

Sustainability

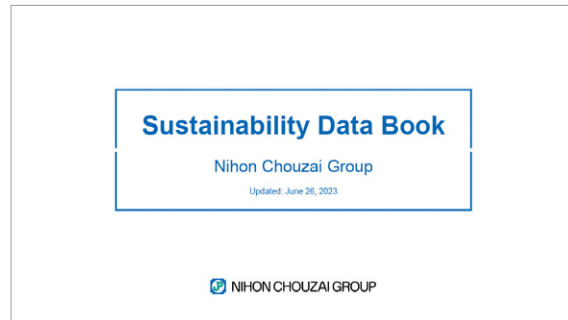
Sustainability

The Nihon Chouzai Group recognizes sustainability as a central aspect of a management strategy that seeks to enhance corporate value over the longer term. In FY2022, in addition to expressing support for the TCFD recommendations, we made steady progress in addressing material issues (materiality), formulating performance indicators, and expanding disclosure in line with TCFD recommendations.

Going forward, we will pursue initiatives aimed at enhancing longer-term corporate value and addressing social issues, continuing to revisit our material issues in line with revisions to the long-term vision. Initiatives will include setting targets and performance indicators, managing human capital, and further expanding disclosure. See the Sustainability Data Book for details on Nihon Chouzai's sustainability management, including our Basic Sustainability Policy and promotion framework.

Sustainability Data Book

We publish a Sustainability Data Book for the purpose of comprehensively disclosing sustainability information to stakeholders.



<https://www.nicho.co.jp/en/sustainability/databook/>

Main disclosure categories:

- Disclosure based on TCFD recommendations
- Material issues and corresponding initiatives, performance indicators
- Distribution of director skills
- Ethical Conduct Guideline, Human Rights Policy, Environmental Policy, and Basic Procurement Policy and Supplier Code of Conduct

Sustainability Initiatives

Selected for the first time for FTSE Blossom Japan Index, FTSE Blossom Japan Sector Relative Index

The Group is faced with increasingly diverse social issues, including worsening climate change and its impact on ecosystems, as well as issues involving natural resources. In this context, we regard initiatives to support the sustainable development of society as a critical management issue. We established a Group-wide Sustainability Committee in 2021, which is guiding our efforts to strengthen the management foundation of the Group as a whole. These efforts have focused on responding to climate change issues, protecting human rights, improving the working environment, addressing anti-corruption, and fortifying governance. As a result of our efforts, we were selected for the first time in FY2022 as a constituent of both the FTSE Blossom Japan Index and the FTSE Blossom Japan Sector Relative Index, which target Japanese companies taking outstanding action in terms of ESG practices.



FTSE Blossom Japan Index



FTSE Blossom Japan Sector Relative Index

Signing the United Nations Global Compact

In August 2023, Nihon Chouzai signed the United Nations Global Compact, an international initiative to support greater corporate social responsibility. Participation in the Global Compact demonstrates a company's stance on Ten Principles related to four areas—human rights, labor, environment, and anti-corruption. In recent years, companies are called on to consider both the impact of their business activities on the environment and society and the impact of the environment and society on their business activities in their pursuit of business. To this end, we will convey the intent of the Global Compact to all Group officers and employees, while revisiting our business activities in light of the values underlying the Ten Principles, seeking to ascertain areas for improvement and continuously enhance corporate value.



Sustainability Committee Activities (FY2022)

- Number of meetings: 3
- Main topics of discussion
 - Setting performance indicators for material issues
 - Disclosure in line with TCFD recommendations; calculation of Scope 1, 2 emissions; CO₂ reduction targets
 - Gap analysis of sustainability assessment
 - Revisions to Ethical Conduct Guideline
 - Formulation of Human Rights Policy, Environmental Policy, and Basic Procurement Policy and Supplier Code of Conduct
 - Response to environmental and human rights risks
 - Response to human capital management

Material issues (materiality) for the Nihon Chouzai Group

In FY2021, the Nihon Chouzai Group identified material issues essential to contributing to a sustainable society. To contribute more concretely to sustainability through our business activities and to shore up the foundation for management, we established initiatives and performance indicators to address these material issues. Going forward, we will strive to further promote sustainability management by putting in place the initiatives we have

formulated and monitoring performance indicators. We will also revise the initiatives and performance indicators as appropriate, disclosing information on areas under consideration as needed. See the Nihon Chouzai Group Sustainability website for details on the process of identifying material issues, initiatives, and performance indicators.

<https://www.nicho.co.jp/en/sustainability/materiality/>

Materiality Group	Material Issue	Relevant SGDs
Healthcare quality and accessibility	<ol style="list-style-type: none"> Increase the effectiveness of drug treatments for patients by strengthening pharmacy functions (accommodate advanced healthcare and regional healthcare) Expand the functions of pharmacies to support the health of the community (e.g., illness prevention and pre-symptomatic illness) Contribute to social security by ensuring appropriate use of pharmaceuticals at pharmacies Ensure the continuous operation of pharmacies as a regional healthcare/welfare infrastructure, and respond effectively to disasters, pandemics, and other crises Ensure the medical safety at pharmacies Leverage digital transformation to promote online healthcare and create new business Publish surveys and research that contribute to the development of healthcare 	
Quality and stable supply of pharmaceuticals	<ol style="list-style-type: none"> Undertake R&D and manufacturing of safe, high quality pharmaceuticals Ensure a stable supply of pharmaceuticals 	
Resolving human issues at healthcare institutions	<ol style="list-style-type: none"> Provide "human" support in providing high-quality healthcare services Support occupational health and general health, including mental health, by introducing occupational physicians 	
Contributing to a carbon neutral, circular economy	<ol style="list-style-type: none"> Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants Reduce 2 emissions by increasing energy usage efficiency and promoting the use of renewable energy Build environment-friendly and society-friendly supply chains with outstanding transparency 	
Fostering and utilizing diverse workforce	<ol style="list-style-type: none"> Secure human resources that supports the company's growth, and put in place HR systems that promote the growth of employees Promote diversity, respect for human rights, and the participation of women in the workplace Establish a workplace environment that enhances employee health and motivation 	
Strengthening governance to fulfill social responsibilities	<ol style="list-style-type: none"> Support the healthcare and welfare fields (e.g., persons with intractable diseases or disabilities) Continuously strengthen corporate governance, and disclose information with a high level of transparency Continuously strengthen compliance, and prevent corruption Create opportunities by appropriately evaluating and responding to risks 	

Environmental Initiatives

Recognizing that dealing with climate change issues is a critical aspect of 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.



FY2022	Scope1	Scope2
	5,454 t-CO ₂ e	31,612 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.

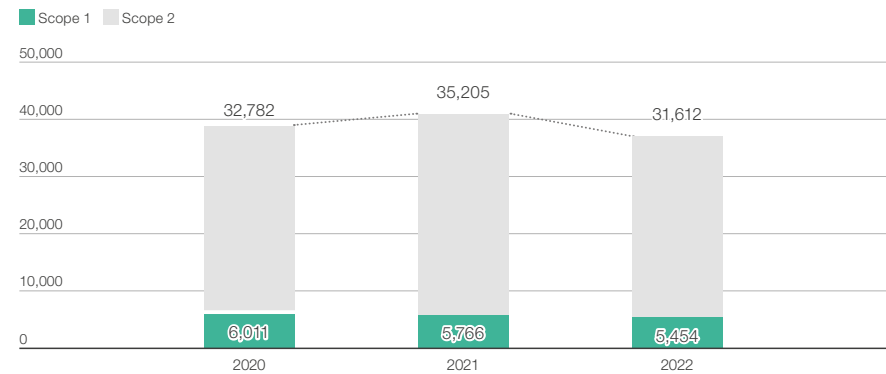
Pharmaceutical Manufacturing and Sales Business

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.

See the Sustainability website for various initiatives and data in our Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales businesses.

<https://www.nicho.co.jp/en/sustainability/esg/environment/>

CO₂ Emissions (Scope 1, 2)



We set the following Group targets for the reduction of greenhouse gases.

- 2030: Dispensing Pharmacy Business = 30% reduction in CO₂ emissions per pharmacy (versus FY2020)
Pharmaceutical Manufacturing and Sales Business = 30% reduction in CO₂ emissions per 100 million tablets produced (versus FY2020)
- 2050: Carbon neutrality (effectively zero CO₂ emissions)

TOPIC / Use of LED Lighting at Pharmacies

Nihon Chouzai has set a goal of reducing CO₂ emissions per pharmacy by 30% by FY2030 versus FY2020. We explored a range of initiatives that might help us achieve this goal. One such initiative we put in place is the conversion of pharmacies to LED lighting. All of the lighting in pharmacies we have opened since June 2016 now use LED lighting. About 460 pharmacies opened prior to that point do not yet support LED lighting. To cut down Scope 2 CO₂ emissions, we will convert around 100 pharmacies to LED lighting each year and take steps to reduce costs.



HR Strategy

Recognizing the people who support the Group to be a vital management resource, Nihon Chouzai has positioned fostering and utilizing a diverse workforce as a material issue for the Group. We are pursuing measures to enhance employee value and contribute to sustainable corporate growth, including hiring, training, evaluating, and engaging employees, initiatives in which we actively invest.

Managing Human Resources and the Organization



Hiring

Securing pharmacists and other talent is vitally important to our ability to offer high-quality pharmacy services and enhance the competitive strategies needed to expand the organization. To navigate changes in the business environment in Japan stemming from regulatory revisions and restructuring of the pharmacy industry, we are focusing on reinforcing our framework for hiring new graduates and mid-career employees, including pharmacists, registered dietitians, medical office workers, and administrative staff.

Reinforcing Recruitment of 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.

Popularity ranking among job-seeking graduates Mynavi/Nikkei survey 2024

FY2023
335
new hires

Nihon Chouzai ranked **No. 1** in the pharmacy/drugstore sector in four categories

Winning Four Crowns Two Years in a Row

Healthcare/welfare/
pharmacy majors:
Science majors overall:
Chemistry/
pharmacology majors:
Female science majors:

No. 1

Administrative Departments

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.

Development

In the mainstay Dispensing Pharmacy Business, to fulfill its mission to be healthcare professionals, Nihon Chouzai is working to develop personnel who have a patient-centered perspective and a high degree of expertise. We have expanded the organization by opening multiple pharmacies across Japan. We therefore see it as a key management issue to seek to strengthen the human capital needed to manage the organization and continue to cultivate the next generation of leaders who can guide this process.

Cultivating Highly Specialized Pharmacists

Strengthening training of increasingly in-demand specialized pharmacists: Setting Nihon Chouzai apart

Having already achieved the goal of recruiting high-quality pharmacists, the Dispensing Pharmacy Business is moving to the next step: offering high-quality education. We launched the Pharmacist Stage evaluation system in April 2018. Under this system, we encourage employees to acquire in-house certification and offer full support to this end, preparing them for the next step of obtaining more advanced outside certification. Acquiring outside certification requires not only pharmacy experience but also hospital-based training. More than 50 of our pharmacists undergo such clinical training every year.

Developing Leadership Talent

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

Mid-career employee training / IT training / Evaluator training / Talent management

See the link for details: <https://www.nicho.co.jp/en/sustainability/esg/human/>

TOPIC / Mitsuhashi Business Academy Opens

A Project to Work Out the Future of Nihon Chouzai

In this inaugural project aiming to cultivate the next generation of management for the Group, President Mitsuhashi headed up an academy, made up of nine members selected from various departments throughout the Group, who came together to work out the future of Nihon Chouzai. Running for about half a year, the project included weekly study sessions and a retreat. In the first half of the learning period, the academy brought in lecturers from both inside and outside the Group to speak, while participants also read books together. Learning activities allowed participants to gain a better understanding of the Nihon Chouzai Group and of conditions in the pharmacy industry and beyond and a firmer grasp issues facing the Group. They also shared opinions on the future the Nippon Chouzai Group seeks to create.

Moving then into the planning stage, starting with proposals offered by each member, eventually more than 200 proposals were put forward. Participants then sought to narrow down these proposals and held repeated discussions as they worked to finalize the plan. Ultimately, they released five recommendations and shared opinions on these with Group executives. The Group will now move forward with specific considerations of how to put the recommendations in practice.

Evaluation

Nihon Chouzai has established its own in-house system, the Pharmacist Stage System JP-STAR, to evaluate and promote the specialized expertise of pharmacists with regard to their knowledge and skills. Requirements for advancing to the next stage include obtaining in-house certification by disease type for the five major diseases prioritized by the Japanese government, as well as eight areas, including palliative care, at-home medical care, and dementia. Outside specialized pharmacist qualification is also required for the higher stages. By evaluating the advanced knowledge, skills, and attitudes of pharmacists, the system facilitates a greater degree of motivation and enhanced skills.

Engagement

■ Surveys

With the aim of building a more robust organization and fostering employee growth over the longer term, we regularly take stock of employee engagement levels. Seeking to increase engagement, we are attentive to factors that foster loyalty, and are working to spread awareness of the Group philosophy, create opportunities for dialogue with management, and revise the personnel system.

In an engagement survey conducted in 2022, the lack of opportunities for communication due to the pandemic emerged as an issue. On the other hand, the results

indicated a high level of willingness to contribute to the work and a high level of confidence in management.

Based on these results, managers are now holding regular one-on-one meetings with their teams to intentionally ensure opportunities for communication with a view to career development and goal achievement for each employee. At the head office, we held a panel discussion involving the heads of each division with the aim of deepening mutual understanding between departments.

■ Efforts 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

- The President and CEO writes a blog to send out messages linked to the Group philosophy, while the corporate intranet has a "Branding Communication" corner expressing the thinking of each executive on the Group philosophy and how it relates to the 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 take ownership of the Group philosophy

- A regular corner in the Group's in-house newsletter reports on a project in which employees talk about the philosophy in their own words.
- We appointed "brand activators" from each department to hold meetings to exchange opinions on the philosophy in each branch department and each supporting department.

■ Health Management

Nihon Chouzai believes that, along with risk management, employee safety and health are crucial, fundamental prerequisites for raising individual and organizational productivity. An organization where every employee works energetically is able to provide healthcare that is grounded in regional communities and offer medical services adapted to the changing times. Furthermore, convinced that maintaining healthy employees and a healthy organization will tie into the realization of the Group philosophy, we are strategically and systematically investing in health management. At the same time, recognizing the importance of supporting employees and their families, we are taking steps to improve the working environment both from the aspect of better systems that balance work with

the demands of illness, childcare, and long-term care, and in terms of gaining deeper understanding from the people with whom employees work. To this end, we are fostering a variety of working styles to suit different stages of life.

Health management initiatives

- Establishing standard values for employment based on regular medical check-up results and expanding outreach to high-risk individuals
- Enhancing primary prevention measures for the purpose of health promotion and disease prevention (interviews with medical professionals for all employees who are underweight or at risk of hypertension)
- Prohibiting on-premises smoking, including outdoors, at all business sites, and developing company-specific programs to support quitting smoking
- Regular distribution of original health-related videos, including by occupational doctors, public health nurses, and physical therapists, and implementation of health campaigns, such as breakfast and exercise campaigns
- Enhanced support for balancing medical treatment and work (certified by the Tokyo Metropolitan Government and Kanagawa Prefecture)
- Reinforcing work-related accident prevention activities

Health Management is a registered trademark of the NPO Kenko Keiei Kenkyukai.

■ Certified as a 2023 Health & Productivity Management Outstanding Organization in the large enterprise category

Following on from last year, Nihon Chouzai was again selected as a Health & Productivity Management Outstanding Organization in the large enterprise category, under the 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 initiatives.



■ Diversity and Inclusion (D&I)

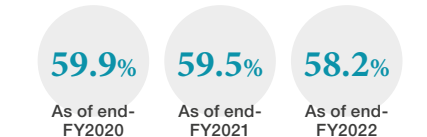
Mid-Career Hires

Attracting highly specialized talent from outside not only fills job vacancies—it helps us shore up the expertise of the organization as a whole and generate new and different value than is possible with existing employees alone. For this reason, we are focusing on hiring experienced employees as well as new graduates.

Ratio of mid-career to new graduate hires



Percentage of mid-career hires in managerial positions



Empowerment of Women in the Workplace

The percentage of female pharmacists has traditionally been high in Japan. About 70% of Nihon Chouzai pharmacists are female. For this reason, we are pursuing Group-wide initiatives to promote the active participation of women, including supporting the careers of our female employees and raising awareness among managers.

Action Plan

1 Increase the ratio of women in managerial positions* to over 13% (April 2022–March 2025)

As of March 2023:
Female manager ratio 10.8%
Female area manager ratio 17.5%

2 Increase the ratio of full-time male employees who take childcare leave to over 40%.

As of March 2023:
Male employees taking childcare leave 69.0%

Female employee ratio **70.3%**

Employees using reduced working hour system for childcare **594**

Rate of return from childcare leave **100%**

(as of end-March 2023)

Outside Recognition

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)

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 134 staff with disabilities, representing 2.69% of all employees (as of June 2023). This exceeds the statutory employment rate. We are actively seeking to hire more employees with disabilities while broadening the scope of potential job positions.

Initiatives <https://www.nicho.co.jp/en/sustainability/esg/human/>