug dispensing to be certified under that system. To take advantage of the deregulation of online medication guidance, we have already rolled out the online pharmacy service we developed in-house, NiCOMS, to our pharmacies nationwide. This service offers end-to-end pharmacy services online, from making reservations to receiving online medication guidance, making payments, and delivery of medications. In addition, we are aiming for an even more seamless linkage between online healthcare and remote medication guidance by strengthening collaboration with the curon online medical consultation service and launching a remote healthcare search service, NiCO Navi. Patients can now use the NiCO Navi site to search for medical institutions that offer online medical consultations, and seamlessly migrate to the NiCOMS online pharmacy service to fill their prescriptions.

A regulation mandating follow-up after drug delivery went into effect in Japan in 2020. To meet this requirement, we are taking advantage of our electronic medication notebook *Okusuri Techo Plus*, which already has more than 1.1 million subscribers. We added a "connect" function to the app to allow users to communicate directly with pharmacists via text message. We followed this in January 2022 with the addition of a chatbot function for medication consultation. If a patient has any questions, such as how to use a medication properly, they can easily consult with the pharmacy. We included a prescription refill function in line with new regulations introduced in April 2022.

We anticipate further digital transformation in the healthcare system. Ahead of the start of electronic prescriptions, scheduled for 2023, we are also moving forward with a project

to overhaul the dispensing system, the core system used by pharmacies. Operation of this new dispensing system will better position us to provide services that are increasingly in demand. In particular, as a next-generation pharmacy service, we will even more seamlessly support patients through a combination of brick-and-mortar pharmacies, online pharmacy services, and the electronic medication notebook.

Evolving into an innovative corporate Group through the development of talent to lead the next generation of management

One of my goals since becoming president has been to position Nihon Chouzai as the pharmacy brand of choice. This year, more than 370 new pharmacist graduates joined the Group. Also this year, the Group was able to receive numerous votes in the Mynavi/Nikkei 2023 Company Popularity Ranking targeting college students. Having ranked first among chemistry and pharmacology majors last year, we ranked first again not only in this category but also by industry in the category for healthcare, welfare, and pharmacy. We also led the pack among pharmacy and drugstore companies for science majors overall and for female science majors. I feel the Nihon Chouzai brand is gaining an even stronger presence.

Our focus is not only on new hires. Group management puts an emphasis on engagement with our employees. As we work to instill the new Group philosophy across the organization, I believe further deepening employee engagement is a critical task. A corporate philosophy does not simply take root on its own. I will continue to take the lead in promoting the new Group philosophy while engaging with stakeholders both inside and outside the Group.

The Nihon Chouzai Group is making great strides toward becoming an innovative corporate Group that can transform the healthcare industry. We will reinforce initiatives to ensure medical safety and quality and implement reforms to Group governance across the organization. The COVID-19 pandemic spurred the government to speed up efforts to digitally transform healthcare, including deregulation. If we do not match this with an even keener sense of the need for speed, we will forfeit our leading position in the industry going forward. We will therefore make growth investments in both tangible and intangible assets to create new value to meet the needs of a new era, targeting further growth as a healthcare group that is one step ahead of the times.

Financial Strategy

Overview of FY2021

In FY2021, although a resurgence of COVID-19 cases impacted performance, consolidated net sales were up 7.3% year on year. The Group posted a temporary loss, however, mainly reflecting our response to quality issues in the Pharmaceutical Manufacturing and Sales Business. These and other factors led to a 18.7% year-on-year decrease in consolidated operating profit. Consolidated EBITDA was down 8.1% year on year.

In the Dispensing Pharmacy Business, although medical institutions continued to put restrictions on health consultations and patients still tended to refrain from visiting hospitals or clinics, saw rising prescription volumes at 40 pharmacies opened in FY 2021, compared with 29 in FY2020. Partly as a result, the overall number of prescriptions was up 7.6% year on year, while the prescription unit price rose 1.1%. Meanwhile, ongoing efforts across the Group to contain costs along with other factors yielded net sales of 265.6 billion yen (up 8.8% year on year) and operating profit of 13.0 billion yen (up 22.9% year on year).

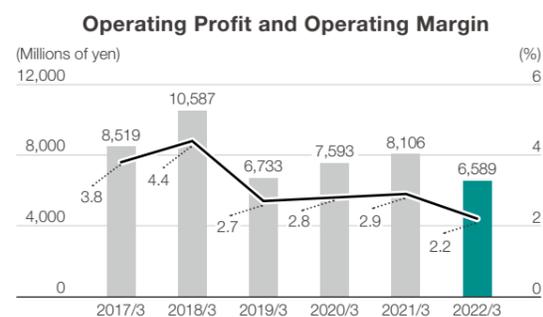
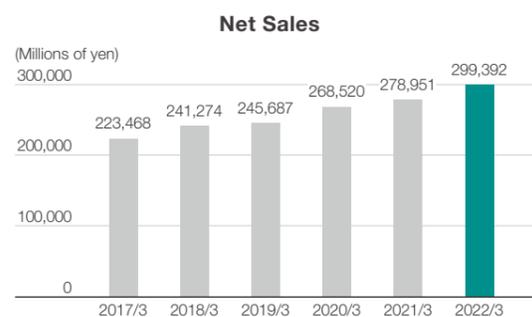
In the Pharmaceutical Manufacturing and Sales Business, sales of drugs newly NHI listed since 2019 have remained brisk. However, several factors have worked to offset this. These included a decline in selling prices of existing drugs

following the April 2021 NHI drug price revision, temporary losses on adjustments of defective inventory following on quality issues at subsidiary Choseido Pharmaceutical, and loss of drug inventories from a fire at the West Japan Logistics Center, Nihon Generic's contract logistics center. As a result of these factors, the segment recorded sales of 44.8 billion yen (down 1.9% year on year) and an operating loss of 53 million yen (compared with profit of 2.3 billion yen in FY2021).

In the Medical Professional Staffing and Placement Business, the doctor placement business saw significant growth, including to meet demand for COVID-19 vaccination-related services. Meanwhile, demand for the placement and staffing of pharmacists continued to decline under the impact of the pandemic. These and other factors resulted in sales of 6.9 billion yen (down 16.7% year on year) and operating profit of 576 million yen (down 19.1% year on year).

Cash provided by operating activities was 19.4 billion yen, cash used in investing activities was 9.3 billion yen, and cash used in financing activities was 17.4 billion yen.

The balance of cash and cash equivalents as of March 2022 was down 7.3 billion yen year on year to 25.5 billion yen.



Financial Policy

To achieve the Long-Term Vision — On the Road to 2030, the Group is embracing changes in the operating environment as opportunities and pursuing a financial strategy that emphasizes a balance between growth investment, shareholder returns, and fortifying the financial foundation.

1. Growth Investment

The Group invests in growth while paying particular attention to the areas of human resources development, responding to digital transformation of healthcare, and sustainability management.

In the Dispensing Pharmacy Business, we will continue to reinforce a pharmacy opening strategy that emphasizes a balance between hospital-front and hybrid pharmacies. As the COVID-19 pandemic continues to prompt active government discussions about digital transformation of healthcare, we are positioning the Group to capture developments in this area. Guided by the Nihon Chouzai Group's digital transformation strategy, we are ahead of the industry in realizing healthcare services in digital and online contexts. A current focus is on expanding remote medication guidance at pharmacies

nationwide by leveraging our NiCOMS online pharmacy service. We are also pursuing several initiatives drawing on our electronic medication notebook *Okusuri Techo Plus*, which already has more than 1.1 million subscribers, to provide smart healthcare, create new customer experiences, and improve customer satisfaction and maximize treatment effectiveness. Furthermore, we are channeling efforts into cultivating highly specialized human resources, such as professionals to support the advanced online drug information platform FINDAT, pharmacists certified in outpatient oncology, and pharmacists to engage in at-home healthcare.

The Pharmaceutical Manufacturing and Sales Business saw the completion in March 2018 of Nihon Generic's Tsukuba Plant No. 2, equipped with state-of-the-art manufacturing

equipment and quality control systems. The relocation and consolidation of research functions at that subsidiary's Tsukuba Research Institute in June of that year marked the completion of a multiyear, large-scale capital investment strategy. The utilization rate at Tsukuba Plant No. 2 increased steadily in FY2021, and we are pushing ahead with sales of newly NHI listed drugs and ramping up production volume. Meanwhile, taking to heart the discovery of quality issues with some drugs at Choseido Pharmaceutical, we continue to take action based on the business improvement plan we formulated, revising that company's quality and manufacturing control framework and product lineup. We also shut down Choseido Pharmaceutical's research arm, folding it into the Tsukuba Research Institute of Nihon Generic. In the Pharmaceutical Manufacturing and Sales Business, we will work going forward to stabilize fixed costs under rigorous cost control measures while pursuing a growth strategy centered on further boosting sales and improving profitability through expansion of the in-house production lineup.

In the Medical Professional Staffing and Placement

2. Shareholder Returns

Nihon Chouzai regards returning profits to shareholders as a key management issue. Our basic policy is to return profits to shareholders through stable dividends twice a year (interim and year-end) while considering the internal reserves needed to ensure future growth potential.

Furthermore, to express our gratitude to shareholders for their constant support, as well as to gain greater understanding of the Group's businesses and encourage the holding of Nihon Chouzai shares over the longer term, we have set up a shareholder benefit program.

3. Fortifying the Financial Foundation

For a company to continue to grow, it is essential to build a stable financial foundation. In FY2021, the Group worked to draw down interest-bearing debt while expanding investments to capitalize on digital transformation of healthcare.

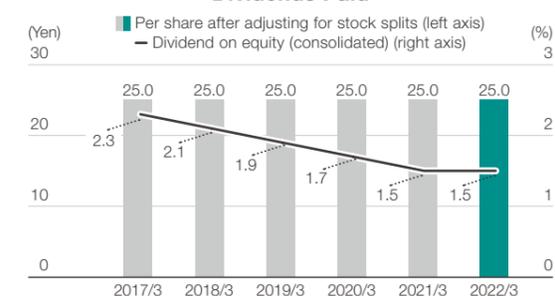
While consolidated net sales rose 7.3% year on year, net assets decreased by 4.0%, indicating greater asset efficiency. We pushed forward with drawing down interest-bearing debt: Net interest-bearing debt decreased by 10.5 billion yen,

Business, while pharmacist staffing and placement businesses continue to draw on the strengths of the Group, we are now enhancing our focus on the doctor HR business. Amid the ongoing impact of COVID-19 in FY2021, we expanded placements of medical professionals to fill positions related to nationwide vaccination efforts. The occupational doctor HR business, which began in FY2020, continues to expand in scale nationwide. We will continue to contribute to improving the working environment of Japanese companies by supporting more effective corporate health management.

Amount of Investment (Millions of yen)

| | 2017/3 | 2018/3 | 2019/3 | 2020/3 | 2021/3 | 2022/3 |
|------------------------|--------|--------|--------|--------|--------|--------|
| Pharmacy business | 4,238 | 4,679 | 3,215 | 8,997 | 6,289 | 6,370 |
| Manufacturing business | 18,742 | 10,245 | 1,582 | 2,069 | 2,701 | 1,493 |
| HR business | 45 | 89 | 291 | 84 | 98 | 249 |
| Consolidated | 23,344 | 15,316 | 5,254 | 12,025 | 9,492 | 8,362 |

Dividends Paid



Profitability Indicators

The Group considers consolidated EBITDA to be a key indicator of profitability, which helps guide our efforts to continuously grow the business while maintaining earnings through aggressive growth investments in the Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales Businesses. We also stress cash flow to drive business growth and enable stable dividend payments, and seek to boost capital productivity. We strive to maximize corporate value in these ways.

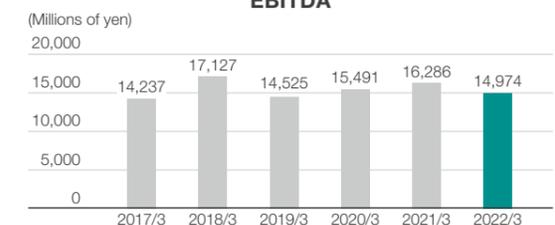
In FY2021, the company posted temporary losses due to the above-mentioned quality issues in the Pharmaceutical Manufacturing and Sales Business. Consolidated EBITDA was down 8.1% year on year as a result, to 14.9 billion yen. In FY2022, we expect a significant recovery in EBITDA to 17.6 billion yen, supported by recovery in the Pharmaceutical Manufacturing and Sales Business.

Although total asset turnover and financial leverage remained at high levels, ROE was down 0.1 point year on year, from 7.3% to 7.2%. The decline reflected a lower net

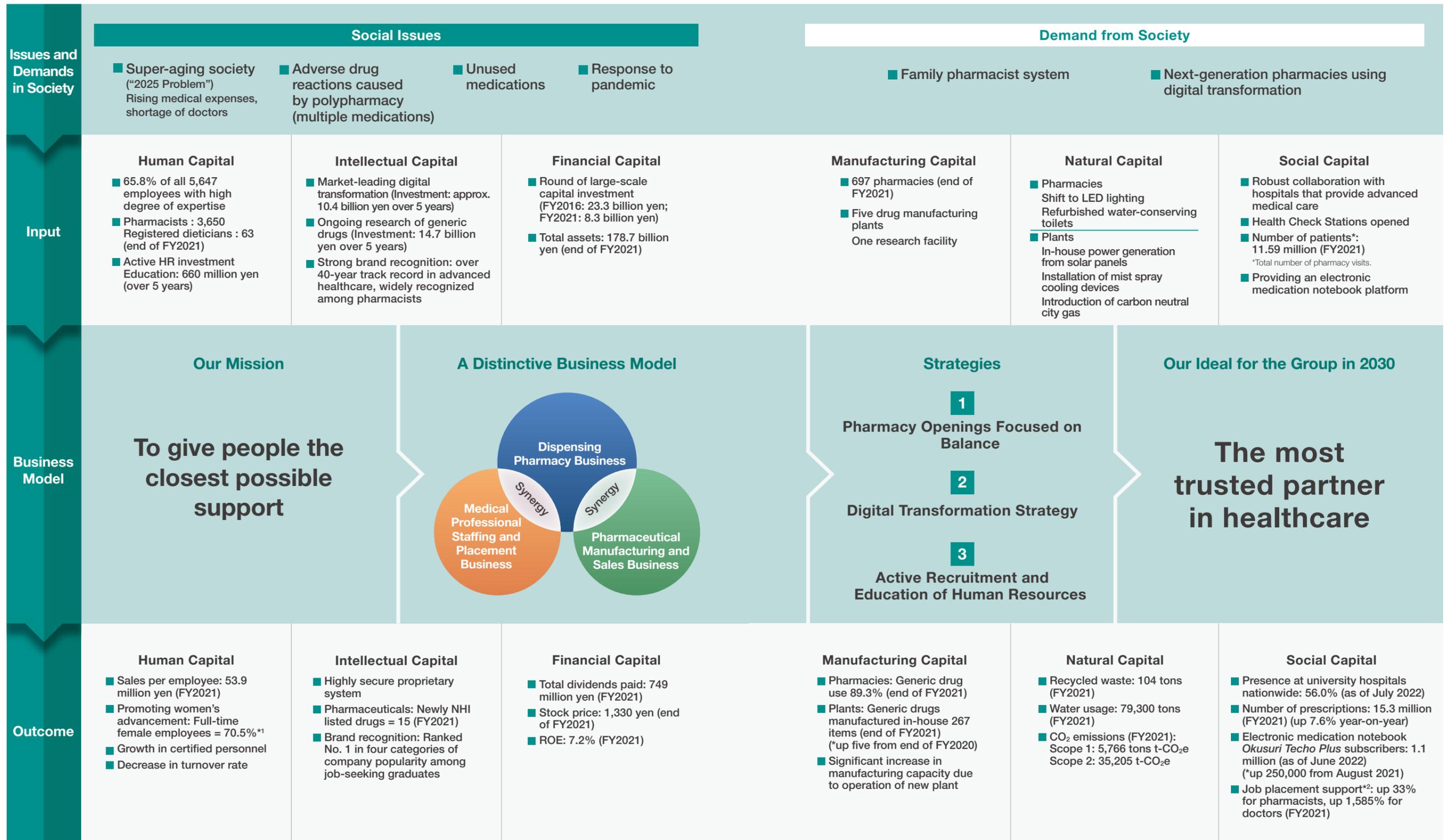
profit margin attributable to owners of parent, due in part to temporary losses related to the quality issues in the Pharmaceutical Manufacturing and Sales Business.

| | ROE | = | Net profit margin | × | total asset turnover | × | financial leverage |
|--------|------|---|-------------------|---|----------------------|---|--------------------|
| 2021.3 | 7.3% | = | 1.3% | × | 150.0% | × | 383.5% |
| 2022.3 | 7.2% | = | 1.2% | × | 164.0% | × | 355.3% |

EBITDA



Value Creation Process



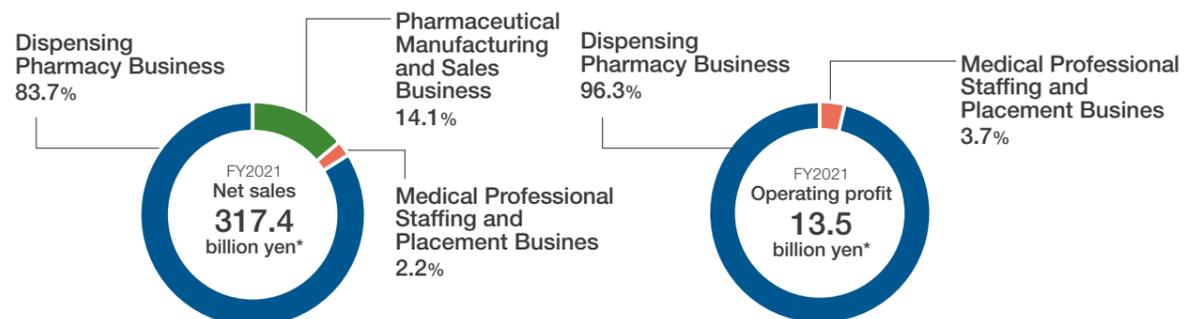
*1 Nihon Chouzai only (end of FY2021) *2 Number of placement contracts (versus FY2017)

Stakeholder Engagement

The Nihon Chouzai Group seeks to hold constructive dialogues with stakeholders in each of its business areas to identify their expectations and needs and to work together to help resolve the issues facing the entire society. Going forward, we will continue to work to deepen trust with stakeholders, build relationships that enable mutual flourishing, and increase corporate value.

| | Why we engage | Stakeholders' concerns | How we respond |
|--|---|--|--|
| Patients and customers  | <p>As a medical institution that provides quality healthcare throughout Japan, we believe pursuing the care that patients and customers demand is essential for the long-term development of our company. The Nihon Chouzai Group is constantly striving to ensure that patients and customers can receive the best possible healthcare without worry at our pharmacies and through our online pharmacy service throughout Japan.</p> | <ul style="list-style-type: none"> ■ Provision of high-quality healthcare through the safe, secure Nihon Chouzai brand ■ Ability to receive the proper pharmacy services whenever needed nationwide ■ Online pharmacy service that brings together high medical quality and convenience ■ Supply of high-quality pharmaceuticals | <ul style="list-style-type: none"> ■ Providing high-quality healthcare at Nihon Chouzai pharmacies in all prefectures in Japan ■ Providing high-quality generic drugs under the Nihon Generic brand ■ Providing Nihon Chouzai's online pharmacy service NiCOMS ■ Addition of two-way communication function to the electronic medication notebook <i>Okusuri Techo Plus</i> |
| Medical institutions (hospitals, pharmacies) and healthcare professionals  | <p>As a medical institution and as healthcare professionals responsible for regional healthcare, the Group collaborates with other medical care providers to better serve patients and local communities. In this way, we contribute to upholding a sustainable healthcare system in Japan. In addition, for medical institutions facing a shortage of medical staff, we are helping to redress regional disparities in healthcare by supplying appropriate medical personnel through the Group's Medical Professional Staffing and Placement Business.</p> | <ul style="list-style-type: none"> ■ Collaboration with medical institutions to build sustainable community healthcare frameworks ■ Redressing regional healthcare disparities caused by a shortage of medical personnel ■ Cooperation with highly specialized pharmacies and pharmacists | <ul style="list-style-type: none"> ■ Healthcare collaboration by highly specialized pharmacists with regional medical institutions ■ Staffing and placement businesses that connect medical institutions and healthcare professionals while avoiding poor fits ■ Ensure the safety and quality of drugs |
| Employees  | <p>To achieve sustainable growth, it is vital to create workplaces where employees can take pride in their work as professionals supporting healthcare in Japan. The Nihon Chouzai Group is working not only to foster supportive, fulfilling workplaces, but also carry out employee engagement surveys to enhance employee satisfaction.</p> | <ul style="list-style-type: none"> ■ Workplaces where employees can continue to work with a sense of security ■ Diversity and inclusion initiatives ■ Fulfilling work that can contribute to healthcare in Japan ■ Maintaining stable employment | <ul style="list-style-type: none"> ■ Offering working environments at financially sound medical institutions ■ Providing a wide range of job positions that offer fulfillment as a healthcare professional ■ Stable employment in the Nihon Chouzai Group (salary, benefits) ■ One of the industry's best training programs ■ Providing flexible career plans that empower women in the workplace |
| Shareholders and investors  | <p>As a company listed on the Prime Market of the Tokyo Stock Exchange, the Group places importance on appropriate disclosure and constructive dialogue with shareholders and investors to achieve sustainable growth and build corporate value over the longer term. Feedback and demands obtained through interactions with shareholders and investors are promptly shared within the Group and reflected in management and investor relations activities.</p> | <ul style="list-style-type: none"> ■ Sustainable growth ■ Longer-term improvement in corporate value ■ Stable shareholder returns ■ Appropriate disclosure | <ul style="list-style-type: none"> ■ Engagement activities with stakeholders and investors ■ Growth strategies to achieve a sound financial structure and sustainable growth ■ Stable shareholder returns |
| Government agencies  | <p>Effective collaboration with government agencies is indispensable to the Group's businesses. The Nihon Chouzai Group will continue to engage with government agencies to contribute to Japan's regional healthcare system.</p> | <ul style="list-style-type: none"> ■ Provision of healthcare with guaranteed safety and stability ■ Cooperative efforts with government agencies ■ Reduction of medical expenses ■ Understanding of ministry and agency policies | <ul style="list-style-type: none"> ■ Efforts to develop, manufacture, sell, and ensure a stable supply of high-quality generic drugs ■ Promoting generic drugs to reduce medical expenses ■ Contributing to regional healthcare in Japan ■ Efforts to achieve digital transformation of healthcare |
| Society  | <p>As we seek to contribute to regional healthcare, cooperative efforts with various stakeholders in our communities are crucial to our businesses. The Group will continue to provide the best-possible healthcare throughout Japan to ensure that patients and customers can lead their daily lives with a sense of security and safety.</p> | <ul style="list-style-type: none"> ■ Regional healthcare stations ■ Family pharmacies and pharmacists ■ Actions to contribute to society ■ Expansion of pharmacies with specialized functions such as collaborating with medical institutions and providing advanced healthcare | <ul style="list-style-type: none"> ■ Functions to support community residents in staying healthy and to offer nutrition consultations ■ Providing a safe and secure community healthcare system through dispensing pharmacies/Pharmacy-based community healthcare frameworks to enable people to lead their daily lives with a sense of security ■ Nationwide expansion of specially certified pharmacies, such as regional cooperation pharmacies, specialized medical institution cooperation pharmacies, and health support pharmacies |
| Business partners  | <p>As a Group that is involved in a broad range of business areas, it is critical that we maintain solid relationships with all of our business partners. By building a robust supply chain, we will seek to provide stable, quality medical services to patients and customers nationwide.</p> | <ul style="list-style-type: none"> ■ Stability ■ Growth potential ■ Products ■ Services | <ul style="list-style-type: none"> ■ Sales of healthcare related products ■ Economies of scale ■ Sound financial position ■ Sales of goods and services |

Business Portfolio



*Consolidated sales and operating profit are the total of the three main business segments. Adjustment amounts have not been subtracted. Percentages are rounded to the nearest unit.

*Since it posted an operating loss of 53 million yen during the fiscal period, results of the Pharmaceutical Manufacturing and Sales Business are not reflected in the consolidated operating profit graph.

Dispensing Pharmacy Business P33
Nihon Chouzai Co., Ltd., other dispensing subsidiaries

A leading company in the pharmacy sector

| | |
|--|--|
| Net sales | 265.6 billion yen |
| Operating profit | 13.0 billion yen |
| Pharmacies with family pharmacists | 85% (as of July 2022) |
| Pharmacies conducting at-home healthcare | 93% (one or more visit per year, as of the end of June 2022) |

Information Provision and Consulting Business P41
Japan Medical Research Institute, Inc.
*Information Provision and Consulting Business results are included in the Dispensing Pharmacy Business segment.

Providing high value-added information and services

Supporting customers through four businesses based on medical big data

- Drug information service
- Survey and research service
- Advertising media service
- Data health support service

Pharmaceutical Manufacturing and Sales Business P43
Nihon Generic Co., Ltd., Choseido Pharmaceutical Co., Ltd.

A manufacturer of a full line of generic drugs

| | |
|-------------------------------------|--|
| Net sales | 44.8 billion yen |
| Operating profit | (0) billion yen |
| Number of drugs on the market | 642 (including two over-the-counter drugs) |
| Development and manufacturing bases | 5 plants 1 laboratory |

Medical Professional Staffing and Placement Business P49
Medical Resources Co., Ltd.

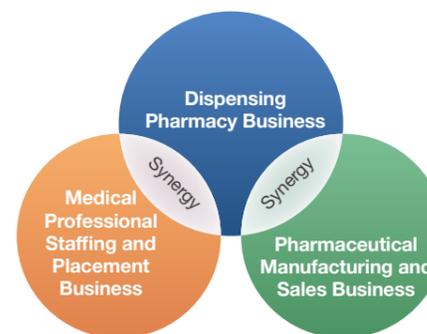
An HR services company specializing in professionals in healthcare fields

| | |
|------------------|-----------------|
| Net sales | 6.9 billion yen |
| Operating profit | 576 million yen |



*as of the end of March 2022

Core Competencies of the Nihon Chouzai Group



The Nihon Chouzai Group is drawing on expertise gained through the nationwide growth of the core Dispensing Pharmacy Business to expand into other healthcare-related fields through our Pharmaceutical Manufacturing and Sales Business and our Medical Professional Staffing and Placement Business.

With the Dispensing Pharmacy Business at the core, we are harnessing powerful synergies through organic collaboration between the three main businesses as we pursue growth across the Group.

Core Competencies Centered on the Dispensing Pharmacy Business

- 01 Pharmacy network development capabilities centered on a history of organic growth since the company's founding
- 02 High specialization and ability to support advanced medical care nationwide
- 03 Long-standing ability to incorporate ICT, including in-house developed dispensing systems and processing/analysis of big data
- 04 Organizational ability to respond on a national scale to changes in public policy and the environment
- 05 Being first off the mark in forward-looking risk-taking and investment

Taking the Lead in the Japanese Pharmacy Market

Consolidated net sales

Consolidated net sales Sales growth for

17 in a row

51.8 billion yen (FY2004) | 299.3 billion yen (FY2021)

* Listed on Tokyo Stock Exchange (TSE), Second Section

Sales growth for 17 years in a row since TSE listing

Number of pharmacies

713 (as of June 30, 2022)

Pharmacies serving all prefectures in Japan, mainly three major metropolitan areas

Per pharmacy sales

No. 1* 378 million yen (FY2021)

123 million yen (Average of other companies FY2020)

Result of a pharmacy network strategy focused on per pharmacy sales

* Nihon Chouzai estimate based on materials disclosed by the Ministry of Health, Labour and Welfare (MHLW)

Addressing Healthcare Issues Facing Japanese Society

Proportion of generic drugs

No. 1 79.0% (National average) | 89.3%* (Nihon Chouzai)

(as of September 2021)

Promoting generic drug use by harnessing strong synergies with the Pharmaceutical Manufacturing and Sales Business

*discontinued products have been excluded from calculations

Staffing, placement job offers

Average job offers for healthcare professionals

Over **80,000** cases

Providing high-value-added services with superlative matching quality

Electronic medication notebook subscribers

No. 1 1,100,000 (as of June 2022)

Enhancing convenience and supporting patient health

* Nihon Chouzai estimate based on materials disclosed by listed pharmacy chain operators.

Support for Advanced Medical Care

Proportion of hospital-front pharmacies (university hospitals, general hospitals, etc.)

61.1% (as of July 1, 2022)

Ongoing strategy of opening pharmacies with an emphasis on balance between hospitalfront/on-site pharmacies and hybrid pharmacies

Proportion of Nihon Chouzai pharmacists certified in outpatient oncology by JASPO*

1 in 3 pharmacists (as of the end of May 2022)

Placement of highly specialized pharmacists such as those accredited by an academic society

* Japanese Society of Pharmaceutical Oncology

Prescription unit price

17,052yen (Nihon Chouzai FY2021)

9,857yen (National average FY2020)

Track record of handling highly specialized drugs

Overview of Long-Term Vision and Strategy

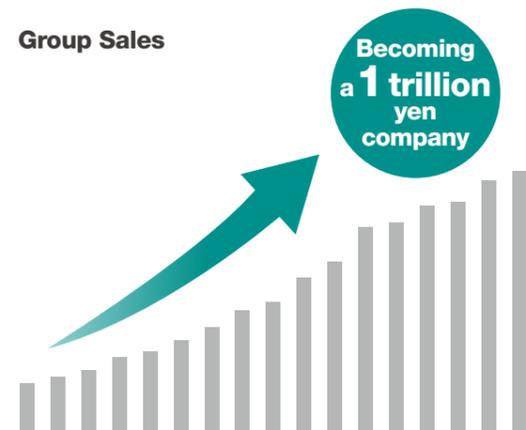
In April 2018, Nihon Chouzai announced a long-term vision describing the kind of company we want to be in 2030. The business environment for the Group is undergoing dramatic changes, including the super-aging society in Japan and the global spread of COVID-19. Embracing these dramatic changes as opportunities, we summarize on this page the strategies and results we are targeting to achieve substantial growth.



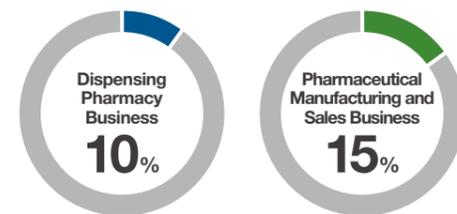
Our Ideal for the Group in 2030
The most trusted partner in healthcare

Long-Term Vision 2030

Group Sales

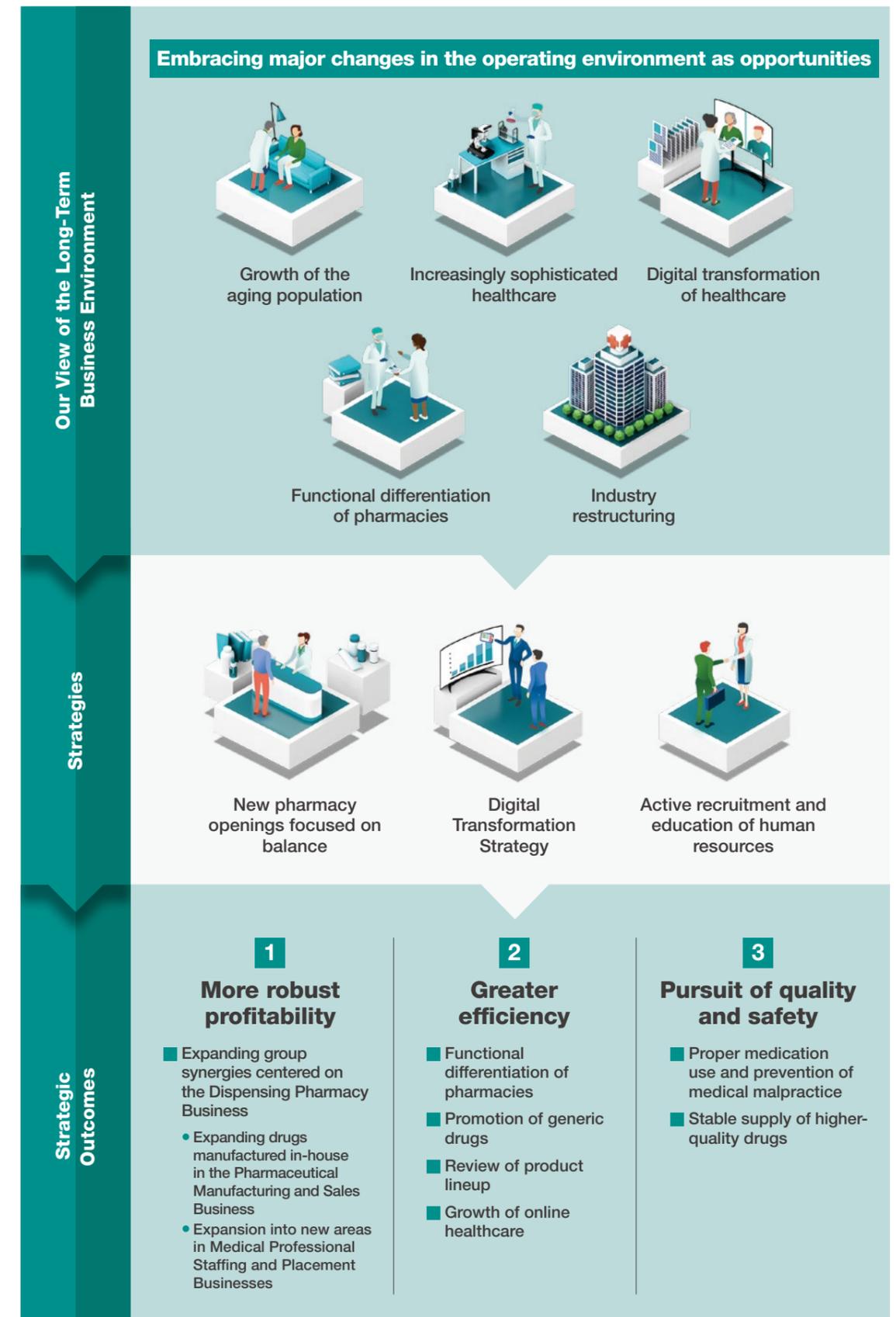


Market Share



We set Group sales of 1 trillion yen as the scale of business we aim for in 2030. To achieve this target, we project capturing a 10% share of the pharmacy market and a 15% share of the generic drug market.

Strategies for Making the Long-Term Vision a Reality



Key Risks and Opportunities Projected in Carrying Out the Long-term Vision

At Nihon Chouzai, to achieve our long-term vision, we will seek to identify and address risks, embrace opportunities as a force driving future growth, and harness strong synergies between our businesses to realize dramatic growth.

| Issues | Risks | Opportunities | Actions | |
|---|---|--|---|--|
| Changes to the Healthcare System | <ul style="list-style-type: none"> Changes in dispensing fees and reductions in drug prices due to national drug price revisions Entry of outside players into the pharmacy industry due to deregulation Waning competitiveness of existing business models | <ul style="list-style-type: none"> Accelerating restructuring in the pharmacy industry due to revisions of dispensing fees and drug prices, deregulation, and other factors Expansion of online medical care and digital transformation of healthcare due to healthcare system reforms Accelerating restructuring in the generic drug industry due to the impact of drug price reductions | Dispensing Pharmacy Business <ul style="list-style-type: none"> Develop an expanded pool of more highly sophisticated, highly specialized medical personnel in line with the Vision of Pharmacies for Patients Expand business areas and pharmacies with functions ranging broadly from advanced medical care, disease prevention, and pre-symptomatic illness to prevention of progression and at-home healthcare Increase the customer base through pharmacy openings focused on balance and growth of existing pharmacies based on the pharmacy network strategy Transform core businesses through digital transformation of healthcare, create new services and businesses, and transform business processes | Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none"> Develop highly profitable newly NHI listed drugs Boost profitability by reviewing the product lineup and expanding the weight of in-house manufactured drugs |
| Safety and Quality of Medical and Pharmaceutical Products | <ul style="list-style-type: none"> Unexpected serious drug side effects or harmful drug interactions Greater time and effort required to meet stricter regulations on drug manufacturing and quality | <ul style="list-style-type: none"> Ensuring safety and enhancing reliability by promoting proper drug use Enhancing reliability through proper manufacturing and quality control of drugs | Dispensing Pharmacy Business <ul style="list-style-type: none"> Enhance educational programs and facilities to ensure the proper use of drugs Introduce, expand, and ingrain quality management | Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none"> Provide employees with rigorous quality control and manufacturing control education Operate and regularly monitor manufacturing and quality control framework |
| Stable Supply of Pharmaceuticals | <ul style="list-style-type: none"> Disruption in the supply chain and mounting procurement costs in pharmaceutical manufacturing and sales due to global circumstances Failure to achieve manufacturing and sales targets due to supply and demand disruptions in the demand structure in the pharmaceutical industry | <ul style="list-style-type: none"> Responsible sales and provisions of drugs based on a stable, efficient supply chain Construction of a production framework to achieve both stable supply and profitability | Dispensing Pharmacy Business <ul style="list-style-type: none"> Pursue synergies with the Pharmaceutical Manufacturing and Sales Business to achieve stable procurement of generic drugs Achieve stable drug supply through tie-ups with pharmaceutical wholesalers nationwide | Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none"> Ensure a stable procurement framework by securing a second source of drug substances and coordinating with contract manufacturers Ensure a stable manufacturing framework by upgrading facilities and reviewing the product lineup |
| Securing Human Resources Needed to Operate, Grow Businesses | <ul style="list-style-type: none"> Shortage, poor fits of personnel to support business strategies, declining labor productivity | <ul style="list-style-type: none"> Business expansion drawing on strengths in human resource development and recruitment, provision of competitive services | Group-wide <ul style="list-style-type: none"> Secure highly skilled professionals and develop employee training programs Recruit and train high-quality new pharmacist graduates Secure highly skilled medical personnel through synergies with the Medical Professional Staffing and Placement Business | |
| Increasingly Sophisticated Digital Technology and Security Threats | <ul style="list-style-type: none"> Interruption of services and business due to cybercrime, personal information leaks Waning competitiveness of current business models | <ul style="list-style-type: none"> Stable operation and expansion of businesses and services grounded in an information security infrastructure Leveraging digital transformation of healthcare to offer new services that address changes in patient and customer behavior and changes in social infrastructure | Group-wide <ul style="list-style-type: none"> Transform core businesses through digital transformation of healthcare and create new services and businesses Develop a more robust information security and personal information protection framework as part of the business infrastructure and thoroughly train employees Reinforce measures to prevent information security incidents and strengthen response capabilities | |
| Climate Change and Pandemics | <ul style="list-style-type: none"> Higher costs due to stricter environmental regulations Suspended operations and degraded services due to large-scale natural disasters and global pandemics | <ul style="list-style-type: none"> Mounting needs for services and products to address changes in consumer behavior and lifestyles due to increased environmental awareness Growing needs for online medical care necessitated by large-scale disasters and pandemic outbreaks | Dispensing Pharmacy Business <ul style="list-style-type: none"> Provide smart healthcare that enables medical consultation, medication guidance, and drug receipt to be carried out entirely online Group-wide <ul style="list-style-type: none"> Conduct and review of business continuity planning  and augment resilience to prepare for natural disasters and other large-scale disasters | Medical Professional Staffing and Placement Business <ul style="list-style-type: none"> Address medical personnel shortages in regions with insufficient medical resources to better prevent the spread of infectious diseases and uphold healthcare frameworks |

Digital Transformation Strategy

Achieving sustainable growth by incorporating digital transformation and sustainability into the management strategy

Nihon Chouzai regards ICT as a key factor in growth and has been developing an ICT strategy for many years. Amid calls to incorporate digital transformation into healthcare, the Nippon Chouzai Group's digital transformation strategy is further evolving to provide new value to patients, medical institutions, and local communities.

Five Digital Transformation Strategies

Nihon Chouzai is targeting dramatic growth as we move forward in achieving our long-term vision for FY2030. To support such growth, we have formulated five Digital Transformation Strategies to meet changes in the environment and provide new services that will bring innovation to the healthcare industry in Japan.

The five Digital Transformation Strategies will significantly

transform our businesses, focusing on the areas of core business reform, new business creation, and work process reform. Through these approaches, we will provide new value to a wide range of stakeholders, not only the patients and consumers who receive our services but also medical facilities, regional society, shareholders, and employees.

Five Digital Transformation Strategies

- 1 Providing smart healthcare**
Providing smart healthcare, where anyone can receive health consultation, medication guidance, and drug delivery seamlessly online
- 2 Creating new customer experiences**
Creating new customer experiences by fusing brick-and-mortar and online pharmacies
- 3 Improving customer satisfaction and maximizing treatment efficacy**
Improving customer satisfaction and maximizing treatment efficacy by expanding touchpoints using *Okusuri Techo Plus*
- 4 Using digital technology to provide value-added information**
Providing value-added information through the FINDAT drug information platform
- 5 Improving work efficiency and shifting to patient-centered work**
Using digital technology to streamline operations, reducing time spent with materials and creating time for patient-centered work

Value Provided

Patients and consumers

- Enhanced convenience, prevention of illness progression
- More robust at-home healthcare
- Supporting disease prevention and pre-symptomatic illness of local residents
- Providing high-quality medical care by enhancing interpersonal services
- Prevention and early detection of drug side effects
- Proper drug use based on efficacy, safety, and cost-effectiveness
- Balance of safety and efficiency of dispensing work

Medical institutions

- Support for gathering drug information

Shareholders

- Sustainable corporate growth
- Minimizing risk

Regional society (educational institutions, local governments)

- Reducing regional disparities in healthcare
- Responding to health and lifestyle issues through multi-professional collaboration in the community
- Sustainable healthcare provision
- Use of information at universities and other educational institutions

Employees

- Working style reforms through greater work efficiency
- Heightened expertise through shift from materials- to patient-centered work
- Providing a range of opportunities for active involvement

Digital Transformation Strategy Shaping New Pharmacy Services

Who benefits from the value P38

Nihon Chouzai's Online Pharmacy Service NiCOMS

NiCOMS, an online pharmacy service developed by Nihon Chouzai, allows users to connect online with Nihon Chouzai pharmacies throughout the country and receive medication guidance from a pharmacist either in-pharmacy or at home. The service also delivers drugs to patients' homes. Customers taking care of small children, busy with work, or who live far away from a pharmacy can easily use of this service on their smartphones or computers.

Strategy in Action **1 Providing smart healthcare**
2 Creating new customer experiences

Who benefits from the value P38

Electronic medication notebook Okusuri Techo Plus

In addition to functions for sending prescriptions, keeping an electronic record of medications, managing health, and keeping a calendar, the notebook has a function that allows users to communicate with pharmacy staff via a chatbot format. The pharmacy can provide even closer support for customers' health by enabling ease of consultation about medication.

Strategy in Action **1 Providing smart healthcare**
2 Creating new customer experiences
3 Improving customer satisfaction and maximizing treatment efficacy

Who benefits from the value P38

Remote Healthcare Search Service NiCO Navi

To give patients access to healthcare anytime, anywhere, we are providing online medical information in collaboration with a telemedicine service emote healthcare service and our online pharmacy service NiCOMS. With NiCO Navi, users can choose the medical institutions and pharmacies from which they want to receive telemedicine serviceonline healthcare and medication guidance, enabling end-to-end online healthcare.



Strategy in Action **1 Providing smart healthcare**
2 Creating new customer experiences
3 Improving customer satisfaction and maximizing treatment efficacy

Who benefits from the value P39

Drug information platform FINDAT

FINDAT is Nihon Chouzai's online drug information platform for healthcare professionals. The platform evaluates drug information gathered from an extensive data sources, including original articles, drug databases, and regulatory guidelines in Japan and overseas, and provides them online. FINDAT helps medical institutions provide patients with quality healthcare services by reducing the drug information gathering workload, facilitating the shift from materials- to patientpeople-centered work, and enhancing team-based medical care.



Strategy in Action **3 Improving customer satisfaction and maximizing treatment efficacy**
4 Using digital technology to provide value-added information
5 Improving work efficiency and shifting to patient-centered work

Who benefits from the value P39

Renewal of the Dispensing System

As part of our digital transformation of healthcare, we are moving forward with a project to renew the dispensing system, the core system used by pharmacies. In addition to better enabling us to provide healthcare best suited to patients, whether through brick-and-mortar pharmacies, online pharmacy services, or at-home healthcare, the system will also support a broad array of digital transformation initiatives, including improving operational efficiency and process management at pharmacies.

Strategy in Action **1 Providing smart healthcare**
2 Creating new customer experiences
3 Improving customer satisfaction and maximizing treatment efficacy

Who benefits from the value P38

Supporting Operation of Multiple Pharmacies with Cloud-Based Service JP-Dream

JP-Dream is a cloud-based operational improvement tool designed for multiple pharmacies. We have rolled out the service to all pharmacies of the Nihon Chouzai Group, achieving greater efficiency of various pharmacy management operations previously carried out by pharmacists. The service frees up more time for the patient-centered work increasingly demanded of pharmacists.



Strategy in Action **5 Improving work efficiency and shifting to patient-centered work**

Who benefits from the value P37

Automation of Dispensing Work

By promoting the operational efficiency of pharmacies through automation, we support pharmacists' shift to more patient-centered work, raise the quality of healthcare services, and improve patient safety.

Strategy in Action **5 Improving work efficiency and shifting to patient-centered work**

Who benefits from the value P37

Online Insurance Eligibility Verification System

Medical institutions and pharmacies must verify the accuracy of patient insurance eligibility information. By using patients' Individual Number Cards (equivalent to tax ID number cards), the system allows this step to be performed quickly. The use of Individual Number Cards avoids the conventional process whereby pharmacy staffs enter and verify information from health insurance cards. Using face recognition in the reception step offers the benefit of being able to easily complete the verification process online easily.



Strategy in Action **1 Providing smart healthcare**
2 Creating new customer experiences
3 Improving customer satisfaction and maximizing treatment efficacy
4 Using digital technology to provide value-added information
5 Improving work efficiency and shifting to patient-centered work

* Drug information operations involve gathering and handling evidence and information needed to optimize the benefit-risk balance of drug treatments.



Dispensing Pharmacy Business

Nihon Chouzai Co., Ltd., other dispensing subsidiaries

Long-Term Vision

Growth Strategy

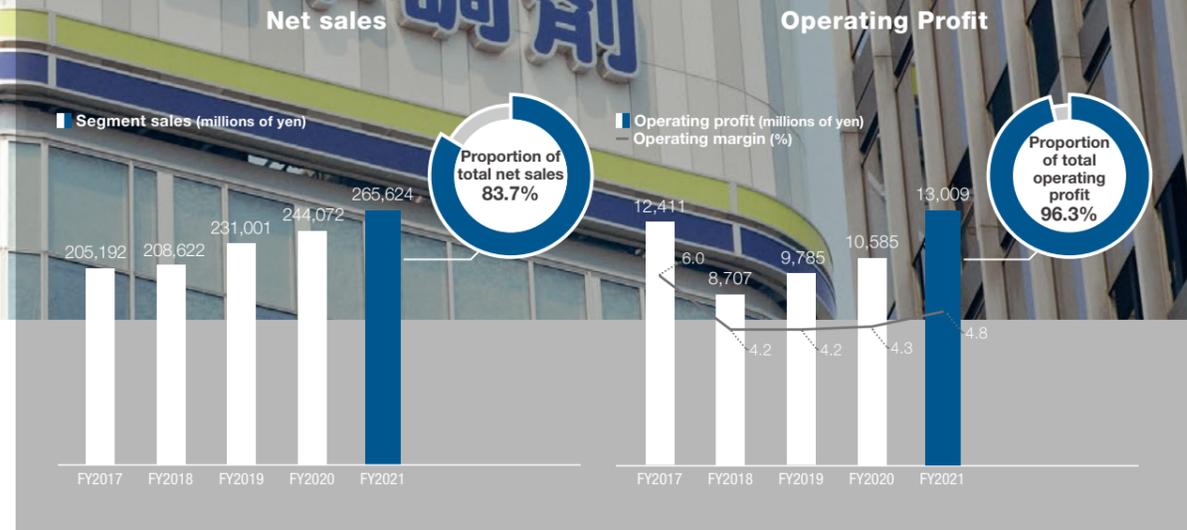
"To give people the closest possible support," Nihon Chouzai has always sought to tackle healthcare issues head-on, even as those issues have shifted drastically with the times. The Group's growth is not tied only to meeting the immediate needs of patients—we take pride in having been able to anticipate the times, flexibly embrace change, and work to address social issues that are just over the horizon.

By further reinforcing the three strengths that have supported our growth to date, we will continue to realize dramatic achievements.

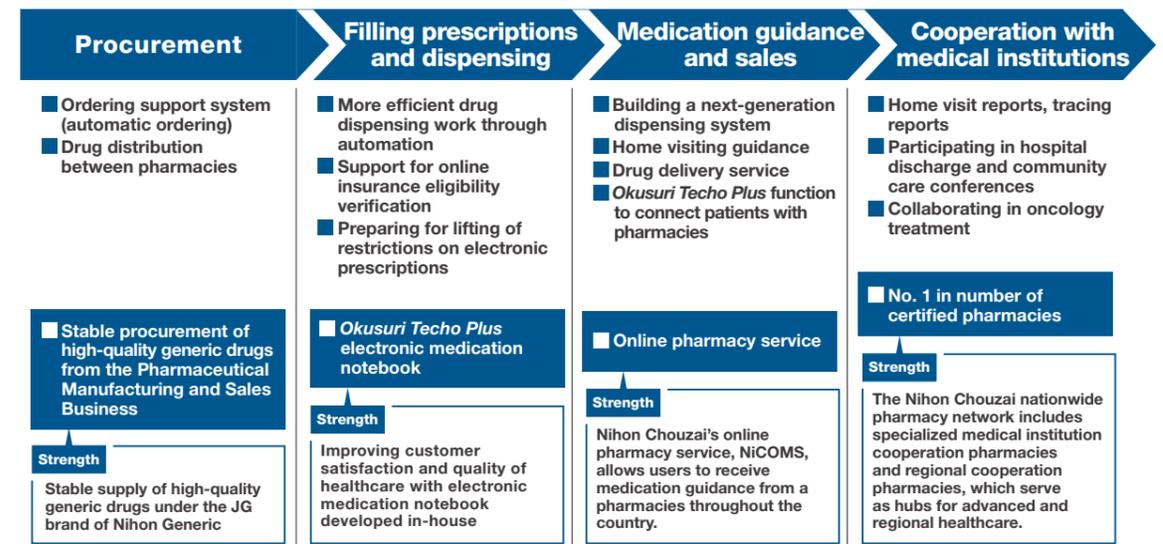
Capacity to respond to diversifying medical needs
 Approximately 70% of Nihon Chouzai pharmacies are located in front of or on the premises of university hospitals and major regional hospitals that provide advanced healthcare. We are also consistently ahead of the industry in responding to diversifying medical needs. The Nihon Chouzai brand continues to grow as a comprehensive healthcare brand as we support regional healthcare collaboration and at-home healthcare, offer online pharmacy services, and expand our health support functions, such as for pre-symptomatic illness and disease prevention.

Robust organization (group synergies)
 Nihon Chouzai can harness a range of innovative problem-solving capabilities to respond to changes in the healthcare environment in Japan, which is actively moving forward with reforms to the healthcare system. Maximizing the group synergy created by our healthcare-focused business portfolio, which makes us stand out from our peers, we respond agilely to revisions to dispensing fees and drug prices and calls for digital transformation of healthcare.

Capacity to respond to digital transformation of healthcare
 Since its founding, Nihon Chouzai has actively incorporated ICT into its business activities, drawing on advanced innovation capabilities. Since the 1990s, we have been pursuing digital transformation strategies in the healthcare field, such as the in-house development of dispensing systems and the *Okusuri Techo Plus* electronic medication notebook. As demand for "smart healthcare" increases, we will lead the way in transforming the healthcare industry through remote medication guidance and other initiatives.

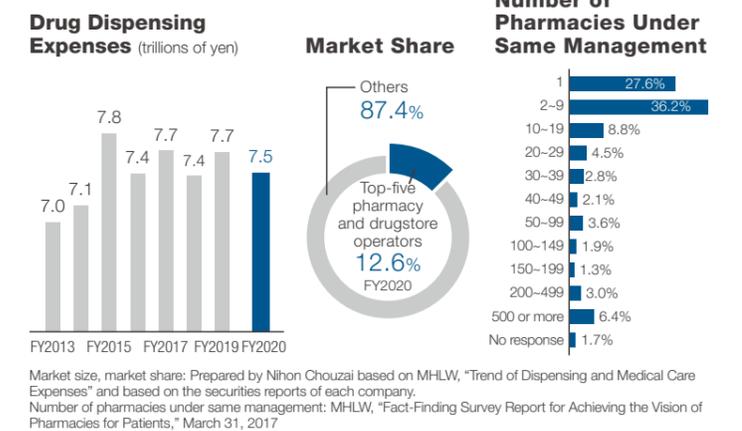


Value Chain and Competitive Advantages of the Dispensing Pharmacy Business



Market Environment

Against the background of the COVID-19 pandemic, the Japanese government is pushing to reform the healthcare system and implement digital transformation of healthcare. April 2022 saw the deregulation of remote medication guidance and the introduction of a refill prescription system. These government reforms to the healthcare system are helping to spur realignment in the pharmacy sector, which is expected to lead to fewer pharmacies and greater consolidation of pharmacies.



Growth Strategy

Pharmacy network strategy focused on balance to meet a broad array of patient needs

To provide high-quality healthcare services nationwide, Nihon Chouzai is pursuing a balanced pharmacy network strategy. Based on the family pharmacist and pharmacy functions stipulated by the Ministry of Health, Labour and Welfare, we distinguish our pharmacies between those that offer advanced pharmaceutical management requiring highly specialized knowledge and those that offer health support functions that contribute to better pre-symptomatic illness and disease prevention in the community. We have pharmacies in all 47 prefectures in Japan.

Hospital-front/On-site pharmacies

Located near or on the premises of university hospitals and major regional hospitals that provide advanced healthcare, these pharmacies offer advanced healthcare serving a wide range of medical specialties. As hospital-front/on-site pharmacies often fill prescriptions for drugs that require advanced pharmaceutical management, highly specialized knowledge and skills, as well as the highest level of medical services, are required.



Hybrid pharmacies

Pharmacies that combine the elements of neighborhood pharmacies, which are in locations with convenient access, such as downtown areas or near train stations, with medical center-type pharmacies, which serve clusters of medical institutions. Hybrid pharmacies fill prescriptions from medical facilities across a relatively wide area, but also serve as a familiar healthcare hub for neighborhood residents and people commuting to work or school.



Online pharmacy service

NiCOMS, an online pharmacy service developed by Nihon Chouzai, allows users to make reservations to receive remote medication guidance at home or elsewhere. In addition to helping prevent COVID-19 infections, customers who are too busy to visit a pharmacy or patients who live far away can easily make use of this service via their smartphones or computers.



Pharmacies with various functions

The Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare (MHLW) set forth concrete functions required of pharmacists and pharmacies going forward. A system allowing prefectural governors to certify certain pharmacy functions was launched in August 2021; it is now possible to be certified as a specialized medical institution cooperation pharmacy or as a regional cooperation pharmacy. Nihon Chouzai is developing a network of pharmacies offering a range of other functions as well. These include health support pharmacies, which meet standards for health support functions set by the MHLW, such as the ability to offer consultation on a wide range of health-related issues; certified Nutrition Care Stations, accredited by the Japan Dietetic Association as community hubs where local residents can easily receive nutritional care support and guidance; and pharmacies equipped with a Health Check-Up Station, a distinctive initiative of Nihon Chouzai to help local residents stay healthy and to deal with pre-symptomatic illness and disease prevention.

Regional cooperation pharmacies

Pharmacies, authorized by prefectural governors, that collaborate as needed with regional medical institutions and other pharmacies, serving as bridges between hospitals (medical care) and long-term care facilities or residences (long-term care).

Specialized medical institution cooperation pharmacies

Pharmacies, authorized by prefectural governors, that cooperate closely with hospitals, pharmacies near a patient's home, and other healthcare facilities to serve patients who require specialized drug management. These pharmacies also engage in special kinds of dispensing that call for more advanced medication management and greater specialization. Currently, pharmacies with a high degree of expertise in oncology treatment can receive this accreditation.

Certified Nutrition Care Stations

A certified Nutrition Care Station is a facility certified by the Japan Dietetic Association as a community hub where local residents can easily receive nutritional care support and guidance. Through services such as nutrition consultations, health events, and nutrition classes, registered dietitians who are specialists in food and nutrition support residents in leading healthy and fulfilling lives.

Number of pharmacies with certified Nutrition Care Stations: **28**

Health Check-Up Stations

As a community-oriented health support function, we have set up Health Check-Up Stations* in selected pharmacies which are actively working to help local residents stay healthy and to deal with pre-symptomatic illness and disease prevention. Health Check-Up Stations offer health consultations at a booth that ensures greater privacy, and are equipped with blood pressure monitors, body composition meters, and other measuring devices that can check patients' health condition.

Community Health Support: Pharmacies with Health Check-Up Stations

| | March 2019 | June 2020 | June 2021 | June 2022 |
|------------------------------------|------------|-----------|-----------|-----------|
| Number of Health Check-Up Stations | 62 | 75 | 76 | 80 |

*Health Check-Up Station is a registered trademark of Nihon Chouzai.

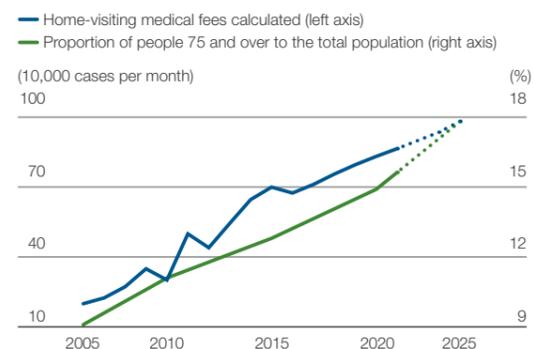
At-Home Healthcare Initiatives

The advent of a super-aging society in Japan has triggered a shift away from inpatient treatment at medical institutions to ongoing at-home healthcare. As family pharmacies, the role of pharmacies in community-based healthcare teams is becoming more and more critical. Nihon Chouzai began augmenting its ability to respond to care needs at home and at long-term care facilities in 2009. We support patients in collaboration with facility staff, doctors, nurses, and care managers. Since 2010, we have offered a broad array of at-home healthcare services to support the needs of local communities, ranging from cancer and other serious illnesses to children with intractable diseases.

In terms of facilities at our pharmacies, we have remained ahead of the industry in equipping pharmacies with sterile dispensing rooms, which will be increasingly necessary for at-home healthcare going forward, allowing the preparation of injections, intravenous feeding solutions, and other sterile dispensing work.

In FY2011, Nihon Chouzai set up a department dedicated to at-home healthcare, and is actively promoting home-visiting drug management and guidance for patients being treated at home. All Nihon Chouzai pharmacies have now put in place a framework in which pharmacists can provide home-visiting drug management and guidance services.

Growth of the At-Home Healthcare Market in Japan



At-Home Medical Care Support Centers

Through 26 At-Home Medical Care Support Centers nationwide, Nihon Chouzai is providing a range of at-home care services to meet the needs in various regions. Pharmacists specializing in at-home healthcare are supporting elderly patients as well as children with cancer, intractable diseases, and other serious illnesses. We make use of Anshin Fukuyaku-kun, an original medication support app developed in-house, to help boost adherence by preventing medication errors and managing medication information. Moreover, we actively support the health of patients in the region in collaboration with other healthcare professionals, including by having a pharmacist accompany patients to their medical examinations. Meanwhile, we are taking steps to ensure high-quality, safe healthcare services: All Nihon Chouzai pharmacies are working to obtain ISO 9001, the international standard for a quality management system, for the provision of dispensing and medication distribution services by at-home medical care support centers and drug sales operations.



Highly Specialized Medical Personnel Play Increasingly Diverse Roles

| | | | |
|--|-----------------|---|------------|
| Pharmacists | 3,560 | Specialized at-home healthcare managers | 17 |
| Pharmacists with outside certification Board-Certified Pharmacist of Ambulatory Cancer Chemotherapy (BPACC) <small>(as of April 1, 2022)</small> | 39* | Registered dietitians | 63 |
| <small>*Approximately one in three BPACC certified pharmacists working in pharmacies is from the Nihon Chouzai Group. This is the highest percentage in the pharmacy sector.</small> | | Registered pharmaceutical sellers <small>(as of May 1, 2022)</small> | 435 |
| Pharmacists with in-house certification (JP-STAR) Cancer guidance pharmacists 52 Other | Total 90 | Pharmacists with "Outside Job Challenge" program experience (placement in a hospital) <small>(until March 2022)</small> | 262 |
| Percentage of pharmacies with family pharmacists | 85% | | |

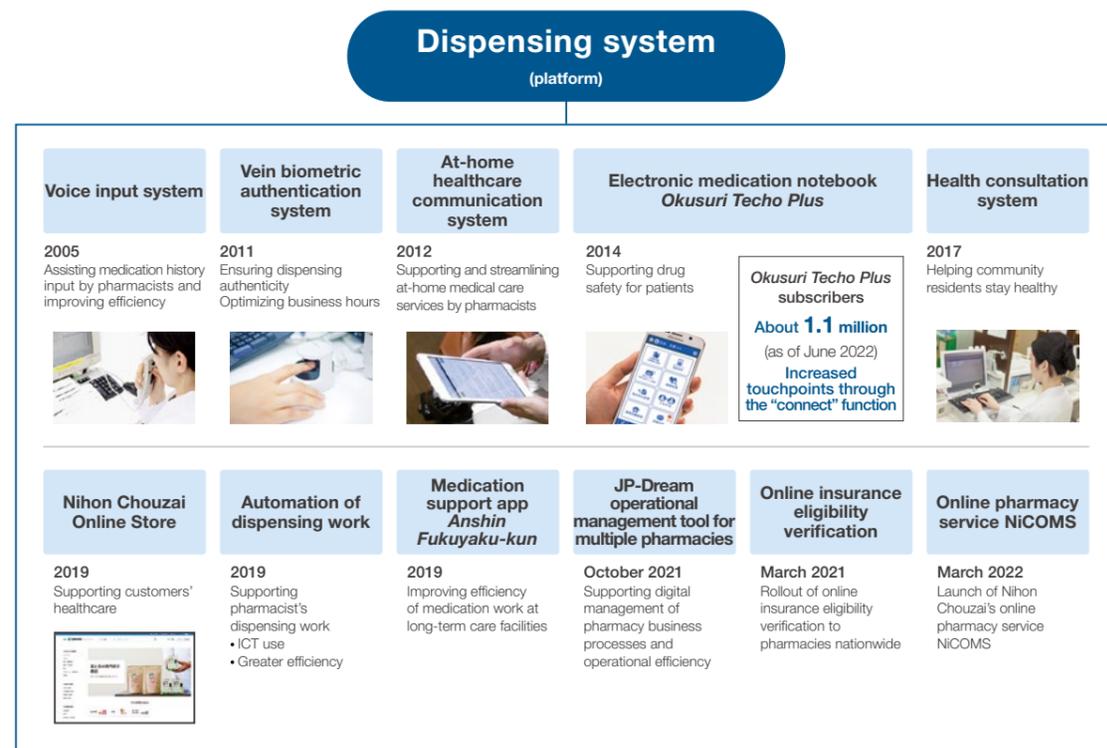
Column Health Support Pharmacies

Health Support Pharmacies actively support residents and patients in local communities so that they can lead healthy, fulfilling lives. Trained staff are prepared to give advice not only for people currently taking medications, but also on nutrition and exercise, to help people concerned

about their health. Naturally, people without prescriptions can also receive advice. Only pharmacies that meet the standards set by the Ministry of Health, Labour and Welfare for health support functions can become Health Support Pharmacies.

Growth Strategy

ICT Investment under the Digital Transformation Strategy



Nihon Chouzai develops and operates various ICT tools for healthcare in-house, centered on the dispensing systems used in pharmacy operations.

In the 1990s, we were first in the industry to develop an electronic dispensing system. Yearly upgrades to the system have enabled us to respond quickly to revisions in drug dispensing fees and the shift toward remote healthcare. The system also serves as a platform that can flexibly link with other systems.

In 2021, we started an overhaul of the dispensing system to support the roles expected of pharmacies down the road. In addition to revamping the user interface, we are targeting a system design that will enable a more flexible response to upcoming digital transformation and deregulation in healthcare fields. We are positioning this overhaul as a growth investment with a view to future business development and expansion of the business scale.

Automation of Dispensing Work

While promoting efficiency through automation, we are creating more time for pharmacists to devote to patient-centered work and improving the quality of medical services.

- Purpose**
- Shifting pharmacist work to more patient-centered work
 - Improving dispensing quality (including hygiene)
 - Improving patient safety

| Product Name | Drug Stations | ROBO-PICK II | DimeRoll | miniAQUA-zero |
|-----------------------------|-------------------------------|---|------------------------------------|--------------------------------------|
| purpose | Automated drug picking device | Fully automated blister pack feeding device | Powder medication dispensing robot | Liquid medication dispensing machine |
| Functions / Features | Up to 3,000 items | Up to 1,300 items | Automatic weighing, cleaning | Automatic dispensing, cleaning |

Pick up

Nihon Chouzai Online Pharmacy Service NiCOMS

The revision of the Pharmaceuticals and Medical Devices Act made remote medication guidance available nationwide in September 2020. In response, Nihon Chouzai developed NiCOMS, an online pharmacy service that allows patients to receive medication guidance

at home or elsewhere. Deregulation of remote medication guidance went into effect in April 2022 and is expected to be given broader scope going forward, such as permission to provide medication guidance remotely for first-time patients.

Collaboration with remote healthcare services

We have begun collaboration between Nihon Chouzai's online pharmacy service and the remote healthcare service curon of MICIN, Inc. Through this collaboration, patients can select any Nihon Chouzai Group pharmacy nationwide when making a reservation for an online healthcare consultation through the curon service. After the

online consultation, users can smoothly transition to our NiCOMS online pharmacy service and make a reservation for online medication guidance. Since information is linked with the patient ID on the curon platform, even first-time pharmacy users can start registration with their basic information already entered.



Remote Healthcare Search Service NiCO Navi

In July 2022, Nihon Chouzai launched NiCO Navi, a website that allows users to search for and choose medical institutions that support remote healthcare and pharmacies that support remote medication guidance.

categories such as the selected medical institution, current location, or date and time of their health consultation.

Users can search for such medical institutions from their current location or under categories as medical specialties, keywords, or their scheduled health consultation date. After selecting the desired medical institution, users can use NiCOMS to choose a pharmacy that supports remote medication guidance, searching under



Electronic Medication Notebook Okusuri Techo Plus

The electronic medication notebook *Okusuri Techo Plus* links with Nihon Chouzai's core dispensing system to enable centralized management of medication history. The app is also equipped with various functions that enhance convenience for patients, including a function for sending prescriptions and a calendar function. It also has a personal health record function that offers greater convenience by linking* to data from body composition monitors, blood sugar monitors, and other healthcare devices. In this way, it helps patients manage their daily habits and supports better health.

how to use a medication properly, how to administer a drug to a child, when to take it, or their physical condition after taking a medication, they can easily consult with the pharmacy.

*Available with compatible healthcare devices and NFC-enabled Android devices

In August 2021, we added a "connect" function to the app to allow users to communicate directly with pharmacies. This was followed in January 2022 with the addition of a chatbot function for medication consultation. If a patient has any questions, such as



Users can start a chat by tapping on the "question about medication" link.

They can choose from different options and easily consult with the pharmacy.

FINDAT business

Accelerating Digital Transformation of Healthcare with the Web-Based FINDAT Platform

FINDAT is Nihon Chouzai's web-based drug information platform for healthcare professionals.

FINDAT gathers drug information from an extensive range of data sources in Japan and overseas, such as original articles, drug databases, and regulatory guidelines, processes these data to enhance use at clinical sites, and provides them online.

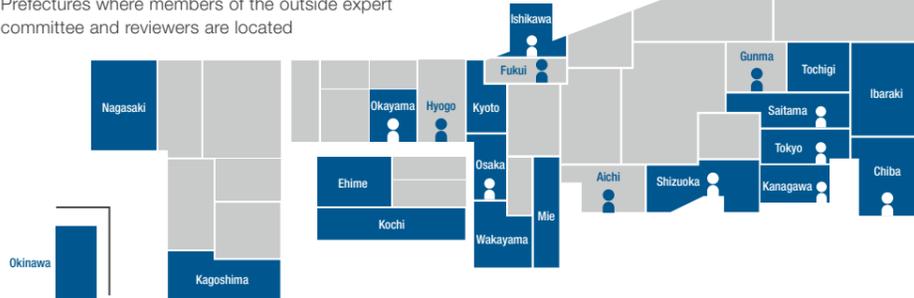
FINDAT can respond to a wide range of social needs, and it is gaining a solid reputation, making inroads among a growing number of pharmacies that carry out advanced healthcare and at-home care as well as pharmacology educational institutions.



Since its launch in 2020, the FINDAT service has spread nationwide

■ Prefectures Where Medical Institutions, Universities, and Pharmacies Using FINDAT Are Located (As of July 1, 2022)

👤 Prefectures where members of the outside expert committee and reviewers are located



Value Provided by FINDAT

1 Managing drugs that have been adopted and creating formularies

Formularies are recommended lists of homologous drugs prepared and offered by FINDAT. They can be created efficiently by processing data according to the situation of each medical institution or region.

2 Comparing efficacy, safety, and cost-effectiveness of homologous drugs

Comparisons of similar drugs with similar efficacy provided by FINDAT are created using data on the efficacy, safety, and cost-effectiveness of the drugs gathered from a wide range of sources including package inserts, interview forms, original articles, secondary information databases, and various regulatory guidelines. FINDAT compiles these data into a table or other formats to compare and evaluate individual drugs.

3 More efficient data gathering when adopting new drugs

FINDAT gathers information on and evaluates newly approved drugs, tasks that typically place a heavy burden on medical institutions, and compiles these findings into materials that can be easily utilized at clinical sites and distributes them.

4 Optimization of drug purchasing costs

Utilizing the abovementioned materials on drug evaluation in terms of efficacy, safety, and cost-effectiveness provided by FINDAT, customers can narrow down the range of drugs to use and decide whether to adopt a new drug. In this way, FINDAT contributes to the optimization of drug purchasing costs.

5 Objective data reviewed and peer-reviewed by outside experts

Standardized formularies are published after being reviewed and approved by the Formulary Expert Review Committee. New drug evaluations and additional indications are published after being peer-reviewed by outside pharmacists who are active in clinical practice. This ensures the fairness and appropriateness of information.

6 Promoting proper medication use and enhancing medical safety

By providing information on proper medication use as well as the latest drug safety information, FINDAT promotes the proper use of drugs, contributing to enhanced medical safety.

Providing Reliable, Advanced Drug Information—the Basis of Safe, Secure Healthcare Services

Masuhara: With Japan's rapidly declining birthrate and aging population, efforts to achieve a more efficient healthcare system have made the digitization of healthcare essential. Meanwhile, the role of pharmacists is shifting from materials-to patient-centered work. This patient-centered work is grounded in the ability to quickly gather and evaluate reliable drug information, and use this to optimize patient care. Up until recently in Japan, there were no secondary information resources in Japanese generated by collecting and evaluating drug information to meet the needs of Japanese healthcare. The FINDAT platform, which systematically brings together reliable information from drug information resources including original articles from Japan and overseas, offers organized content that can be used efficiently in the healthcare field.

Ueda: Reliable drug information is indispensable to enabling pharmacists to propose appropriate prescriptions to patients. The quality of their work depends to a large extent on whether they can adequately confirm the necessary information, including package inserts, interview forms (comprehensive documentation provided by companies to supplement information lacking in package inserts), proper use guidelines, regulatory guidelines, and original articles from Japan and overseas.

To consider a concrete example: FINDAT allows pharmacists at both medical institutions and local pharmacies to keep track of patients from the time of admission until after discharge using the same information sources. This further ensures the safety and effectiveness of the patient's drug treatment. FINDAT also allows pharmacists in the community to play a more sophisticated role by putting higher-quality information at their disposal, empowering them, for instance, to offer evidence and propose cost-effective prescriptions based on tracing reports, propose drug selections and dosages according to the patient's condition when making prescription inquiries, and proposing prescriptions when accompanying doctors on home visits.

Masuhara: By rolling out the platform to the pharmacies of the Nihon Chouzai Group, we will be able to provide safer, more secure healthcare services to patients and customers. We are confident that this will in turn differentiate us from other pharmacies, with a unique strength of Nihon Chouzai pharmacies being the ability to provide services based on our knowledge of objective, reliable drug information.



Keiso Masuhara

Director and General Manager of FINDAT Business Department
Visiting Professor at St. Marianna University School of Medicine Hospital (Pharmacist, PhD (Pharmacology))

As Director of the Pharmaceutical Department of St. Marianna University School of Medicine Hospital, he contributed to promoting the use of generic drugs and creating Japan's first generic name prescription and hospital formulary. Since joining the company in 2019, he has served as General Manager of Formulary Business Promotion Department and is currently Director and General Manager of FINDAT Business Department, where he uses his knowledge and experience to drive the business forward.

Executive Profiles P65

Aya Ueda

General Manager, FINDAT Business Department

Obtained U.K. pharmacist licensing in 2003. After working in the pharmacy of Northwick Park Hospital, the North London Regional Medicine Information Center, and the pharmacy department of St. Marianna University School of Medicine Hospital, since 2019 she has been in charge of planning and promotion of the drug information and formulary business in Nihon Chouzai's FINDAT Business Department.

Topics

Expanded Rollout to Nihon Chouzai Group Pharmacies

Since it began full-scale operations in October 2020, the FINDAT platform's user base has continued to expand, mainly among hospitals around Japan. Starting in April 2022, we rolled out the platform to 111 pharmacies in the Nihon Chouzai Group, centering on those certified as specialized medical institution cooperation pharmacies.

Going forward, we will continue to roll out FINDAT to

our pharmacies to strengthen its function as a drug information platform in each region and further improve the quality of drug treatment.

We are also building a database of FINDAT case studies and developing an educational framework aimed at gaining wider use for FINDAT among pharmacies.

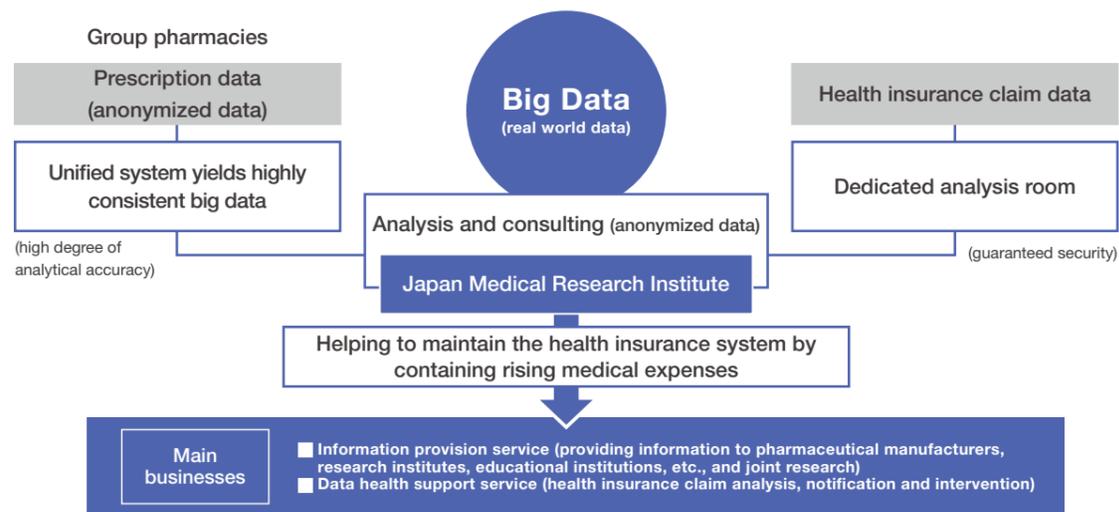


Information Provision and Consulting Business

Japan Medical Research Institute Co., Ltd.

Contributing to Tomorrow's Healthcare Based on Medical Big Data

Japan Medical Research engages in operations in pursuit of "low cost, high quality" medical care



Growth Strategy

Japan Medical Research Institute was launched in January 2012, with the aim of offering valuable information services to contribute to the sound development and growth of the pharmaceutical industry and to the improvement of people's lives, based on the healthcare data resources cultivated through various Nihon Chouzai Group companies. With its rapidly aging population, Japan is at the forefront of a variety of healthcare issues. Addressing these issues calls for providing services that meet a wide range of needs, including multiple types of healthcare data analysis, surveys, research, and healthcare policy proposals.

Japan Medical Research Institute seeks to meet the needs of pharmaceutical and healthcare companies, medical institutions, insurers, and pharmacies. To this end, we are helping to address healthcare issues affecting Japan as a whole—improving the quality of healthcare, optimizing medical expenses, and extending the healthy life expectancy of the population—based on prescription and health insurance claim data and a range of other medical big data. We offer four services through a team of consultants comprised mainly of pharmacists with a wealth of clinical experience.

Services

Contributing to ongoing healthcare optimization through four services

- 1** **Drug Information Service**
 Targeting pharmaceutical companies
- 2** **Advertising Media Service**
 Targeting companies in healthcare fields and pharmaceutical companies
- 3** **Survey and Research Service**
 Targeting organizations in medical fields
- 4** **Data Health Support Service**
 Targeting insurers

1 Drug Information Service

Since FY2001, we have been gathering data on prescriptions filled by the Dispensing Pharmacy Business and conducting research and analysis based on this data. In FY2014, we launched RI-PDS, Japan's first daily data feed service, and have been providing up-to-date data ever since. In FY2017, we developed the analytical system RI-CORE to provide data that is better tailored to customer demands.

By integrating this data with pharmacy functions, we are able to fully harness synergies within the Group and

obtain high-value-added information, including on disease literacy, research, market surveys, and initiatives to improve patient adherence. We are developing information provision, survey, research, and consulting businesses for pharmaceutical companies and research institutes.

Main services

- 1 RI-PDS (daily data feed)
- 2 RI-CORE (monthly, weekly data feed)
- 3 RI-SHOT (ad-hoc analysis)

2 Advertising Media Service

Japan Medical Research Institute is engaged in in-pharmacy promotions and pharmacy-based advertising media services, reaching over 14 million patients every year. In particular, pharmacists are able to provide multi-faceted medication guidance based on the latest information for daily visitors.

Going forward, a focus for this business will be using new media to help promote self-administered medication by patients.

Main services

- 1 Video broadcasts commissioned by companies and government entities aired on pharmacy monitors, as well as poster displays and leaflets
- 2 Providing useful information on self-administered medication in the form of brochures and free samples from companies, which pharmacists can provide directly to patients
- 3 Providing registered dietitians with information useful for dietary guidance and the use of samples to support pre-symptomatic disease and disease prevention

3 Survey and Research Services

Since FY2020, Japan Medical Research Institute has continued to distribute reports via press releases and on its website, based on the independently operated RI-CORE prescription analysis system. The first was a series of COVID-19 market impact reports. This was followed by a report on market changes after the addition of new indications for a drug already used to treat diabetes,

"Changes in Prescribing Trends Following Additional Indications for Dapagliflozin." The most recent release was a report on long-term repeat prescriptions prior to the introduction of a refill prescription system, included in the government's 2022 medical fee revision: "Analysis of Long-Term Repeat Prescriptions Before the Refill Prescription System Starts: Lifestyle Diseases Represent the Bulk of Prescriptions."

4 Data Health Support Service

In supporting the data health businesses of insurers, Japan Medical Research Institute is helping to address two pressing issues in Japan: extending healthy life expectancy and optimizing medical expenses. We provide high quality consulting services to this end, including medical big data analysis, problem-solving related to medication and prevention of disease progression, and awareness-raising activities.

Main services

- 1 Data analysis (insurance claim data, health checkup data)
- 2 Appropriate drug use (duplicate medications, overprescribing, contraindications for concomitant use)
- 3 Promoting generic drug use (attaining, maintaining proportion of 80% or more)
- 4 Recommending medical consultation for diabetes progression prevention (with medical and pharmaceutical knowledge)
- 5 Health implementation and education events



In FY2021, we rebranded all services in the Data Health Support Service under the RI-MAP brand. MAP stands for "medical analysis by pharmacists" and represents our competitive advantage in offering analysis and consulting services based on the knowledge of pharmacists with extensive clinical experience. The word "map" also suggests a view of the big picture as well as the sense of "searching" and "clarifying a position."



Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd., Choseido Pharmaceutical Co., Ltd.

The generic drug industry has recently experienced several quality issues which have undermined the trust of patients and healthcare professionals. Nihon Chouzai also take very seriously the fact that Group company Choseido Pharmaceutical Co., Ltd. was subjected to administrative disciplinary action in accordance with Japan's Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices.

To rebuild public trust in generic drugs, the generic drug industry as a whole is working to ensure the stable supply of quality-assured generic drugs that patients can use without concern. The Nihon Chouzai Group is also putting radical measures in place to improve operations, including revising our internal framework, and will pursue initiatives to ensure a stable supply of high-quality drugs.

Quality Control Initiatives

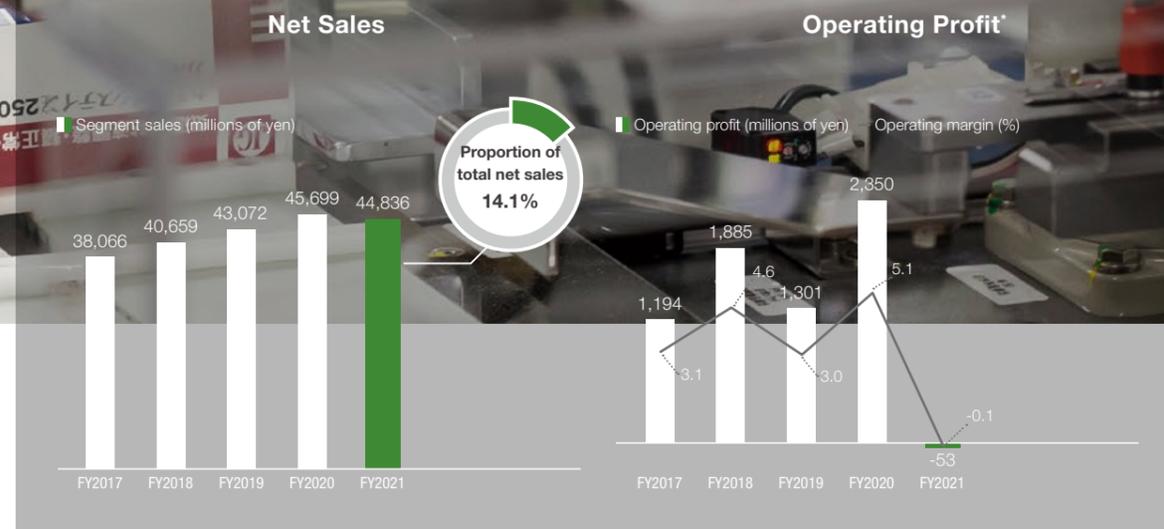
To deliver a stable supply of generic drugs to patients, we are working to produce high-quality drugs under a manufacturing control and quality control framework that complies thoroughly with Good Manufacturing Process (GMP) and Good Quality Practice (GQP) government regulations.

We have introduced a system to ensure proper manufacturing and quality control. In addition, we are practicing quality risk management, setting quality targets based on our Quality Policy, and carrying out regular education and training for all employees at manufacturing sites, including in the manufacturing and quality departments.

In FY2021, based on guidelines issued by the Japan Generic Medicines Association on measures to ensure the reliability of generic drugs, we are carrying out voluntary inspections to confirm consistency between manufacturing and marketing approval documentation and actual manufacturing conditions, and taking necessary regulatory action appropriately.

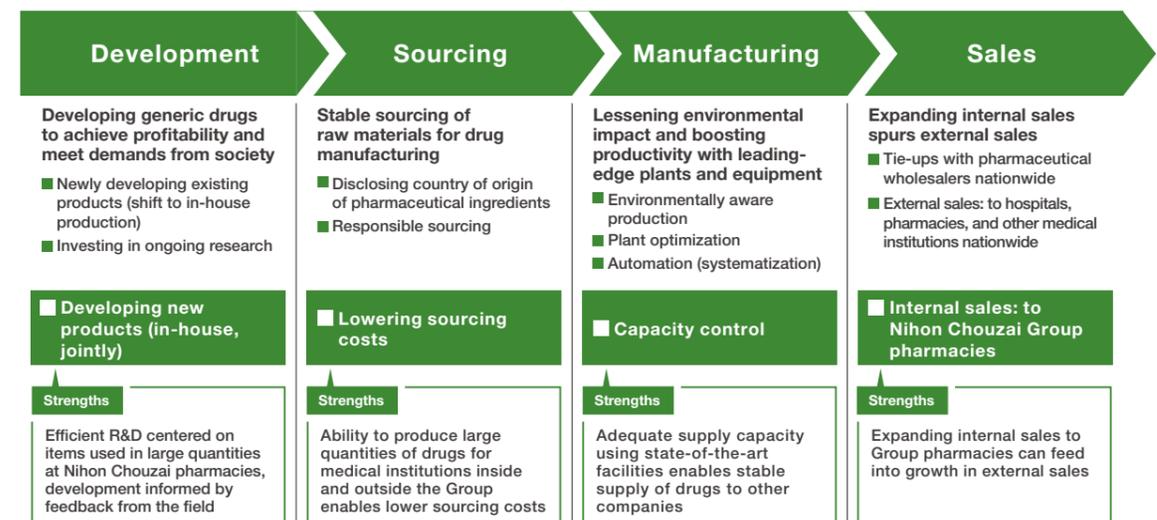
FY2022 Quality Targets

- Fostering a quality culture**
1 Emphasizing quality, raising compliance awareness, enhancing education and training, ongoing communication from management, etc.
- Maintaining, managing approval documentation that matches actual manufacturing conditions**
2 Confirming consistency in GMP audits and request forms, eliminating inconsistencies through proper regulatory procedures, properly evaluating change management, etc.
- Practicing quality risk management**
3 Appropriately managing suppliers of drug substances, raw materials, drugs, etc., complying with elemental impurity guidelines, evaluating and managing mutagenic impurities, etc.
- Strengthening the framework for delivering quality information to medical institutions and patients**
4 Strengthening the ability to respond to inquiries related to manufacturing and quality, etc.
- Ongoing improvements to a robust quality control system**
5 Making GQP arrangements that reflect revised GMP regulations, revising drug quality manuals, exploring introduction of a document management system, etc.



*The Pharmaceutical Manufacturing and Sales Business posted an operating loss in FY2021 due to one-time factors (P19) and was excluded from the calculation of the operating profit composition. The business is expected to return to profitability in FY2022.

Value Chain and Competitive Advantages of the Pharmaceutical Manufacturing and Sales Business



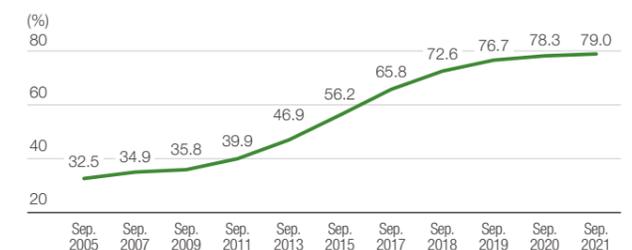
Government Measures to Promote Generic Drugs

The Ministry of Health, Labour and Welfare has actively encouraged the use of generic drugs, setting a target of 80% usage rate of such drugs as early as possible, and by September 2020 at the latest.

In June 2021, the ministry set a new target, aiming for 80% or more generic drug usage in all prefectures by the end of FY2023, while ensuring the reliable quality and stable supply of such drugs.

(The proportion of generic drugs in Japan was 79.0% as of September 2021.)

Usage of Generic Drugs



Continuous Initiatives for Supply

Initiatives to Ensure Stable Supply

To address recent instability in the generic drug supply, we are reviewing production plans over the medium term and promptly adjusting to changing demand while sharing up-to-date information between departments. Although COVID-19 and recent international developments have lengthened lead times for the supply of drug substances and materials, we are working to secure inventories, taking various risks into consideration.

■ Shifting outsourced production to in-house

As industry-wide efforts to optimize production facilities continue to move forward, we are also exploring the in-house production at Group factories of drugs currently outsourced to other manufacturers, for which Nihon Chouzai already has manufacturing and sales approval. Producing these drugs in-house will enable us to shorten production lead times, respond more agilely to market demand, and boost profit margins.

Efforts to ensure a sustainable production framework

In the Pharmaceutical Manufacturing and Sales Business, we are designing environmentally-friendly plants from the construction stage. We are also working to put a sustainable production framework in place, carrying out production activities that help protect the environment by using less electricity, gas, water, and other resources, and using them more efficiently.

Introduction of carbon neutral city gas

The Tsukuba Plant, Tsukuba Plant No. 2, and Tsukuba Research Institute of Nihon Generic introduced carbon neutral city gas during the year—a first for the generic drug sector. Carbon neutral city gas is made from liquefied natural gas (carbon neutral LNG), which offsets the greenhouse gases generated in the process from extraction to combustion of the natural gas with CO₂ credits (carbon offset) and so is deemed to not generate CO₂ on a global scale even when combusted. The introduction of this gas is expected to cut CO₂ emissions by a total of roughly 4,000 tons per year at the three sites.



■ Optimizing the production portfolio by revising the drug manufacturing and sales framework

The Group has five plants. To ensure a stable drug supply, we are reviewing the manufacturing site for each product to create an optimal production framework for the Group as a whole. We will ramp up production for drugs that gain market share post-launch, commensurate with their sales volume. Increasing the amount of a drug that can be manufactured at one time will feed into greater production efficiency. Meanwhile, we are moving to adjust production of drugs with low sales and production volumes, putting priority on production of other drugs. In addition to enabling more efficient production planning for the more than 270 products the Group manufactures, we also expect to bring down manufacturing costs.

Improvement of recycling rate at the plant

At each Group plant and research facility, we are working to recycle waste metals and paper generated in manufacturing and other processes, with the aim of realizing a sustainable, circular society. We also stepped up efforts to recycle plastics at the Tsukuba Plant in FY2021, such as blister pack materials (PTP film), which are generated in large quantities. We significantly improved our recycling rate—a year-on-year increase of 2.14 tons of recycled resources per 100 million tablets produced.



Aside from reducing the volume of waste itself, we are actively pursuing 3R (reduce, reuse, recycle) initiatives for waste to effectively use limited resources and mitigate our environmental impact.

Installing solar panels

We installed solar panels on the grounds of Tsukuba Plant No. 2 and began the internal use of solar power in April 2022. Amid worsening conditions for electric power, we expect to generate around 900,000 kWh annually at the plant and reduce CO₂ emissions by 340 tons per year (a 22% reduction versus FY2019).



Growth Strategy

Ongoing New Product Development Showcases Nihon Chouzai Group Synergies

With both a Dispensing Pharmacy Business and a Pharmaceutical Manufacturing and Sales Business, the Nihon Chouzai Group is motivated to develop attractive generic drugs in-house that address the needs of pharmacists on the front line in our pharmacies. To meet the needs of these pharmacies, which are the largest users of our drugs, we aim to develop a wide range of drugs without specifying certain disease areas, which allows us to accumulate the latest technology and expertise. We actively file patent applications for technologies obtained through our R&D activities while publicizing the results of new developments.

In FY2021, we integrated the R&D functions of Nihon Generic and Choseido Pharmaceutical into the Tsukuba Research Institute of Nihon Generic, centralizing the research and development knowledge of both companies.

Moreover, because we can anticipate sales volumes to the Group's Dispensing Pharmacy Business in advance, we can forecast the return on investment from our drug development and realize efficient development planning. We will pursue effective R&D activities as we navigate annual drug price revisions and an increasingly harsh earnings environment.

Pick up

Pregabalin-containing solid pharmaceutical composition and manufacturing method (Patent No. 6946581, September 2021)

The conventional manufacturing method faced the problem that the active ingredient pregabalin changed to a lactam structure, losing its efficacy due to decomposition. Nihon Generic researchers thus adopted a melting granulation approach that does

not use water during manufacturing, while using a specific low-melting-point substance as an additive, which offered a stabilizing effect. This method made it possible to manufacture formulations while suppressing the production of lactam structures.

Continuous in-house development of new products

In the past, the launch of a new generic drug would sometimes draw more than two dozen drug manufacturers to enter the market. Now, however, the challenges of R&D are mounting, reflecting the fact that the government lowers the price of a generic drug when it is first listed, and drug prices are

subsequently revised annually. The number of manufacturers entering the market at the first listing of generic drugs has decreased as a result. In this context, Nihon Chouzai will continue to develop new products in-house, taking advantage of the timing twice-yearly supplementary listings.

Drugs Recently Developed In-House

2021 Newly NHI price listed

Zilmlol Tablets HD/LD "JG" / Solifenacin Succinate OD Tablets "JG" / Tadalafil Tablets 20mg AD "JG" / Methotrexate Tablets 2mg "JG" / Lamotrigine Tablets for Children "JG" / Duloxetine Capsules "JG" / Levetiracetam Tablets "JG" / Levetiracetam Dry Syrup 50% "JG"

2021 Newly NHI price listed

Dasatinib Tablets "JG" / Febuxostat Tablets "JG"



Topics Contributing to Regional Communities

Cooperating with the Filming of Movies and TV Dramas

The city of Tsukuba, which is just a short distance from Tokyo, has many locations that are well suited to filming movies, TV programs, and commercials. The city is actively seeking to attract such activities. At Nihon Generic's Tsukuba Research Institute, we are contributing to the local community by renting out the buildings and grounds of the institute for TV filming locations and other purposes.



© Ishimori Productions, TV Asahi, ADK Emotions, Toei *Face masks were removed only during photo shoots to ensure the infection prevention.

Quality Initiatives at Choseido Pharmaceutical

Overview of Quality Issues

Group subsidiary Choseido Pharmaceutical Co., Ltd. was subjected to administrative disciplinary action in October 2021, which included a directive to temporarily suspend operations. The reasons for the disciplinary action were that Choseido Pharmaceutical manufactured drugs using methods that differed from approval documentation and did not take appropriate measures in its drug stability monitoring procedures.

In light of these circumstances, the Group established a special fact-finding team, comprised of lawyers and Good Manufacturing Process (GMP) experts with no conflicts of interest in the Group, to look into the facts and causes of this issue. At the same time, we formulated a business improvement plan for future operations, working to review the management framework and construct a framework with an even more rigorous focus on quality.

Please see the following discussion for details.

• **Submission of business improvement plan (Japanese only):**

<https://www.choseido.com/news/pdf/211025.pdf>



• **Administrative disciplinary action based on the Pharmaceuticals and Medical Devices Act and the report of the special fact-finding team (Japanese only):**

<https://www.choseido.com/news/pdf/211011.pdf>



• **Progress of business improvement plan (Choseido Pharmaceutical website [Japanese only]):**

<https://www.choseido.com/>



Overview of Actions under the Business Improvement Plan

Review of management framework

Choseido Pharmaceutical was reorganized into a wholly owned subsidiary of Nihon Generic to effectively receive support and guidance for business improvement from the Group. Nihon Chouzai will delegate the president of Choseido Pharmaceutical, while Nihon Generic will delegate officers in charge of the production, quality control, and reliability assurance departments. Meanwhile, the operating framework will be changed to ensure the independence of the manufacturing and quality departments. Officers from the Group will be allowed to participate in Board of Directors and management meetings of Choseido Pharmaceutical. These steps have put in place a framework for reporting and addressing problems at an early stage.

Expansion of internal audit and internal reporting systems

We took the opportunity in addressing these quality issues to set up an internal audit office at Nihon Generic and established a framework for periodically conducting audits of Choseido Pharmaceutical in collaboration with other members of the Group. We have also expanded the internal reporting framework, which allows reporting to dedicated offices both at Group companies and outside the Group.

Review of organizational framework

Choseido Pharmaceutical has reinforced the organizational framework with the establishment of three departments: a Production Department responsible for drug manufacturing, a Quality Control Management Department that checks the quality of manufactured drugs, and a Reliability Assurance Department that guarantees the quality and safety of drugs until well after they are manufactured and shipped. We will continue to manufacture high-quality drugs that above all else meet demands for safety, security, and reliability.

Reliability Assurance Department

The Reliability Assurance Department includes a Reliability Promotion Department, a Quality Assurance Department, and a Safety Management Department. Each department is led by three officers as stipulated by law: a general manager of manufacturing and sales, a quality assurance manager, and a safety management manager. These officers work together to comply with laws and regulations.

The Reliability Promotion Department was newly established with the aim of assisting the general manager of manufacturing and sales in the smooth execution of duties.

The Quality Assurance Department acts as an objective third party, rigorously checking whether drug manufacturing management and quality control are consistently and appropriately carried out at all stages, from drug substance manufacturing to product shipment.

The Safety Management Department collects information on the post-launch quality, efficacy, and safety of drugs, examines and evaluates this information appropriately, and provides information needed for the proper use of drugs to medical institutions and pharmacies.

| Reliability Promotion Department | Quality Assurance Department | Safety Management Department |
|--|------------------------------|------------------------------|
| General manager of manufacturing and sales | Quality assurance manager | Safety manager |

Quality Control Management Department

To properly fulfill the function of an assessment department, Choseido Pharmaceutical made the quality control departments of each plant independent from the production departments, and established a new Quality Control Management Department. The quality control and quality assurance sections are under the quality control department of each plant.

To manufacture high-quality drugs, we carry out inspections appropriately at all stages of the manufacturing process, based on GMP, from the inspection of drug substances, additives, and materials to detailed product inspections.

To properly fulfill the function of an assessment department, Choseido Pharmaceutical pays close attention to the performance of all quality control operations. We will use the duplicate check by the quality control and quality assurance sections to deliver reliable generic drugs to the market.

| Headquarters Plant Quality Control Department | Headquarters Plant No. 2 Quality Control Department | Kawauchi Plant Quality Control Department |
|---|---|---|
| Quality control section | Quality control section | Quality control section |
| Quality assurance section | Quality assurance section | Quality assurance section |

Quality Improvement Initiatives

Quality Policy revision

Choseido Pharmaceutical recently revised its Quality Policy to realize the highest ideals as a generic drug manufacturer. In addition, to better enable the management team and employees to work together to put the Quality Policy in practice, we have newly established Action Guidelines for Quality to guide the behavior of all officers and employees.

Quality Policy

- 1 We will manufacture safe, trusted generic drugs with high ethical standards and provide products and information promptly and in a consistent manner to patients and everyone involved in healthcare.
- 2 In addition to complying with GMP, GQP, GVP, and all relevant laws and regulations related to pharmaceuticals, we will seek to design and establish a "drug quality system" that encompasses the life cycle of drugs.

Action Guidelines for Quality

- Executives and employees of Choseido Pharmaceutical must recall that their work is connected to people who are struggling with illness, and that safety, security, and trust in the quality of drugs are always demanded of the company.
- Executives and employees of Choseido Pharmaceutical will continuously improve the quality of our drugs and of our quality systems, seeking to provide higher quality drugs to persons struggling with illness.
- Executives and employees of Choseido Pharmaceutical will strive to achieve free and open communication to foster a culture of commitment to quality.
- Employees will make untiring efforts to ensure that they possess needed work skills, knowledge, and ethical standards.
- Management will take the lead in working to resolve quality issues, spare no effort in supporting resolution, provide employees with opportunities for education and training, and secure sufficient resources to this end.

November 11, 2021

President and CEO
Kazunori Ogi



Expansion of the education framework

Choseido Pharmaceutical is working to instill the recently revised Quality Policy and Action Guidelines for Quality as soon as possible. The company is also implementing training and e-learning for all employees to fully comply with laws and government regulations, and has introduced a skill map that can visualize each employee's proficiency level and skills.

Augmenting staffing of quality control departments

Compared to before the framework was realigned (October 2021), staffing in the Reliability Assurance Department increased by 33.3% and staffing in the Quality Control Management Department increased by 9.1%. We will work to carry out rigorous quality control and assurance by maintaining appropriate staffing levels.

Deploying and fortifying systems, upgrading equipment

We will deploy manufacturing equipment that keeps automatic usage logs and move forward with equipment upgrades so that we can detect at an early stage any discrepancy that arises between approval documentation or procedure manuals and actual manufacturing conditions.

Reliability Assurance Department staff



Quality Control Management Department staff





Medical Professional Staffing and Placement Business

Medical Resources Co., Ltd.

Long-Term Vision

Growth Strategy

- An HR business portfolio specializing in healthcare professionals**
With a particular focus on pharmacists, we specialize in HR services for doctors (including occupational doctors), nurses, registered pharmaceutical sellers, and other healthcare professionals.
- High-quality HR services that have earned multiple certifications**
We have obtained four certifications
- Harnessing synergies with the strong brand recognition of the Nihon Chouzai Group**
Strong brand recognition of the Nihon Chouzai Group
Leveraging the educational expertise of the Nihon Chouzai Group

Medical Resources by the Numbers

We believe communication with job seekers (medical professionals) and job providers (medical institutions and companies) is extremely important for our human resources business. Medical Resources values face-to-face meetings with both client groups, and have set up offices nationwide

to establish a framework for meetings and conversations. We have gained the trust and satisfaction of both job seekers and job providers through our efforts to grasp nuanced needs that are hard to convey over the telephone or in writing and crafting proposals that match the needs of both parties.

A Triple Crown in Career Change Sites in Four Occupational Areas

Doctors

- No. 1 doctor career change site chosen for first career change
- No. 1 career change site for skill and career advancement
- No. 1 doctor career change site to recommend



Survey by Japan Marketing Research Organization (conducted in April 2022)

Pharmacists

- No. 1 pharmacist career change site to use for first career change
- No.1 career change site for pharmacists in their 20s and 30s
- No.1 career change site for highly skilled pharmacists



Survey by Japan Marketing Research Organization (Survey Overview: Brand Image Survey for the year ending November 2021)

Nurses

- No. 1 site for nurses changing careers in Tokyo and Kanagawa
- No. 1 nurse career change site people are watching
- No. 1 site with trustworthy consultant support



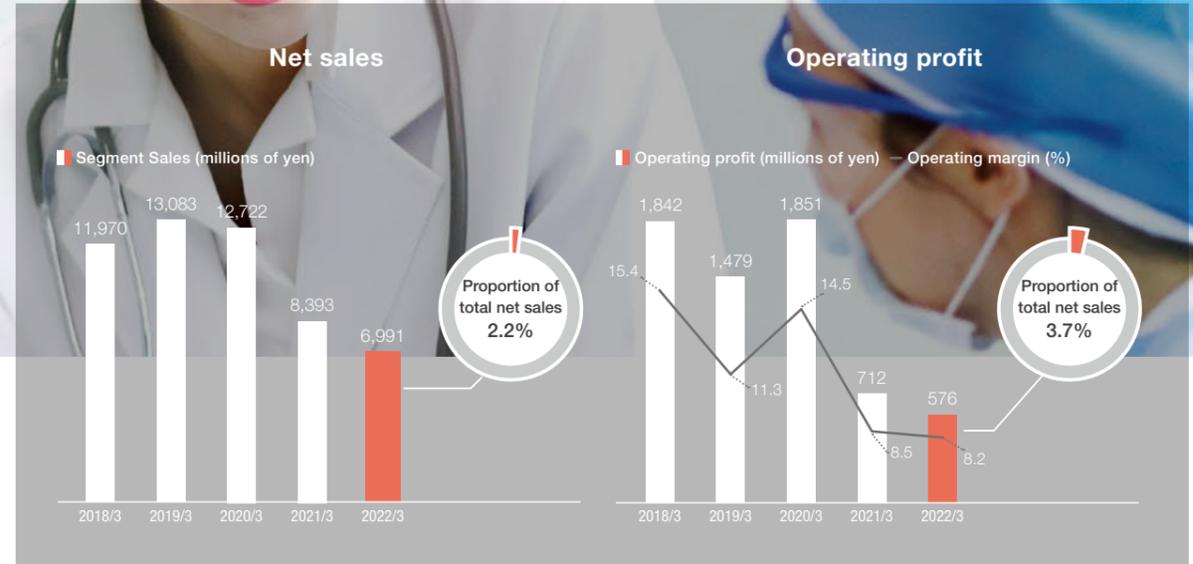
Survey by Japan Marketing Research Organization (conducted in April 2021)

Registered Pharmaceutical Sellers

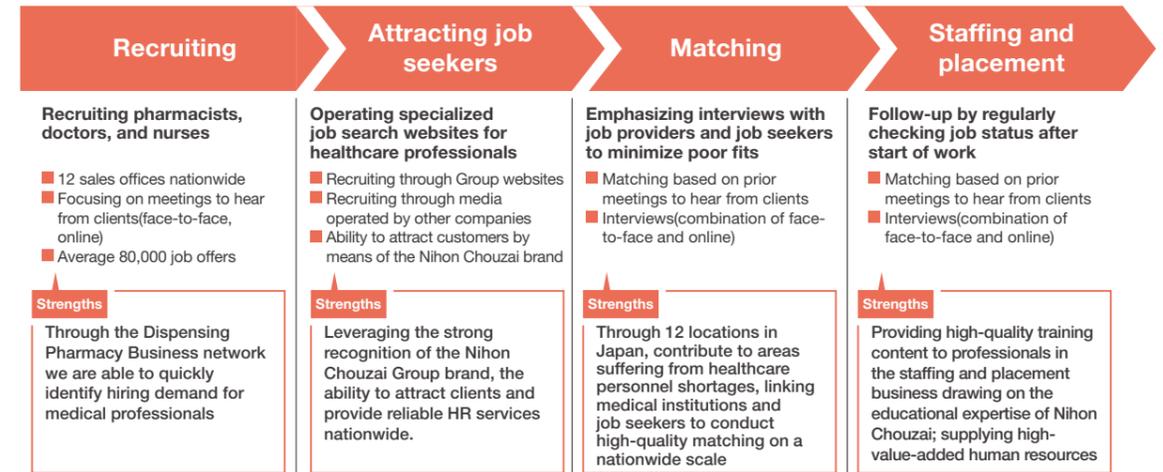
- No.1 career change site for registered pharmaceutical sellers who are experienced pharmacy managers and assistant managers
- No. 1 company for registered pharmaceutical sellers changing careers
- No.1 career change site for registered pharmaceutical sellers in their 20s and 30s



Survey by Japan Marketing Research Organization (conducted in December 2020)



Value Chain and Competitive Advantages of the Medical Professional Staffing and Placement Business



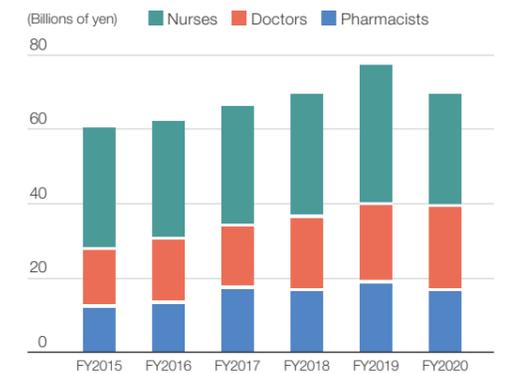
Market Environment

The scale of the healthcare personnel placement market in FY2020 was 16.6 billion yen for pharmacists, 22.6 billion yen for doctors, and 30.3 billion yen for nurses. As the COVID-19 pandemic brought about a decline in patient visits, the pharmacist placement business continued to face difficulties.

Nevertheless, driven in part by the newly launched system for certifying pharmacies separately by function, the need for highly qualified pharmacists is poised to grow going forward. Moreover, since the potential market scale for doctors and nurses is much larger than that for pharmacists, we can expect further expansion of the placement business.

We will continue to pursue greater business expansion by leveraging the strengths the Group has built up over time, including its strong brand recognition, reputation for reliability, and the appeal of face-to-face support.

Size of Market for Pharmacists, Doctors, and Nurses



Growth Strategy

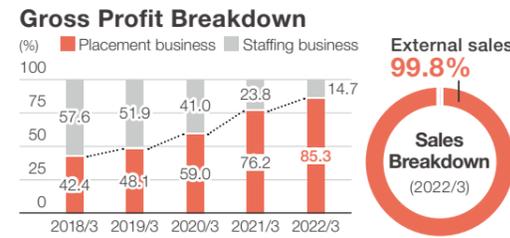
Ensuring high profitability and creating a balanced business portfolio by expanding the placement business

As the sector's leading company, Medical Resources boasts numerous strengths in the area of pharmacist staffing. Meanwhile, we are transitioning toward a more balanced business portfolio while targeting high profitability by expanding our placement business.

Going forward, in addition to capturing rising demand for family pharmacists* and growing the pharmacist placement service, we will expand our placement business for doctors, nurses, registered pharmaceutical sellers, and other healthcare professionals, to achieve even higher growth.

Although Medical Resources is part of the Nihon Chouzai Group, the Group only accounts for 0.2% of total transactions. We will further expand the range of services we provide to the medical

institutions and companies seeking qualified human resources and to the healthcare professionals who are considering a career change.



*A family pharmacist is expected to provide long-term support to a patient, grasping the patient's medication status (all prescription and over-the-counter drugs), continuously monitoring whether or not there are any unused medications and whether any side effects occur, and providing appropriate guidance. To enable such support, family pharmacists must meet the following criteria.

- Criteria for a family pharmacist
1. More than three years pharmacy experience
 2. Works at the pharmacy at least 32 hours a week
 3. Has at least one year tenure at the pharmacy
 4. Has obtained certified pharmacist training credentials from a certifying organization

We offer highly reliable HR services. Only two companies* in Japan have acquired all four kinds of certification

Four things that bring peace of mind to pharmacy staff

Privacy Mark

As a company that has acquired Privacy Mark business certification, we recognize the value of personal information entrusted to us by customers. We rigorously manage customer information in accordance with our privacy policy.



Certified as an Excellent Employment Placement Business

We are certified as a company that complies with the "Action Guidelines" set by the Excellent Employment Placement Business Encouragement Council and meets certain standards such as management stability, thorough legal compliance, and proper business operations.



Medical Resources provides four reassurances to encourage the success of pharmacists changing careers.

Certified as an Excellent Temporary Staffing Agency

We are certified as a company that not only complies with laws and regulations, but also provides reassuring services to both temporary staff and the companies where they work. We support career development for temporary staff, help ensure better working environments, and work to prevent problems at the companies where they work.



Appropriate Fee-Charging Job Placement Agency in the Healthcare Field

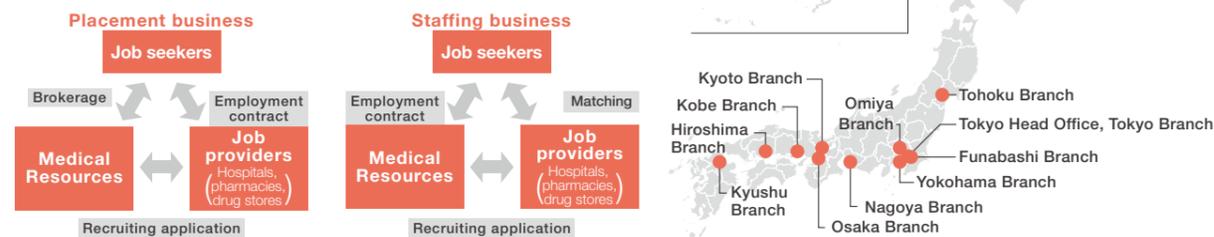
Certification of job placement agencies as "appropriate business operators" based on standards compiled by industry groups and experts. This certification allows job providers to get an overview in advance of agencies, including the content, quality, and cost of services, which informs their selection of the appropriate agency.



*Number of certified companies: Excellent Job Placement Agency certification: 35; Excellent Temporary Staffing Agency certification: 144; Privacy Mark: 16,994; Appropriate Fee-Charging Job Placement Agency in the Healthcare Field: 28
*Companies with all of the first four kinds of certification were extracted from all certified companies appearing in the following: JIPDEC, List of Excellent Job Placement Agencies, List of Excellent Temporary Staffing Agencies (as of June 20, 2022)

We have continued to improve matching quality over many years through our detail-oriented counseling. As a company that handles important personal information, we have acquired Privacy Mark certification and have sought to build a high-quality, highly reliable staffing and placement business. A company that obtains these certifications has not only demonstrated the quality of its placement and staffing services, but proven that it meets numerous other criteria, including having a sound business and a framework for compliance management. Furthermore, as 99.8% of our sales derive from staffing and placement services to privately owned We have continued to improve matching quality over many years through our detail-oriented counseling. As a company that handles important personal information, we have acquired Privacy Mark

certification and have sought to build a high-quality, highly reliable staffing and placement business. A company that obtains these certifications has not only demonstrated the quality of its placement and staffing services, but proven that it meets numerous other criteria, including having a sound business and a framework for compliance management. Furthermore, as 99.8% of our sales derive from staffing and placement services to privately owned pharmacies and pharmacy chains other than Nihon Chouzai, we are well-positioned to "give people the closest possible support" by sending high-quality pharmacists into the field throughout Japan.



Business Development

Pharmacist businesses



Strong brand recognition

Medical Resources undertakes HR services for Nihon Chouzai, a company with overwhelmingly high brand recognition in the healthcare industry, which is renowned for its high caliber of education. By providing high-quality educational content to the pharmacists we staff and place, we deliver high-value-added human resources. We are striving to further enhance our brand recognition, such as by providing client pharmacies with business support plans and high-value-added services that draw on the pharmacy management expertise of the Nihon Chouzai Group.

Ability to attract customers

Regardless of whether or not they are actively seeking a new job, pharmacists tend to be highly motivated people. Many are attuned to new information on a daily basis. Moreover, because pharmacists are required to have a high degree of specialized knowledge as medical professionals, needs for informative websites, such as the one shown below (Pharma Labo), are increasing year by year. By adapting to these circumstances and keeping abreast of pharmacists' careers, we are working continuously to be an even more trusted medium.

Face-to-face engagement

With offices throughout Japan, we place great value on the information that can be gleaned by speaking directly with medical professionals as we meet face-to-face and offer career change counseling. We stress the importance not only of identifying desired employment conditions of job seekers, but also their optimal working environments and needs, to be able to present them with ideal job offers.

Working styles have a tremendous influence on people's lives. We seek to provide a sense of security to job seekers with regard to working styles by leveraging our high brand recognition and cultivating trust through direct dialogue.

For job providers, we provide detailed information about the latest developments in the career change market. Combined with the high quality of our matching services, this supports our unflagging efforts to ensure a win-win situation for both job seekers and recruiters at hiring companies.



Education

By providing high-quality educational content to pharmacists in our staffing and placement businesses, we cultivate high-value-added human resources. The advanced educational program developed for pharmacies in Nihon Chouzai's Dispensing Pharmacy Business is a strength unmatched by other companies.

Content for pharmacies

| | |
|----------------------------------|--|
| Management seminars | A pharmacy management seminar teaching the management know-how of Nihon Chouzai |
| Business support planning | This program for companies addresses various issues in pharmacy management through seminars and practical training |

Content for pharmacists

| | |
|--|--|
| JP Learning | JP Learning is an e-learning course that allows participants to earn the credits needed to acquire certified pharmacist training credentials. The course provides more than 1,000 pages of substantial content |
| Seminars for pharmacists | We hold seminars for pharmacists several times a year, teaching the drug dispensing and medical knowledge required of pharmacists and new industry trends |
| Retention program | This program forms part of the health and welfare benefits for temporarily staffed pharmacists. We also hold money management seminars as well as other seminars for working women. |
| Yaku-Tore (medication training) | A drug dispensing textbook edited by Nihon Chouzai, provided as a smartphone-based app. The textbook also covers drug dispensing fee revisions |

High matching quality



Business Development

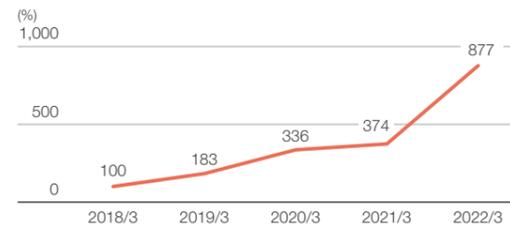
Doctor business

We began our full-scale involvement in the doctor staffing and placement business in FY2017, and began expanding nationwide from April 2018. Having a dispensing pharmacy business within the Group affords the advantage of being able to quickly identify the needs of doctors opening up new practices. We are also expanding our placement business for doctors by demonstrating the mutual benefits of collaboration with the MC-Mentaio Sales Division, which operates pharmacies in medical centers, near train stations, and in shopping districts for Nihon Chouzai's Dispensing Pharmacy Business.

In FY2021, with the burgeoning fruit of upfront investments made up until two years earlier, coupled with demand for COVID-19 vaccine-related work, we saw a significant jump in net sales—by about nine times compared to FY2017, before we launched full-scale efforts in the doctor staffing business. Moreover, to attract more job candidates, we bolstered our efforts to secure job offers, resulting in a significant 182% increase in sales compared to FY2018. We will continue to improve the appeal of our HR businesses for doctors by fostering an environment that can meet the needs of job seekers.

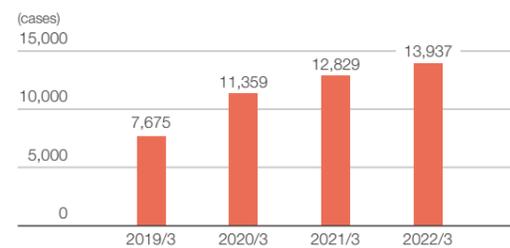
Further, from April 2021, we were able to make social contributions by referring doctors for the workplace vaccination programs of companies and municipalities throughout Japan in response to heightened demand for COVID-19 vaccination.

Contributing to sales in FY2021 Growth in Sales of Doctor Business



*Compared to sales in FY2017 set at 100%
*Results of Workers Doctors have been included in the doctor business due to that company's integration

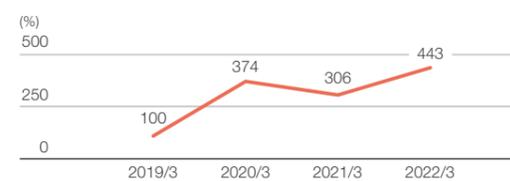
Increase in the number of job offers in FY2021 Growth in Doctor Job Offers



Registered pharmaceutical seller business

More companies are seeking to hire registered pharmaceutical sellers, who are qualified to sell Class 2 (medium-risk) and Class 3 (low-risk) over-the-counter (OTC) drugs. The scale of this market is also expanding, as drug stores, convenience stores, and other retailers broaden their lineup of OTC drugs. Medical Resources entered the registered pharmaceutical seller staffing and placement field in FY2018. Although sales in FY2020 decreased amid the COVID-19 pandemic, with the growing number of job providers since April 2022, we are expecting a recovery in performance going forward. We also overhauled our recruitment website in March 2020, drawing broad support, and have been chosen as the No. 1 company among registered pharmaceutical sellers considering a career change.

Growth in Sales of Registered Pharmaceutical Seller Business



*Compared to sales in FY2018 set at 100%

Nurse business

We overhauled the recruitment website for nurses in August 2019 to make it easier to use for job seekers. In the previous fiscal year, we augmented the number of staff in this business and have been carrying out nurse-centered sales activities. One outcome has been that we were voted the No. 1 recruitment site with trustworthy consultant support. Though fairly new, the business is off to a solid start, and we will continue to take actions to grow the business going forward.



Occupational doctor business

As part of the key strategy of promoting doctor businesses, we entered the occupational doctor HR field in November 2020. We will expand our presence in the healthcare field by capturing the growing demand for effective health management as part of corporate management. By drawing on Medical Resource's track record in doctor placements and nationwide sales framework, we will expand the occupational doctor HR business nationwide while also broadening the business to meet a wider range of needs for occupational health management, including mental health, which has become indispensable for companies' health management initiatives.



Placing medical staff for mass vaccination efforts

Increasingly in Japan, local governments and companies have turned to outsourcing doctor and nurse placement to carry out mass vaccination efforts to combat COVID-19. Securing adequate medical staff is a major issue constraining these efforts, but through its comprehensive medical HR services,

Medical Resources is positioned to provide the needed pharmacists, doctors, and nurses, and boasts expertise in gathering medical staff with a short turnaround time. To date, we have placed medical professionals with more than 50 local governments, companies, and corporate groups.



Sustainability

The Nihon Chouzai Group promotes sustainability management. Here, we will introduce the Group's policies and material issues in this regard.

Basic Sustainability Policy

The Nihon Chouzai Group recognizes sustainability as a central aspect of a management strategy that seeks to enhance corporate value over the longer term. Through dialogue with all of our stakeholders and in collaboration with them, we will strive to ensure respect for human rights and build a fair, highly

transparent foundation for management that seeks to protect the environment. Through our business activities, we will work to address social issues in the medical and healthcare fields and pursue a sustainable society.

Sustainability Promotion Structure

In line with our Basic Sustainability Policy, we are incorporating sustainability into our management strategies. The Board of Directors thus decides on key matters related to sustainability. We are also establishing a Sustainability Committee that reports directly to the Board of Directors. Chaired by the president, the committee meets twice a year in principle to supervise and evaluate the progress of initiatives to address the material issues the Group has identified, build these issues into business strategies, and deliberate on observance of international guidelines and participation in global initiatives, reporting to the Board as needed. After clarifying the departments responsible for sustainability initiatives, each department promotes initiatives in their own areas. With the Sustainability Supervision Office in charge of execution, we are building a framework to support steady progress in Group-wide initiatives while coordinating with individual departments.



Identifying Material Issues

To contribute to a sustainable society and continuously enhance corporate value, we are working to identify material issues, connect management strategies to sustainability, and promote effective initiatives. In identifying material issues, through interdepartmental discussions taking place over about six months, we surveyed the business activities of the Nihon

Chouzai Group in light of the 17 SDGs and the 169 goals tied to them. We looked at the relationship to the SDGs and the depth of relevance, held repeated discussions by the project team, and assessed the results with the addition of an outside perspective.



21 Material Issues Nihon Chouzai is Addressing

In FY2021, the Nihon Chouzai Group identified 21 material issues essential to contributing to a sustainable society. Based on these issues, which are broadly divided into six groups,

we will pursue initiatives from the two-pronged perspective of contributing through business activities and strengthening the management foundation.

| Materiality Group (Purpose) | Material Issues | SDGs Contributed to |
|--|--|---------------------|
| A Healthcare quality and accessibility | 1 Increase the effectiveness of drug treatments for patients by strengthening pharmacy functions (accommodate advanced healthcare and regional healthcare) | |
| | 2 Expand the functions of pharmacies to support the health of the community (e.g., illness prevention and pre-symptomatic illness) | |
| | 3 Contribute to social security by ensuring appropriate use of pharmaceuticals at pharmacies | |
| | 4 Ensure the continuous operation of pharmacies as a regional healthcare/welfare infrastructure, and respond effectively to disasters, pandemics, and other crises | |
| | 5 Ensure the medical safety at pharmacies | |
| | 6 Leverage digital transformation to promote online healthcare and create new business | |
| | 7 Publish surveys and research that contribute to the development of healthcare | |
| B Quality and stable supply of pharmaceuticals | 8 Undertake R&D and manufacturing of safe, high quality pharmaceuticals | |
| | 9 Ensure a stable supply of pharmaceuticals | |
| C Resolving human issues at healthcare institutions | 10 Provide "human" support in providing high-quality healthcare services | |
| | 11 Support occupational health and general health, including mental health, by introducing occupational physicians | |
| D Contributing to a carbon-neutral, circular economy | 12 Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants | |
| | 13 Reduce CO ₂ emissions by increasing energy usage efficiency and promoting the use of renewable energy | |
| | 14 Build environment-friendly and society-friendly supply chains with outstanding transparency | |
| | 15 Support the healthcare and welfare fields (e.g., persons with intractable diseases or disabilities) | |
| E Fostering and utilizing diverse workforce | 15 Secure human resources that supports the company's growth, and put in place HR systems that promote the growth of employees | |
| | 16 Promote diversity, respect for human rights, and the participation of women in the workplace | |
| | 17 Establish a workplace environment that enhances employee health and motivation | |
| F Strengthening governance to fulfill social responsibilities | 18 Support the healthcare and welfare fields (e.g., persons with intractable diseases or disabilities) | |
| | 19 Continuously strengthen corporate governance, and disclose information with a high level of transparency | |
| | 20 Continuously strengthen compliance, and prevent corruption | |
| | 21 Create opportunities by appropriately evaluating and responding to risks | |

Initiatives for Material Issues, Performance Indicators

To contribute in a more concrete way to sustainability through our business activities and to strengthen our management foundation, we have formulated initiatives and performance indicators related to our material issues. These will guide our efforts to further promote sustainability management going forward. We will review the performance indicators as appropriate, making disclosure on indicators under consideration as needed. For details, see the Nihon Chouzai Group Sustainability website.

- Nihon Chouzai Group Sustainability Website
<https://www.nicho.co.jp/en/sustainability/>



Disclosure Based on Task Force on Climate-related Financial Disclosures (TCFD) Recommendations

The Corporate Governance Code of the Tokyo Stock Exchange mandates that companies listed on the Prime Market make disclosure based on the TCFD recommendations of the Financial Stability Board. Recognizing that dealing with climate change is a critical issue in sustainability management, we have calculated Scope 1 and Scope 2 CO₂ emissions **P57** and published them on the Group's Sustainability website.



Environment

Corresponding materiality group
Contributing to a carbon-neutral, circular economy

The Nihon Chouzai Group's Response to Climate Change

Recognizing that dealing with climate change is a critical issue in sustainability management, the Group in June 2022 endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Going forward, we will consider measures to address climate change and reduce greenhouse gas emissions, making appropriate disclosure based on the TCFD recommendations.



CO₂ emissions of our group

| FY2021 | Scope 1 | Scope 2 |
|--------|---------------------------|----------------------------|
| | 5,766 t-CO ₂ e | 35,205 t-CO ₂ e |

Dispensing Pharmacy Business

In the Dispensing Pharmacy Business, we are working to lower our environmental impact by creating environment-conscious pharmacies, promoting the use of personal shopping bags, and reducing unused medications. While considering convenience for the patients visiting our pharmacies, we will comply with all environmental laws and regulations and take proactive measures to protect the environment, striving to use resources effectively across all of our business activities.

Creating Environment-Conscious Pharmacies

The Group is taking the following initiatives to create environment-conscious pharmacies.

- Reducing electric power consumption through the use of LED lighting and sensor-based lights and adopting natural ventilation
- Lowering dependency on air conditioning through the use of heat blocking film in windows
- Using flooring materials that comply with the Green Purchasing Law
- Adopting wooden building structures that use less energy in manufacturing and generate fewer CO₂ emissions during construction
- Reducing water usage by adopting water-conserving bathroom facilities

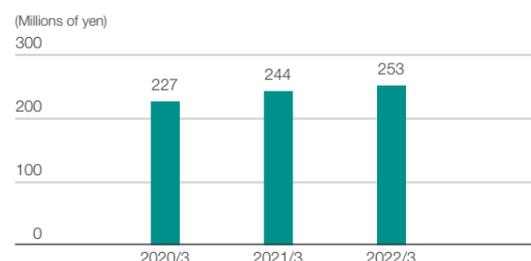
Reducing Unused Medications

If patients receive a new prescription while still having unused medications at home, they may confuse the new and unused medications and use them incorrectly. Likewise, they may take unused medications without realizing they are past their expiration date. There is a chance that this will interfere with the correct use of medications at the correct dosage.

Reducing unused medications is not only necessary to ensure that patients use drugs properly, but also leads to fewer drugs being thrown away.

At Nihon Chouzai pharmacies, pharmacists can confirm the status and number of medications and contact the prescribing doctor to have them adjust prescription lengths. Pharmacists are also seeking to reduce unused medications by preparing memos explaining the situation for patients to give to the doctor directly at their next visit.

Amount of Unused Medication Reduction

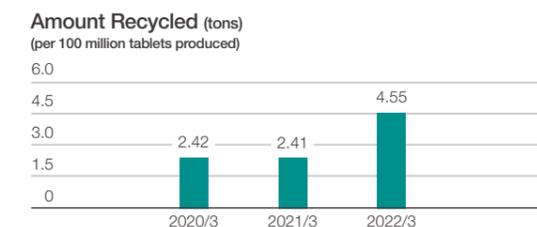
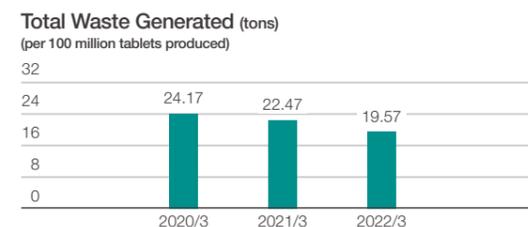
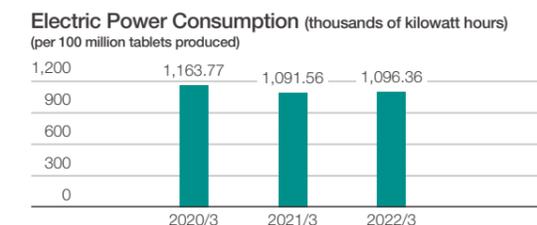
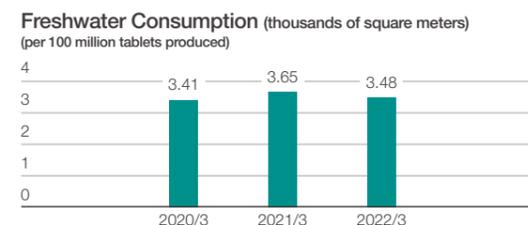
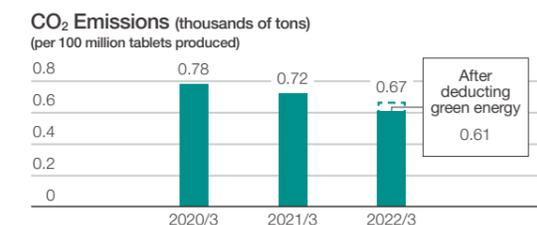
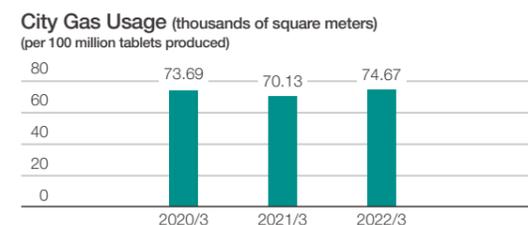


Pharmaceutical Manufacturing and Sales Business

The Pharmaceutical Manufacturing and Sales Business renovates the production facilities it acquires, installing the latest equipment to ensure lower CO₂ emissions, fresh-water usage, and electrical power usage. Newly constructed plants are designed from the planning stages to be environmentally friendly. We will continue to make investments and take initiatives to reduce our impact on the environment.

Initiatives in the Manufacturing Division

- Reducing power consumption at Nihon Generic Tsukuba No. 2 Plant and Choseido Pharmaceutical Headquarters No. 2 Plant by lowering dependency on chillers through the use of mist spray cooling using plant wastewater
- Shifting to LED lighting at Nihon Generic Tsukuba Plant and Tsukuba No. 2 Plant and the Tokushima Research Institute of Choseido Pharmaceutical
- Lowering dependency on air conditioning load by adopting a low air flow draft chamber at Nihon Generic Tsukuba No. 2 Plant
- Adopting ultra-high-rate transformers capable of cutting power loss by about 35% versus top-runner transformers at Nihon Generic Tsukuba No. 2 Plant
- Introduction of a heat pump system that heats and cools simultaneously at Choseido Pharmaceutical
- Reducing liquefied petroleum gas by lowering dependency on chillers through the use of mist spray cooling using plant wastewater
- Installing solar panels at Choseido Pharmaceutical, Nihon Generic Tsukuba No. 2 Plant. Reducing the amount of external electrical power through the use of power generated on-site



Topics

Carbon Neutral City Gas Introduced at Three Sites in Tsukuba

In February 2022, Nihon Generic introduced Tokyo Gas' carbon neutral city gas^{*1} at its Tsukuba Plant, Tsukuba Plant No. 2, and Tsukuba Research Institute, and joined the Carbon Neutral LNG Buyers Alliance^{*2}.

Nihon Generic was first in the generic drug sector to introduce carbon neutral city gas supplied by Tokyo Gas. The move is expected to cut CO₂ emissions by a total of roughly 4,000 tons per year at the three sites. The Group will promote ESG management to help protect the environment by using less electricity, gas, water, and other resources, and using them more efficiently.



^{*1} Gas made from liquefied natural gas (carbon neutral LNG), which offsets the greenhouse gases generated in the process from extraction to combustion of the natural gas with CO₂ credits (carbon offset) and so is deemed to not generate CO₂ on a global scale even when combusted.
^{*2} An alliance bringing together Tokyo Gas, which procures and supplies carbon neutral LNG, and companies that buy carbon neutral LNG to increase the use of carbon neutral LNG and improve its utility value, with the aim of achieving a carbon neutral society.

Human

Corresponding materiality group

Fostering and utilizing diverse workforce



Human Resources

Be Active

Commitment

Professionalism

Our recruitment and development of human resources are informed by three concepts: Be Active, Commitment, and Professionalism.

Recruitment

To be able to provide high-quality pharmacy services and hone our competitive strengths to expand the organization, we are actively recruiting pharmacists and staff in various other disciplines.

New Pharmacist Graduates

The importance of a pharmacist's patient-centered work—whether in the family pharmacist system, at-home medical care, or consultations about drug therapies in various specialized fields—is gaining attention. Securing excellent talent is the most critical issue in realizing the growth strategies needed to survive ongoing restructuring of the pharmacy industry in Japan. To this end, we are taking steps to recruit talented new pharmacist graduates.

- Nihon Chouzai new pharmacist graduate recruitment page
<https://www.nicho.co.jp/shinsotsu/>



Company popularity ranking among job-seeking university graduates
Mynavi/Nikkei survey 2023

Nihon Chouzai ranked No. 1
in the industry in four categories

375
new hires

| | |
|-------------------------------------|----------------------------|
| Healthcare/welfare/pharmacy majors: | 1st place (last year: 2nd) |
| Chemistry/pharmacology majors: | 1st place (last year: 1st) |
| Science majors overall: | 20th (last year: 24th) |
| Female science majors: | 7th (last year: 8th) |

Managerial Resources

We are also strengthening the recruitment of personnel in managerial positions who are capable of mapping out solid strategies for future growth, including new business generation and new operating frameworks.

We are capitalizing on a wide range of recruiting channels to attract both new graduates and mid-career personnel, with the aim of securing the best talent in each discipline, from HR and business development to marketing and engineering.

Raising Up Next-generation Leaders

Nihon Chouzai has five programs in place to raise up the next generation of managers.

Mid-career employee training

We provide separate training for two groups of employees aiming to become future managers: career-track new graduates and mid-career employees. We identify required skills from annual training charts and incorporate these into the training program. We also provide support before and after the training, including preparatory and follow-up assignments involving superiors, and career interviews.

Digital transformation training

Launched in 2021 as part of our digital transformation strategy, this program seeks to secure and develop technologically savvy personnel. Participants chosen from each department attend training, give a digital transformation proposal presentation, and generate new proposals.

Evaluator training

We conduct this training for management leaders. They learn the key points of fair, impartial staff evaluations, and how to use the evaluation system to boost motivation and foster the development of subordinates.

E-learning

Used for training in digital transformation, Privacy Mark business certification, and other learning for the purpose of understanding various systems and learning efficiently.

Talent management

After clarifying the qualities and requirements of next-generation leaders, we conduct assessments and reviews, and carry out a skill development plan for the candidates we identify. Growing the business requires numerous talented leaders, and we are building a pipeline of potential leaders with a management outlook ready to take on key roles at any time.



Culture

Diversity and inclusion

Ease of working

We aim to foster a culture in which diverse human resources can play an active role.

Empowerment of Women in the Workplace

About 70% of Nihon Chouzai employees are women. Given this reality, we recognize that, to grow the company, it is essential that we create a framework that allows women to reach their full potential and to provide opportunities for the active participation of every employee regardless of gender. This thinking guides our efforts to build a working environment conducive to ease of working.

| | |
|--|-------|
| Female employee ratio | 72.9% |
| Number of people using reduced working hour system for childcare | 560 |
| Rate of return from childcare leave | 100% |

(FY2022)

Active Participation of People with Disabilities

Nihon Chouzai is promoting various initiatives to enable diverse human resources to play an active role in business operations.

Nihon Chouzai currently employs 113 staff with disabilities, representing 2.33% of all employees (as of June 2022). This exceeds the statutory employment rate. We are actively seeking to hire more employees with disabilities while broadening the scope of potential job positions.

Broadening the scope of job positions

In addition to existing jobs, such as pharmacy work, medical office work, and clerical work, we are expanding the scope of potential job positions, such as serving as a driver for pharmacists conducting home-visiting services.

Sign language to deal with customers and give medication guidance

Hard of hearing pharmacists at some pharmacies communicate with customers using sign language. Moreover, in-house e-learning content is available to all Nihon Chouzai pharmacists teaching sign language and other considerations needed to deal with hard of hearing pharmacy customers.

Dedicated support staff system

We assign dedicated support staff to every employee with disabilities, from the time of the initial job interview through to a follow-up period after joining the company. Dedicated support staff receive the job coach training, and are taking other steps to provide more robust support for job retention as company-based job coaches.

Job retention measures

After an employee with disabilities joins the company, the dedicated support staff member conducts regular interviews and follows up by telephone. Public health nurses also provide support, working with managers in the workplace to address any issues early as possible. In these ways, we are working to create an environment where employees can work without worry.

Outside Recognition (Diversity and Inclusion)

Nihon Chouzai has been recognized for its ongoing efforts to foster an environment which makes it easier for women to work and to create opportunities for the active participation of all employees regardless of gender. These efforts have earned the company the following certifications from the Ministry of Health, Labour and Welfare.



Eruboshi

Empowering the participation of women in the workplace
Acquired in 2018
(Nihon Chouzai)



Kurumin

Support for parenting
Acquired in 2021
(Nihon Chouzai, Nihon Generic)



Tomonin

Support for long-term care providers
Acquired in 2021
(Nihon Chouzai)

Promotion of Health Management

For Nihon Chouzai to provide the best possible medical services to the communities we serve, health management aiming to maintain and improve the health of our own employees is a priority.

We have issued a Declaration of Health and established performance indicators striving to promote health, improve productivity, retain staff, and recruit talented employees. We have also built an organizational framework to allow industrial doctors to be involved in our health promotion from a professional standpoint. We are creating a system in which all employees are conscious of their own health and can contribute to fostering a vibrant workplace culture.

Health management initiatives

- Establishing standard values for employment based on regular medical check-up results and starting outreach to high-risk individuals
- Prohibiting smoking on the premises, including outdoors, at all business sites
- In-house collaboration (lifestyle improvement programs, online medical consultation program for people with high blood pressure)
- Stress checks and self-care training for new employees
- Workplace COVID-19 vaccination: joint vaccinations with other companies
- Enhanced support for balancing medical treatment and work (certified by the Tokyo Metropolitan Government and Kanagawa Prefecture), etc.

Certified as a 2022 Health & Productivity Management Outstanding Organization in the large enterprise category

In March 2022, Nihon Chouzai was certified as a 2022 Health & Productivity Management Outstanding Organization in the large enterprises category under the Certified Health & Productivity Management Outstanding Organizations Recognition Program established by the Ministry of Economy, Trade and Industry.

This program recognizes companies that take employee health management seriously from a management perspective and strategically pursue health management in line with initiatives to address regional health issues and with the health promotion efforts of the Nippon Kenko Kaigi (Japan Board of Health).





Organization

Engagement

Under the new Group philosophy, we aim to be an organization that realizes high employee engagement

Measure to Instill the Group Philosophy

The Nihon Chouzai Group formulated a new Group philosophy in April 2022. Through a combination of top-down and bottom-up initiatives, we aim to inculcate throughout the Group an outlook that expresses the Group's purpose in society and defines the actions needed to lead to future growth.

Communication from top management to all employees

- We distributed cards containing a message from the president to all employees, along with a similar video message. We also distributed a pamphlet explaining the new philosophy, describing the context of its formulation and spelling out the Group's commitments with regard to the future.
- Regular messages via the corporate intranet expressing the thinking of each executive on the Group philosophy and how it relates to various Group businesses

Community of employee philosophy advocates

- Formation of a community of influencers across various Group companies and departments, from young to mid-career employees, aiming to smoothly inculcate the Group philosophy at each site

Opportunities for employees to engage with Group philosophy

- Regular article series in the Group in-house newsletter where employees talk about the philosophy in their own words
- Fostering daily awareness through cards to carry around



A pamphlet and card explaining the new Group philosophy distributed to all employees

Engagement

We place great importance on employee engagement as the basis for increasing corporate value.

Survey

| Target | Number of questions | Response rate |
|---------------------|---------------------|---------------|
| All Group companies | 142 | 93.04% |

The Nihon Chouzai Group believes that greater engagement between the company and its employees is essential to increasing corporate value by generating and drawing on group synergies.

We carried out our first engagement survey for the entire Group in 2021. Survey scores in areas regarding the future of the company were extremely high compared to survey data for other companies. This result represents a significant advantage for the Group in terms of achieving stable, ongoing growth. We carried out a follow-up survey in 2022. Without worrying about small fluctuations in response values, we will use the surveys to accurately analyze where the Group stands and work to ensure that all employees understand Group policies and are empowered to put the Group philosophy into practice.

We will continue to conduct regular surveys, and take steps across the Group to improve employee engagement.

In-house workshop

Creating opportunities for dialogue serves as a foundation for enhancing employee engagement. To this end, we have conducted multiple in-house online workshops with participation from across the Group.

Around 80 employees, spanning various business and administrative departments, and including Group companies, take part in the workshops. The program involves a forum for sharing values about the state of the Group as an organization and about the work each individual engages in. Also, to create a corporate organization bound together by a shared outlook, participants consider how the Group philosophy specifically ties in with the work of the various departments. Teams of participants then give presentations on their findings to promote mutual understanding and build familiarity with the philosophy.

As representatives from different departments share their various challenges and sources of motivation, and as they bring back what they have learned to share it with their own departments, we are working toward cultivating a culture that facilitates lively communication and fosters greater engagement.



Social

Corresponding materiality group

Healthcare quality and accessibility
Quality and stable supply of pharmaceuticals
Resolving human issues at healthcare institutions

In FY2021, the Nihon Chouzai Group has identified material issues essential to contributing to a sustainable society. Based on these issues, we will actively work to contribute to society and the development of healthcare.

Materialities related to Social

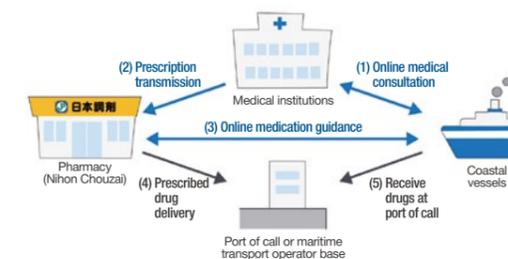
| Materiality Group (Purpose) | Material issues related to Social | Measures | Details |
|---|--|--|------------|
| A Healthcare quality and accessibility | 1 Increase the effectiveness of drug treatments for patients by strengthening pharmacy functions (accommodate advanced healthcare and regional healthcare) | <ul style="list-style-type: none"> ■ Development of highly specialized healthcare personnel ■ Functional differentiation of pharmacies (regional cooperation pharmacies, specialized medical institution cooperation pharmacies) | P35 |
| | 2 Expand the functions of pharmacies to support the health of the community (e.g., illness prevention and pre-symptomatic illness) | <ul style="list-style-type: none"> ■ Certified Nutrition Care Stations ■ Health Check-Up Stations ■ Health Support Pharmacies | P35 P36 |
| | 3 Contribute to social security by ensuring appropriate use of pharmaceuticals at pharmacies | <ul style="list-style-type: none"> ■ Reducing unused medications | P57 |
| | 4 Ensure the continuous operation of pharmacies as a regional healthcare/welfare infrastructure, and respond effectively to disasters, pandemics, and other crises | <ul style="list-style-type: none"> ■ Online services | P38 |
| | 5 Ensure the medical safety at pharmacies | <ul style="list-style-type: none"> ■ Automation of dispensing work | P37 |
| | 6 Leverage digital transformation to promote online healthcare and create new business | <ul style="list-style-type: none"> ■ Online services ■ Formulation of digital transformation strategy | P31 P38 |
| | 7 Publish surveys and research that contribute to the development of healthcare | <ul style="list-style-type: none"> ■ Research on improving the quality of drug treatment as a healthcare team | |
| B Quality and stable supply of pharmaceuticals | 8 Undertake R&D and manufacturing of safe, high quality pharmaceuticals | <ul style="list-style-type: none"> ■ Quality control initiatives | P43 |
| | 9 Ensure a stable supply of pharmaceuticals | <ul style="list-style-type: none"> ■ Initiatives for stable drug supply | P45 |
| C Resolving human issues at healthcare institutions | 10 Provide "human" support in providing high-quality healthcare services | <ul style="list-style-type: none"> ■ Staffing and placement of medical professionals (pharmacists, doctors, registered pharmaceutical sellers, nurses) | P49 |
| | 11 Support occupational health and general health, including mental health, by introducing occupational physicians | <ul style="list-style-type: none"> ■ Occupational doctor business | P54 |

Topics

Online Medication Guidance Started for Coastal Seafarers

Nihon Chouzai announced the launch of an online medication guidance service for seafarers on board coastal vessels responsible for the maritime transport of cargo in Japan. The service uses the ZECT Medical Online (ZMO) system developed by ZECT, Inc.

According to the Ministry of Land, Infrastructure, Transport and Tourism, the average disease rate for seafarers (those participating in the Japan Health Insurance Association) was 0.81% in FY2017, higher than the 0.41% rate for land-based workers*. Some ships are at sea for up to three months at a time. Building a system that can enable delivery of drugs prescribed during online medical consultations and medication guidance will make a quick response possible when there is a drug shortage onboard or when a prescription needs to be adjusted.



*According to materials of the October 23, 2020 meeting of the MLIT Seafarers Committee.



Drawing on a wealth of knowledge and experience, my role is to advise and oversee management from an objective standpoint.

Mikiharu Noma
Outside Director



Drawing on a broad range of business experience to monitor business execution across the entire Group.

Nobuyuki Hatakeyama
Audit and Supervisory Committee member

As a professor at the Graduate School of Business Administration of Hitotsubashi University, I have researched financial accounting, corporate valuation, and corporate transformation. A year has already passed since I assumed my position as an outside director of Nihon Chouzai Co., Ltd. in June 2021. Over the past year, I feel that the Board of Directors has undergone major changes.

When I first took the position, discussions at Board meetings included detailed matters related to business execution. Fundamentally, I believe the Board of Directors should discuss critical issues such as management strategies aimed at sustainable growth and the longer-term improvement of corporate value. Based partly on my advice, the Group decided to introduce an executive officer system in April 2022.

This made it possible to better separate the business execution function from management decision-making and oversight functions, which has changed the quality of discussions at Board meetings and led to faster decision-making and business execution. There has also been a change in directors' awareness: I feel directors are shifting from the perspective of individual company managers toward a perspective that encompasses the entire Nihon Chouzai Group.

I see my role as an outside director on the Board as working to enhance corporate governance and reinforce the Board's role as a monitoring board. I also believe I can advise and oversee management by drawing on knowledge gained from my academic background to actively speak up at Board meetings.

Moreover, given that Nihon Chouzai has shareholders with a controlling interest, taking the principle of shareholder

equality for granted, I believe in general that having a third-party perspective and drawing attention to the protection of minority shareholder interests is a key role of an outside director. If a conflict of interest should arise between shareholders, I see it as my duty to express my opinion from the standpoint of minority shareholders. In this way, as an outside director, I seek to provide appropriate feedback and take part in constructive discussions.

The Nihon Chouzai Group faces three issues in terms of enhancing corporate value over the longer term. The first is how to move ahead with digital transformation of healthcare. I think it is essential to consider ways of harnessing the various data obtained from subscribers to the *Okusuri Techo Plus* electronic medication notebook. The second issue is how to connect high-quality pharmacists, one of Nihon Chouzai's competitive strengths, with digital technology in a way that meets the needs of patients and medical institutions. The third issue concerns reforms targeting further growth in the generic drug manufacturing and sales business. The Nihon Chouzai Group will grow dramatically if it can deal with these three issues.

Nihon Chouzai's growth is supported by pharmacists and other personnel in the healthcare field. It is vital to create an environment in which they can shine in their work. This feeds into customer satisfaction, which ultimately provides shareholder satisfaction. I hope all of the Group's stakeholders will look forward to the long-term growth of Nihon Chouzai as a company that "gives people the closest possible support."

It has been 35 years since I joined Nihon Chouzai as a salesperson. Although I started out in sales, I was later able to experience various other departments. Drawing on this experience, I am currently making use of the Group's internal control system to carry out audits, as well as monitor the execution of duties by directors, all from the perspective of our stakeholders. I am constantly collaborating and exchanging information with the in-house Audit Office and monitoring the further establishment of internal controls that make the occurrence of compliance violations difficult.

Above all, an Audit and Supervisory Committee member is expected to monitor and oversee the business from the standpoint of appropriateness and legality, always asking whether the execution of duties by directors is in keeping with corporate bylaws and any laws and regulations, as well as whether it is reasonable and efficient in light of corporate policy. I also participate in decision-making, voting on the Board of Directors while seeking to carry out monitoring and oversight of directors' execution of duties. I recognize the importance of proper disclosure to stakeholders through the exercise of these functions and by preparing and publishing year-end audit reports.

We are pursuing initiatives to achieve more robust corporate governance, including further enhancing internal controls, appointing outside directors, further augmenting the in-house audit department, and developing a risk management framework. We have established a rigorous framework for monitoring violations of the bylaws or laws and regulations. In April, we also introduced an executive officer system to separate management decision-making and business execution. I am confident that this will help in enhancing corporate value.

In terms of issues for the Group, I think it is crucial to ensure that the internal controls, various committees, and frameworks involved in group governance are fully functional, and given even more extensive reach and effectiveness.

I also think we should consider building a Group management framework centered on Nihon Chouzai as the parent company, promote personnel exchanges, and set up a management department that oversees the entire Group.

To ensure the effectiveness of the Board of Directors, we conducted a 31-item questionnaire to assess various aspects of the Board and had the results evaluated and analyzed by a specialist agency. The results were shared with the Board and discussed freely and openly. Since the Board of Directors functions as both decision-making and supervisory body, I would like to see Board discussions focus even more on key management and business strategies, as well as steps to establish even more effective group governance.

Efforts to achieve sustainability management that encourages business activities grounded in the Nihon Chouzai Group's newly stated philosophy—"to give people the closest possible support"—are indispensable. I also believe it is important to monitor the strong commitment of each Board member to sustainability-conscious management.

Finally, as Nihon Chouzai Group moves toward its goal of 1 trillion yen in Group sales in FY2030, I would like to see every member of the Group take pride in being people deeply involved in healthcare and be able to move forward resolutely supported by rigorous compliance, integrity toward people and society, and an unflinching commitment to propriety.

Board of Directors (as of June 23, 2022)



Yosuke Mitsuvara
President and CEO

NC

Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, Mitsuvara became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins University Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives. From December 2021, Mitsuvara chairs the Sustainability Committee.



Toshiyuki Koyanagi
Director and Senior Executive Officer

Pharmacist. Koyanagi joined Nihon Chouzai after working in a hospital. He has since served as Manager and General Manager of the Pharmaceutical Department, General Manager of the Purchasing Department, and in other capacities. In addition to overseeing the Dispensing Pharmacy Business, his responsibilities include pharmacy staff training, drug planning, marketing, generic drug promotion, purchasing, at-home care, healthcare promotion, pharmacy branch management, quality control, systems, and business development. With a wealth of experience in pharmacy management and thorough knowledge of medical administration, he has contributed to the expansion of the Dispensing Pharmacy Business by taking the lead in addressing changes in the operating environment, including medical service fee revisions.



Yoshihisa Fujimoto
Director and Senior Executive Officer

Fujimoto is responsible for corporate governance, working style reform, empowering women in the workplace, recruitment, and corporate branding, as well as serving as Chief Security Officer (CSO). He contributes to the governance of the entire company, including serving on the Information Security Committee, and the Risk Management and Compliance Committee.



Naoto Kasai
Managing Director and Managing Executive Officer

At Mitsubishi UFJ Trust and Banking, Kasai was Manager of the Human Resources Department, Manager of the Corporate Planning Division, and a Branch Manager. As General Manager of the Sales Management Department in charge of new pharmacy openings for Nihon Chouzai, he sets policy for pharmacy openings, acquisitions, and pharmacy development, and manages business operations. Kasai has also been in charge of Public Relations and Sustainability since June 2022.



Noriaki Miyata
Director and Senior Executive Officer

Pharmacist. Real Estate Transaction Specialist. Since he first joined the Company, Miyata has been consistently engaged in the development of the pharmacy network, drawing on his knowledge of real estate and extensive experience in the pharmaceutical industry to grow the network. Over his many years of sales activities, he helped to open hospital-front pharmacies, pharmacies serving medical centers, and pharmacies located on hospital premises. He also helped expand the network of Nihon Chouzai's unique hybrid pharmacies.



Kazunori Ogi
Director and Senior Executive Officer

Before joining Nihon Chouzai, Ogi worked for a leading bank and was involved in finance and MBO projects for major companies. After joining the Company, he was a Manager of the Finance Department. Currently, as Director and General Manager, he is in charge of accounting, finance, and affiliated companies. In terms of the Group as a whole, he helps to identify management issues for the Company and its subsidiaries and formulate management strategies to address them. Since October 2021, he has also served as President and CEO of Choseido Pharmaceutical Co., Ltd. and Director of Nihon Generic Co., Ltd.



Keiso Masuhara
Director and Senior Executive Officer

Pharmacist. As Director of the Department of Pharmacy at St. Marianna University School of Medicine Hospital, Masuhara was the first person in Japan to create generic prescriptions and formularies based on pharmaceutical care concepts. He is in charge of Nihon Chouzai's FINDAT Business Department. He launched FINDAT, Japan's first advanced online drug information platform, and has used the platform to support drug information management in hospitals and to help achieve drug cost reductions.



Yoshimitsu Onji
Outside Director

Outside Independent NC

Onji has experience as a company president and chairman. Prior to joining Nihon Chouzai, he was involved in starting up a staffing firm and in numerous corporate acquisitions, as well as being responsible for financial strategy. As a manager with a wealth of experience in funding and M&A transactions, he is helping to oversee management of the Company and provides feedback as an outside director.



Nobuyuki Hatakeyama
Director

Audit

Since the early days of Nihon Chouzai's founding, Hatakeyama has held a wide range of key positions, including Sales Manager, Branch Manager, General Manager of the Operational Audits Department, and Director. With a wealth of experience and knowledge in pharmacy development and pharmacy operations in the Dispensing Pharmacy Business, in addition to his auditing role as an Audit and Supervisory Committee member, he also oversees management and provides appropriate feedback.



Shio Harada
Outside Director

Outside Independent NC Audit

Attorney. Harada has a wealth of experience and insight regarding legal affairs as a whole, including as a lecturer in the area of civil affairs at the Legal Research and Training Institute. In addition to serving as outside director of another listed company, she has extensive knowledge of sustainability management centered on gender diversity.



Mikiharu Noma
Outside Director

Outside Independent NC

As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. Since 2013, he has been chair of the Corporate Reporting Lab set up by the Ministry of Economy, Trade and Industry, and is well-versed in building corporate value, investor engagement, and ESG management.



Arata Toyoshi
Outside Director

Outside Independent NC Audit

Certified public accountant and licensed tax accountant. Holds a Master of Business Administration. As part of a leading auditing firm, Toyoshi gained extensive knowledge of manufacturing, IT, finance, distribution, as well as of public enterprises. He also has experience as a director of human resources management at the headquarters of a company. As an Audit and Supervisory Committee member, he helps to oversee and provide feedback on the management of the Board of Directors, with an awareness of the perspectives of various stakeholders.

NC Nomination and Compensation Committee
Audit Audit and Supervisory Committee member

| Skill Set Distribution of Directors | Mitsuvara | Kasai | Miyata | Koyanagi | Ogi | Fujimoto | Masuhara | Onji | Noma | Hatakeyama | Toyoshi | Harada |
|---|-----------|-------|--------|----------|-------|----------|----------|---------|---------------------|------------|---------|-----------------|
| | | | | | | | | Outside | Outside | | Outside | Outside |
| General management | ● | ● | | | ● | | | ● | ● | | | |
| Financial accounting and finance | ● | ● | | | ● | | | ● | ● | | ● | |
| Legal affairs and compliance | | | | | | ● | | ● | | | ● | ● |
| Expertise in corporate management | | | | ● | | | ● | | | ● | | |
| Administration (including medical and pharmaceutical affairs) | ● | | ● | ● | | | | | | | | |
| Sustainability | ● | | | | | ● | | | ● | | | ● |
| IT and digital transformation (development) | ● | | | | ● | | | | | | | |
| Management oversight and feedback | | | | | | | | ● | ● | | ● | ● |
| Dispensing Pharmacy | ● | | ● | ● | ● | | ● | ● | | ● | | |
| Pharmaceutical Manufacturing and Sales | ● | | | | ● | | | | | | | |
| Medical Professional Staffing and Placement | ● | | | | ● | | | ● | | | ● | |
| M&A and pharmacy network strategy | ● | ● | | | ● | | | ● | | ● | ● | |
| Risk management and compliance | ● | | | ● | ● | ● | | ● | | ● | ● | ● |
| Attendance (times) (FY2021) | | | | | | | | | | | | |
| Board of Directors | 14/15 | 15/15 | 15/15 | 15/15 | 15/15 | 15/15 | 15/15 | 15/15 | 11/11 ^{*1} | 15/15 | 15/15 | - ^{*2} |
| Nomination and Compensation Committee | | | | | | | | 4/4 | 3/3 ^{*1} | | 4/4 | |
| Audit and Supervisory Committee | | | | | | | | | | 15/15 | 15/15 | - ^{*2} |

*1 Number of meetings attended since appointment as outside director in June 2021.

*2 Shio Harada was appointed as an outside director at the general meeting of shareholders held in June 2022.

Corporate Governance

With the aim of becoming a company that is indispensable to society, Nihon Chouzai is constantly working to reinforce its corporate governance to achieve sustainable growth and build corporate value.

Corresponding materiality group

Strengthening governance to fulfill social responsibilities

Nihon Chouzai's Concept of Corporate Governance

- 1 Improving management transparency and clarifying management responsibilities
- 2 Speedy decision-making
- 3 Strengthening management oversight functions

These three elements are essential to responding effectively to changes in the business environment, ensuring the ongoing soundness of the company, and further enhancing corporate value. Particularly as a corporate group operating in fields that

are governed by various laws and regulations, Nihon Chouzai recognizes the critical importance of maintaining robust corporate governance and strict compliance. We are pursuing various measures based on this recognition.

Given the scale and nature of our businesses, we determined that being a company with an Audit and Supervisory Committee was the most appropriate organizational form to enable Nihon Chouzai to fulfill its audit and oversight functions and corporate governance responsibilities.

Actions to Strengthen Corporate Governance

- 1 Strengthen the Risk Management and Compliance Committee
- 2 Established an audit office at Nihon Generic to strengthen the group's audit function
- 3 Establishment of Nomination and Compensation Committee
- 4 Introduction of executive officer system

Corporate Governance Framework

At the 36th General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai resolved to transition from being a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. It also determined that the Board of Directors is made up of nine directors (excluding directors who are Audit and Supervisory Committee members, and including two outside directors) and three directors who are Audit and Supervisory Committee members (including two outside directors). The role of the Board is to decide on important matters stipulated by laws and regulations and oversee the performance of duties by executives.

The Audit and Supervisory Committee comprises three

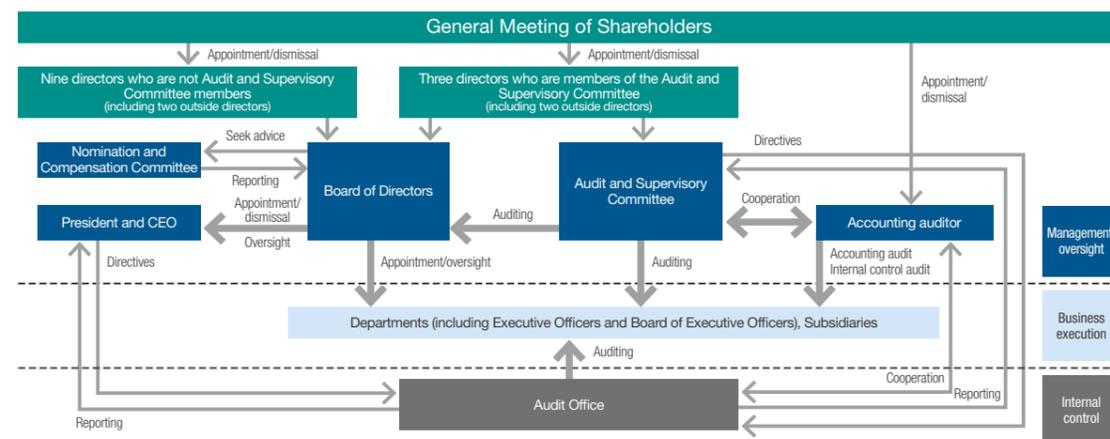
directors, including two outside directors. They carry out their oversight functions by exercising their voting rights at meetings of the Board of Directors, as well as auditing the performance of duties by directors and preparing audit reports. Moreover, Deloitte Touche Tohmatsu LLC was appointed to be the accounting auditor for the company to ensure proper accounting and management transparency.

Corporate Governance Framework (as of June 23, 2022)

| | |
|---------------------------------|--|
| Board of Directors* | Directors: nine (including two outside directors/ independent officers) |
| Audit and Supervisory Committee | Directors: three (including two outside directors/ independent officers) |

*Excluding directors who are Audit and Supervisory Committee members

Corporate Governance Framework (as of June 23, 2022)



Analyzing and Evaluating the Effectiveness of the Board of Directors

Process of Evaluating the Board's Effectiveness

At least once a year, the Board of Directors conducts an evaluation and makes improvements to improve its effectiveness. Again in FY2021, the Board set aside sufficient time for meetings to allow for more thorough deliberation on critical issues, such

as how to enhance reporting on matters before the Board and share the results of analyses. We also secured adequate time for training with officers as needed, and carried out training on a wide range of themes essential to management.



Initiatives to Address Issues

The Group considered one of its challenges to be developing an appropriate framework for reporting compliance issues. The framework should allow employees and associates of Group companies to share information or grave concerns about illegal or inappropriate acts and disclosure without any disadvantage. It should also allow reported information and concerns to be objectively verified and acted upon appropriately. Making sure all employees were familiar with the framework was another challenge. To this end, the boards of directors of each Group company revised their internal reporting framework regulations to provide for: (1) newly establishing an external reporting hotline in addition to existing internal reporting hotlines; (2) permitting anonymous reporting in addition to existing named reporting; (3) prohibiting efforts to seek out reporting persons or the sharing of information beyond the scope of the reporting framework that could be used to determine their identity, in addition to existing prohibitions against the disadvantageous treatment of such persons. Meanwhile, we are working to ensure that all employees are fully informed of internal and external reporting hotlines, contact information, etc. by means of explanations at important internal meetings and internally circulated communications. In addition, periodic reports are made to the Compliance Committee and Board of Directors on the status of the reporting framework so that these bodies can oversee its operation.

Issues to Be Carefully Considered and Addressed

1. Sustainability Issues

The Group took several actions in December 2021 to promote sustainability management, including: (1) formulating a Basic Sustainability Policy, (2) establishing a Sustainability Committee, and (3) identifying material issues. In June 2022, we also set out initiatives and key performance indicators to address these issues.

Moreover, as part of our response to climate change issues, in June 2022, we disclosed Scope 1 and Scope 2 CO₂ emissions, which are key issues in sustainability management. Meanwhile, we endorsed the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures). Going forward, we will work to calculate Scope 3 emissions, deliberate on appropriate climate-related risks and opportunities, and perform scenario analysis to consider the impact of various risks and initiatives on financial forecasts. In these ways, we will strive to enhance corporate value over the long term.

2. Issues Involving Corporate Governance

Having reaffirmed the importance of both "offensive" and "defensive" governance in terms of group management, we will build an optimal business portfolio across the Group and improve overall corporate value.

Board of Directors Operations

Activities in FY2021

The Board met 15 times from April 1, 2021 to March 31, 2022. In principle, Board meetings are held once a month, or as needed. Officers from Nihon Chouzai also sit in on the Board meetings of group companies and take other actions to reflect the group as a whole in Board discussions. Audit and Supervisory Committee meetings are held separately. We also conduct follow-up training with officers as needed after meetings of the Board of Directors.

Board of Directors Meetings and Key Topics of Deliberation

| | |
|----------------------------|---|
| Frequency | In principle, once a month or as needed |
| Meetings Held | 15 (April 1, 2021–March 31, 2022) |
| Key Topics of Deliberation | Medium-term management plan; budget and financial results; fund procurement; director nomination and compensation; pharmacy openings, closings, mergers and acquisitions; acquisition and disposal of assets; personnel and labor affairs; regulatory changes; organizational changes; group governance; risk management framework; digital transformation strategy; sustainability; etc. |

Cross-Shareholdings

The company may hold, as cross-shareholdings, shares of companies that it deems necessary for maintaining and strengthening business relationships. The Board of Directors meets annually to carefully examine whether the purpose of owning individual cross-shareholdings is appropriate and whether the benefits and risks associated with these holdings are commensurate with the cost of capital, among other considerations, in this way verifying the suitability of cross-shareholdings. The company's policy is to exercise voting rights pertaining to cross-shareholdings from the perspective of whether or not such exercise will contribute to enhancing the corporate value of the company invested in, along with due consideration of the purpose of the holding.

| | | Unlisted shares | Shares other than unlisted shares |
|--------|---------------------------------|-----------------|-----------------------------------|
| FY2020 | Number of issues | 1 | - |
| | Issue amount* (millions of yen) | 13 | - |
| FY2021 | Number of issues | 1 | - |
| | Issue amount* (millions of yen) | 13 | - |

*Aggregate amount recorded on the balance sheet

Organization and Activities of Internal Control System

Committee Organization

The purpose, related departments, and activities of each committee are as described below.



Nomination and Compensation Committee

Purpose
To strengthen the fairness, transparency, and objectivity of procedures related to the nomination and compensation of directors and executive officers, and to further enhance the corporate governance framework.

Related departments
Human Resources Department, General Affairs Department

Committee operation
Four meetings were held in FY2021 (April 2021 - March 2022). The committee consists of three or more members who are directors or executive officers, the majority of whom are independent outside directors. As an advisory body to the Board of Directors, the committee considers Board composition, reasons for appointing directors and executive officers, the appropriateness of individual compensation, and other matters from multiple perspectives, and reports to the Board of Directors.

Compliance Committee

Purpose
To ensure thorough compliance by defining basic matters related to compliance actions and constructing and properly managing a compliance framework.

Related departments
Risk Management and Compliance Office, General Affairs Department, System Headquarters, Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee, etc.

Committee operation
In principle, meets once every three months. In addition to monitoring and reviewing the development and operation of the compliance framework, the committee takes up matters related to the planning and execution of compliance programs aimed at promoting compliance throughout the Group. Specifically, the committee considers the response to relevant business laws, the internal reporting framework, and training programs aimed at fostering employee compliance awareness. Subsidiaries hold similar meetings.

Sustainability Committee

Purpose
To contribute to the creation of a sustainable society through Group business activities, as well as to achieve sustainable growth and enhance the corporate value of the Group over the longer term.

Related departments
Sustainability Supervision Office, Corporate Planning Department, General Affairs Department

Committee operation
In principle, meets twice a year. The committee supervises and evaluates the progress of initiatives to address the material issues the Group has identified, builds these issues into corporate and business strategies, and deliberates on observance of international guidelines and participation in global initiatives, reporting to the Board as needed.

Risk Management Committee

Purpose
To be aware of risks that may significantly impact the attainment of management goals and corporate sustainability, and to promote more sophisticated risk management to support appropriate judgments and responses to risks.

Related departments
Same as Compliance Committee

Committee operation
In principle, meets once every three months. Based on the risk management policy, the committee work to develop and appropriately operate Group-wide risk management. Specifically, it identifies and examines risks based on the internal and external business environment, takes measures in response, conducts regular monitoring, and takes necessary action based on circumstances. Subsidiaries hold similar meetings.

Information Security Committee

Purpose
To promote information security management, including implementing information security measures and disseminating policy, and constructing and operating a Group-wide information security framework.

Related departments
System Headquarters, Pharmaceutical Headquarters, General Affairs Department, Human Resources Department, Risk Management and Compliance Office, etc.

Committee operation
In principle, meets once every three months. The committee shares information on measures based on the Security Guidelines for Medical Information Systems published by the Ministry of Health, Labour and Welfare and related laws and guidelines, assesses whether there are any information security violations, examines examples of cyber security incidents, etc., while holding discussions on countermeasures.

Medical Safety Committee

Purpose
To promote appropriate medical safety management and contribute to the safe provision of healthcare.

Related departments
Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department, Quality Control Department), Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee

Committee operation
The Medical Safety Committee discusses all events related to medical safety management. It also discusses the revision of measures to prevent the recurrence of safety incidents and improve safety.

Formulation and Dissemination of Rules and Regulations

To ensure the appropriateness of the Group's business operations, Nihon Chouzai has formulated various internal rules, operation flow charts and manuals, business continuity plans, and a disaster response pocket manual. It seeks to ensure employee awareness of these matters by circulating materials and posting them on the corporate intranet.

(As of March 31, 2022)

| Consolidated Financial Data | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | | | |
|--|---------|--------------------------------|--------------------------------|---------|--------------------------------|--------------------------------|----------|--------------------------------|--------------------------------|--------------------------------|---|--------------------------------|--------------------------------|--------------------------------|
| Fiscal year in which revisions to dispensing fees and NHI drug prices were made | | <small>Dispensing Fees</small> | <small>NHI Drug Prices</small> | | <small>Dispensing Fees</small> | <small>NHI Drug Prices</small> | | <small>Dispensing Fees</small> | <small>NHI Drug Prices</small> | <small>Dispensing Fees</small> | <small>NHI Drug Prices</small> ^{*11} | <small>Dispensing Fees</small> | <small>NHI Drug Prices</small> | <small>NHI Drug Prices</small> |
| Business results (fiscal year) | | | | | | | | | | | | | | |
| Net sales | 130,041 | 139,466 | 165,347 | 181,844 | 219,239 | 223,468 | 241,274 | 245,687 | 268,520 | 278,951 | 299,392 | | | |
| Gross profit | 22,038 | 21,494 | 25,623 | 31,929 | 39,068 | 39,258 | 43,837 | 41,975 | 46,372 | 49,374 | 52,422 | | | |
| Selling, general and administrative expenses | 16,574 | 18,248 | 20,878 | 25,281 | 28,578 | 30,738 | 33,250 | 35,242 | 38,779 | 41,267 | 45,833 | | | |
| Operating profit | 5,464 | 3,245 | 4,744 | 6,647 | 10,489 | 8,519 | 10,587 | 6,733 | 7,593 | 8,106 | 6,589 | | | |
| EBITDA*1 | 8,968 | 7,319 | 9,129 | 10,923 | 15,615 | 14,237 | 17,127 | 14,525 | 15,491 | 16,286 | 14,974 | | | |
| Ordinary profit | 4,941 | 2,855 | 4,188 | 6,003 | 9,878 | 7,976 | 10,138 | 6,077 | 7,405 | 8,409 | 6,767 | | | |
| Profit attributable to owners of parent | 2,085 | 184 | 1,901 | 2,778 | 6,329 | 4,638 | 6,104 | 3,790 | 6,697 | 3,538 | 3,705 | | | |
| Cash flows (fiscal year) | | | | | | | | | | | | | | |
| Cash flows from operating activities | 7,127 | 2,885 | 6,243 | 5,831 | 19,327 | △940 | 23,141 | 13,572 | 13,192 | 11,213 | 19,411 | | | |
| Cash flows from investing activities | △9,694 | △6,422 | △14,510 | △8,437 | △7,823 | △28,444 | △13,843 | △1,770 | △2,731 | △7,767 | △9,313 | | | |
| Cash flows from financing activities | 7,920 | 5,496 | 8,782 | 1,422 | 7,031 | 18,205 | △2,034 | △10,516 | △7,955 | △2,806 | △17,448 | | | |
| Financial position (at year-end) | | | | | | | | | | | | | | |
| Total assets*2 | 86,615 | 95,140 | 117,295 | 130,141 | 157,609 | 178,347 | 186,573 | 178,677 | 185,551 | 186,262 | 178,753 | | | |
| Net assets | 14,716 | 14,702 | 15,849 | 17,635 | 32,473 | 36,447 | 41,506 | 41,073 | 47,072 | 49,868 | 52,876 | | | |
| Cash and cash equivalents | 12,554 | 14,513 | 15,027 | 13,844 | 32,380 | 21,200 | 28,464 | 29,749 | 32,254 | 32,893 | 25,543 | | | |
| Merchandise and finished goods | 8,419 | 11,908 | 12,165 | 15,911 | 15,328 | 21,455 | 20,873 | 22,272 | 22,988 | 23,139 | 23,024 | | | |
| Interest-bearing debt*3 | 42,279 | 48,281 | 62,037 | 68,327 | 66,794 | 86,524 | 87,611 | 81,302 | 74,381 | 73,219 | 56,597 | | | |
| Per share information | | | | | | | | | | | | | | |
| Net assets per share*4 (yen) | 511.99 | 508.52 | 545.32 | 628.80 | 1,015.11 | 1,139.35 | 1,297.50 | 1,369.52 | 1,569.77 | 1,663.01 | 1,763.34 | | | |
| Net income per share*4 (yen) | 72.73 | 6.42 | 65.62 | 97.24 | 216.42 | 145.02 | 190.84 | 121.74 | 223.33 | 118.01 | 123.56 | | | |
| Financial and non-financial data | | | | | | | | | | | | | | |
| Sales growth rate (%) | 16.0 | 7.2 | 18.6 | 10.0 | 20.6 | 1.9 | 8.0 | 1.8 | 9.3 | 3.9 | 7.3 | | | |
| SG&A expense ratio (%) | 12.7 | 13.1 | 12.6 | 13.9 | 13.0 | 13.8 | 13.8 | 14.3 | 14.4 | 14.8 | 15.3 | | | |
| Operating margin (%) | 4.2 | 2.3 | 2.9 | 3.7 | 4.8 | 3.8 | 4.4 | 2.7 | 2.8 | 2.9 | 2.2 | | | |
| ROA*5 (%) | 2.6 | 0.2 | 1.8 | 2.2 | 4.4 | 2.8 | 3.3 | 2.1 | 3.6 | 1.9 | 2.0 | | | |
| ROE*6 (%) | 15.2 | 1.3 | 12.0 | 16.6 | 25.3 | 13.5 | 15.7 | 9.2 | 15.2 | 7.3 | 7.2 | | | |
| Equity ratio*7 (%) | 17.0 | 15.5 | 13.5 | 13.6 | 20.6 | 20.4 | 22.2 | 23.0 | 25.4 | 26.8 | 29.6 | | | |
| Interest coverage ratio*8 (times) | 13.0 | 4.9 | 8.6 | 7.1 | 24.4 | — | 37.1 | 25.8 | 34.9 | 35.1 | 64.8 | | | |
| Debt-to-equity ratio*9 (times) | 2.9 | 3.3 | 3.9 | 3.8 | 2.1 | 2.4 | 2.1 | 2.0 | 1.6 | 1.5 | 1.1 | | | |
| Capital expenditure | 8,961 | 5,566 | 9,069 | 12,279 | 8,073 | 23,344 | 15,316 | 5,254 | 12,025 | 9,492 | 8,362 | | | |
| Depreciation | 3,028 | 3,591 | 3,825 | 3,631 | 4,461 | 4,741 | 5,214 | 6,304 | 6,316 | 6,416 | 6,569 | | | |
| R&D expenses | 1,224 | 1,023 | 1,534 | 1,767 | 1,913 | 2,388 | 2,784 | 2,764 | 2,991 | 2,776 | 3,411 | | | |
| Number of employees*10 | 2,304 | 2,488 | 3,009 | 3,283 | 3,435 | 3,781 | 4,075 | 4,383 | 4,904 | 5,221 | 5,552 | | | |

*Figures have been rounded down. Percentages have been rounded to the nearest first decimal place.

Notes: 1. EBITDA = Operating profit + depreciation + amortization of goodwill

2. Figures before FY2017 are not retroactively adjusted in accordance with a change in accounting standards.

3. Interest-bearing debt = loans + lease obligations + installment accounts payable + bonds

4. Nihon Chouzai conducted 2-for-1 stock splits on October 1, 2015 and April 1, 2020. Net assets per share and net income per share have been calculated as if these stock splits had taken place at the beginning of FY2011.

5. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year

6. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year

7. Equity ratio = shareholders' equity ÷ total assets

8. Interest coverage ratio = operating cash flows ÷ interest payment. This figure is not presented when operating cash flows are negative.

9. Debt-to-equity ratio = interest-bearing debt ÷ net assets

10. Number of employees indicates regular employees. It does not include non-regular employees such as associate, contract, fixed-term, or part-time employees.

11. NHI drug prices were revised in October 2019 in line with changes in the consumption tax rate.

Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries (as of March 31, 2021 and 2022)

| Assets | (Millions of yen) | | Liabilities | (Millions of yen) | |
|---|-------------------|----------------|--|-------------------|----------------|
| | FY2020 | FY2021 | | FY2020 | FY2021 |
| Current Assets | | | Current liabilities | | |
| Cash and deposits | 32,893 | 25,543 | Accounts payable-trade | 44,044 | 48,513 |
| Notes receivable-trade | 80 | 27 | Electronically recorded monetary obligations-operating | 2,742 | 2,862 |
| Accounts receivable-trade | 21,050 | - | Short-term borrowings | - | 1,000 |
| Accounts receivable-trade and contract assets | - | 20,458 | Current portion of long-term loans payable | 27,966 | 12,366 |
| Electronically recorded monetary claims-operating | 831 | 422 | Lease obligations | 139 | 148 |
| Merchandise and finished goods | 23,139 | 23,024 | Income taxes payable | 884 | 1,800 |
| Work in process | 1,413 | 1,799 | Provision for bonuses | 3,602 | 3,861 |
| Raw materials and supplies | 6,174 | 6,262 | Provision for directors' bonuses | 46 | 45 |
| Other | 3,668 | 4,121 | Asset retirement obligations | 80 | 4 |
| Allowance for doubtful accounts | △6 | △8 | Other | 8,214 | 8,330 |
| Total current assets | 89,246 | 81,651 | Total current liabilities | 87,720 | 78,931 |
| Non-current assets | | | Non-current liabilities | | |
| Property, plant and equipment | | | Long-term loans payable | 42,997 | 41,531 |
| Buildings and structures | 53,669 | 55,883 | Lease obligations | 1,229 | 1,127 |
| Accumulated depreciation | △24,102 | △26,324 | Long-term accounts payable-installment purchase | 424 | - |
| Buildings and structures, net | 29,566 | 29,559 | Provision for directors' retirement benefits | 199 | 71 |
| Machinery, equipment and vehicles | 20,960 | 21,700 | Net defined benefit liabilities | 2,153 | 2,276 |
| Accumulated depreciation | △6,927 | △7,956 | Asset retirement obligations | 1,336 | 1,422 |
| Machinery, equipment and vehicles, net | 14,033 | 13,743 | Other | 332 | 514 |
| Land | 14,198 | 14,155 | Total non-current liabilities | 48,673 | 46,944 |
| Leased assets | 2,789 | 2,799 | Total liabilities | 136,394 | 125,876 |
| Accumulated depreciation | △1,592 | △1,704 | | | |
| Leased assets, net | 1,196 | 1,095 | | | |
| Construction in progress | 1,649 | 1,226 | | | |
| Other | 19,595 | 21,091 | | | |
| Accumulated depreciation | △15,455 | △16,847 | | | |
| Other, net | 4,140 | 4,244 | | | |
| Total property, plant and equipment | 64,785 | 64,025 | | | |
| Intangible assets | | | | | |
| Goodwill | 16,508 | 15,220 | | | |
| Other | 2,443 | 3,749 | | | |
| Total intangible assets | 18,952 | 18,969 | | | |
| Investments and other assets | | | | | |
| Investment securities | 16 | 16 | | | |
| Long-term loans receivable | 635 | 554 | | | |
| Lease and guarantee deposits | 8,288 | 8,797 | | | |
| Deferred tax assets | 3,368 | 3,842 | | | |
| Other | 967 | 896 | | | |
| Total investments and other assets | 13,277 | 14,107 | | | |
| Total non-current assets | 97,015 | 97,102 | | | |
| Total assets | 186,262 | 178,753 | | | |
| | | | Net assets | FY2020 | FY2021 |
| | | | Shareholders' equity | | |
| | | | Capital stock | 3,953 | 3,953 |
| | | | Capital surplus | 10,926 | 10,926 |
| | | | Retained earnings | 38,551 | 41,507 |
| | | | Treasury stock | △3,500 | △3,500 |
| | | | Total shareholders' equity | 49,931 | 52,887 |
| | | | Accumulated other comprehensive income | | |
| | | | Remeasurements of defined benefit plans | △63 | △10 |
| | | | Total accumulated other comprehensive income | △63 | △10 |
| | | | Total net assets | 49,868 | 52,876 |
| | | | Total liabilities and net assets | 186,262 | 178,753 |

Consolidated Statement of Income

 Nihon Chouzai Co., Ltd. and subsidiaries
 For the years ended March 31, 2021 and 2022

| | (Millions of yen) | |
|--|-------------------|--------------|
| | FY2020 | FY2021 |
| Net sales | 278,951 | 299,392 |
| Cost of sales | 229,577 | 246,969 |
| Gross profit | 49,374 | 52,422 |
| Selling, general and administrative expenses | 41,267 | 45,833 |
| Operating profit | 8,106 | 6,589 |
| Non-operating income | | |
| Commissions received | 36 | 38 |
| Rent income | 446 | 511 |
| Compensation income | 51 | 40 |
| Insurance claim income | 34 | 144 |
| Subsidy income | 655 | 218 |
| Other | 183 | 258 |
| Total non-operating income | 1,408 | 1,212 |
| Non-operating expenses | | |
| Interest expenses | 314 | 295 |
| Commissions paid | 10 | 0 |
| Rent expenses | 331 | 381 |
| Loss on retirement of non-current assets | 261 | 107 |
| Other | 188 | 249 |
| Total non-operating expenses | 1,105 | 1,034 |
| Ordinary profit | 8,409 | 6,767 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 398 | 6 |
| Reversal of provision for retirement benefits for directors (and other officers) | - | 46 |
| Insurance claim income | - | 3,909 |
| Gain on transfer from business divestitures | - | 67 |
| Total extraordinary profit | 398 | 4,030 |
| Extraordinary losses | | |
| Loss on abandonment of non-current assets | 375 | - |
| Loss on sale of non-current assets | 1 | - |
| Impairment losses | 1,920 | 669 |
| Loss due to disaster | 27 | 3,910 |
| Total extraordinary losses | 2,324 | 4,580 |
| Profit before income taxes | 6,483 | 6,217 |
| Income taxes-current | 3,218 | 2,984 |
| Income taxes-deferred | △273 | △473 |
| Total income taxes | 2,945 | 2,511 |
| Profit | 3,538 | 3,705 |
| Profit attributable to owners of parent | 3,538 | 3,705 |

Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2021 and 2022

(Millions of yen)

| | FY2020 | FY2021 |
|---|--------------|--------------|
| Profit | 3,538 | 3,705 |
| Other comprehensive income | | |
| Remeasurements of defined benefit plans, net of tax | 6 | 53 |
| Total other comprehensive income | 6 | 53 |
| Comprehensive income | 3,545 | 3,758 |
| (Of which) | | |
| Comprehensive income attributable to owners of parent | 3,545 | 3,758 |

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(Millions of yen)

| For the year ended March 31, 2020 | Shareholders' equity | | | | | Accumulated other comprehensive income | | Total net assets |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---|--|------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | |
| Balance at the beginning of the period | 3,953 | 10,926 | 35,762 | △3,499 | 47,143 | △70 | △70 | 47,072 |
| Changes of items during the period | | | | | | | | |
| Dividends from surplus | | | △749 | | △749 | | | △749 |
| Profit attributable to owners of parent | | | 3,538 | | 3,538 | | | 3,538 |
| Purchase of treasury stock | | | | △0 | △0 | | | △0 |
| Net changes of items other than shareholders' equity | | | | | | 6 | 6 | 6 |
| Total changes of items during the period | - | - | 2,789 | △0 | 2,788 | 6 | 6 | 2,795 |
| Balance at the end of the period | 3,953 | 10,926 | 38,551 | △3,500 | 49,931 | △63 | △63 | 49,868 |

(Millions of yen)

| For the year ended March 31, 2022 | Shareholders' equity | | | | | Accumulated other comprehensive income | | Total net assets |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---|--|------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | |
| Balance at the beginning of the period | 3,953 | 10,926 | 38,551 | △3,500 | 49,931 | △63 | △63 | 49,868 |
| Changes of items during the period | | | | | | | | |
| Dividends from surplus | | | △749 | | △749 | | | △749 |
| Profit attributable to owners of parent | | | 3,705 | | 3,705 | | | 3,705 |
| Purchase of treasury stock | | | | △0 | △0 | | | △0 |
| Net changes of items other than shareholders' equity | | | | | | 53 | 53 | 53 |
| Total changes of items during the period | - | - | 2,955 | △0 | 2,955 | 53 | 53 | 3,008 |
| Balance at the end of the period | 3,953 | 10,926 | 41,507 | △3,500 | 52,887 | △10 | △10 | 52,876 |

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2021 and 2022

(Millions of yen)

| | FY2020 | FY2021 |
|--|---------------|----------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 6,483 | 6,217 |
| Depreciation | 6,416 | 6,569 |
| Amortization of long-term prepaid expenses | 154 | 157 |
| Impairment losses | 1,920 | 669 |
| Loss due to disaster | 27 | 3,910 |
| Insurance claim income | - | △3,909 |
| Amortization of goodwill | 1,763 | 1,814 |
| Increase (decrease) in allowance for doubtful accounts | 0 | 1 |
| Increase (decrease) in provision for bonuses | 282 | 258 |
| Increase (decrease) in provision for directors' bonuses | △30 | △1 |
| Increase (decrease) in net defined benefit liabilities | 193 | 120 |
| Increase (decrease) in provision for directors' retirement benefits | △275 | △127 |
| Interest and dividend income | △1 | △2 |
| Interest expenses | 314 | 295 |
| Loss (gain) on sales of non-current assets | △396 | △6 |
| Decrease (increase) in notes and accounts receivable-trade | △20 | 1,185 |
| Decrease (increase) in inventories | △694 | △4,147 |
| Increase (decrease) in notes and accounts payable-trade | 1,250 | 4,363 |
| Decrease (increase) in prepaid expenses | 128 | △75 |
| Increase (decrease) in accrued expenses | △248 | 57 |
| Decrease (increase) in accounts receivable-other | △456 | △224 |
| Increase (decrease) in accounts payable-other | 718 | 378 |
| Other | 717 | 481 |
| Subtotal | 18,246 | 17,989 |
| Interest and dividend income received | 1 | 2 |
| Interest expenses paid | △319 | △299 |
| Income taxes paid | △6,716 | △2,189 |
| Insurance payments received | - | 3,909 |
| Net cash provided by (used in) operating activities | 11,213 | 19,411 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | △5,955 | △5,956 |
| Proceeds from sales of property, plant and equipment | 1,124 | 73 |
| Purchase of intangible assets | △573 | △1,753 |
| Increase in long-term prepaid expenses | △116 | △133 |
| Payments for transfer of business | △907 | △348 |
| Proceeds from transfer of business | - | 75 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | △823 | △597 |
| Payments for loans receivable | △18 | - |
| Collection of loans receivable | 88 | 84 |
| Payments for lease and guarantee deposits | △769 | △935 |
| Proceeds from collection of lease and guarantee deposits | 203 | 194 |
| Other | △20 | △18 |
| Net cash provided by (used in) investing activities | △7,767 | △9,313 |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | △100 | 1,000 |
| Proceeds from long-term loans payable | 8,000 | 10,900 |
| Repayments of long-term loans payable | △9,406 | △27,966 |
| Repayments of lease obligations | △87 | △140 |
| Repayments of installment payable | △462 | △462 |
| Purchase of treasury stock | △0 | △0 |
| Cash dividends paid | △749 | △749 |
| Other | - | △28 |
| Net cash provided by (used in) financing activities | △2,806 | △17,448 |
| Net increase (decrease) in cash and cash equivalents | 639 | △7,350 |
| Cash and cash equivalents at beginning of period | 32,254 | 32,893 |
| Cash and cash equivalents at end of period | 32,893 | 25,543 |

Company Profile

Trade name

NIHON CHOUZAI Co., Ltd.

Established

March 1980

Headquarters

37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo
100-6737
+81-(0)3-6810-0800 (general)

Capital

3,953.02 million yen

Consolidated net sales

299.3 billion yen (FY2021)

Employees

Regular employees: 5,552; part-time employees and others: 795

*Figures for part-time employees and others represent the average annual number of employees based on conversion to an 8-hour workday.

Main financing banks

Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.

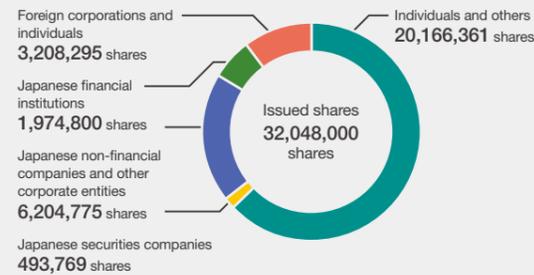
Main business area

Management of a dispensing pharmacy chain

Stock Information

Distribution by Shareholder Type

(As of March 31, 2022)



Changes in Shareholder Composition

| Share (%) | 2021/3 | 2022/3 |
|---|--------|--------|
| Individuals and others | 72.23 | 62.93 |
| Japanese securities companies | 1.34 | 1.54 |
| Japanese non-financial companies and other corporate entities | 8.18 | 19.36 |
| Japanese financial institutions | 7.08 | 6.16 |
| Foreign corporations and individuals | 11.17 | 10.01 |

Notes: 1. The 2,061,175 treasury stock owned by Nihon Chouzai are included in Individuals and others.
2. Ratios are rounded off to two decimal places.

Major Shareholders (Top 10 Shareholders)

| Shareholder name | Number of shares held | Investment ratio (%) |
|--|-----------------------|----------------------|
| Yosuke Mitsuahara | 6,640,000 | 22.14 |
| Hiroshi Mitsuahara | 4,800,000 | 16.01 |
| Mitsuahara Kosan Co., Ltd. | 3,600,000 | 12.01 |
| Max Planning, Inc. | 2,240,000 | 7.47 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 1,554,200 | 5.18 |
| Nihon Chouzai Employee Shareholding Association | 975,000 | 3.25 |
| Yoko Mitsuahara | 800,000 | 2.67 |
| Keiko Yeow | 538,600 | 1.80 |
| STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002 | 400,000 | 1.33 |
| SMBC Nikko Securities Inc. | 176,800 | 0.59 |

Notes: 1. Investment ratios are calculated after excluding treasury stock (2,061,175 shares).
2. Investment ratios are rounded off to two decimal places.

Affiliated companies

Nihon Generic Co., Ltd.

Manufacture and sale of pharmaceuticals
39F GranTokyo North Tower, 1-9-1 Marunouchi, Chiyoda-ku, Tokyo

<https://www.nihon-generic.co.jp/en/>

Choseido Pharmaceutical Co., Ltd.

Manufacture and sale of pharmaceuticals
92, Kokufuchoko, Tokushima, Tokushima

<https://www.choseido.com/>

Medical Resources Co., Ltd.

Staffing and placement of healthcare professionals
40F GranTokyo North Tower, 1-9-1 Marunouchi, Chiyoda-ku, Tokyo

<https://www.medical-res.co.jp/>

Japan Medical Research Institute Co., Ltd.

Research investigation, provision of information and advertising media, and consulting services related to the healthcare industry in general

39F GranTokyo North Tower, 1-9-1 Marunouchi, Chiyoda-ku, Tokyo

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

Shareholder Information

Authorized shares

88,384,000

Issued shares

32,048,000

Number of shareholders

9,558

Annual General Meeting of Shareholders

June

Administrator of shareholder registry

Mitsubishi UFJ Trust and Banking Corporation
1-1, Nikko-cho, Fuchu City, Tokyo 183-0044
0120-232-711 (toll-free)

Listed stock exchange

Tokyo Stock Exchange Prime Market

Securities code

3341

Settlement date

March 31

 NIHON CHOUZAI GROUP