

# Material Issue

## Six materiality groups Nihon Chouzai Group is addressing

The Nihon Chouzai Group has identified an array of material issues that will help us contribute to a sustainable society and continuously enhance corporate value. We broadly divided these issues into six materiality groups. Based on the issues, we are pursuing actions from the perspectives of both contributing through our business activities and strengthening our management foundation.

● 21 material issues
● Processes for identifying materiality

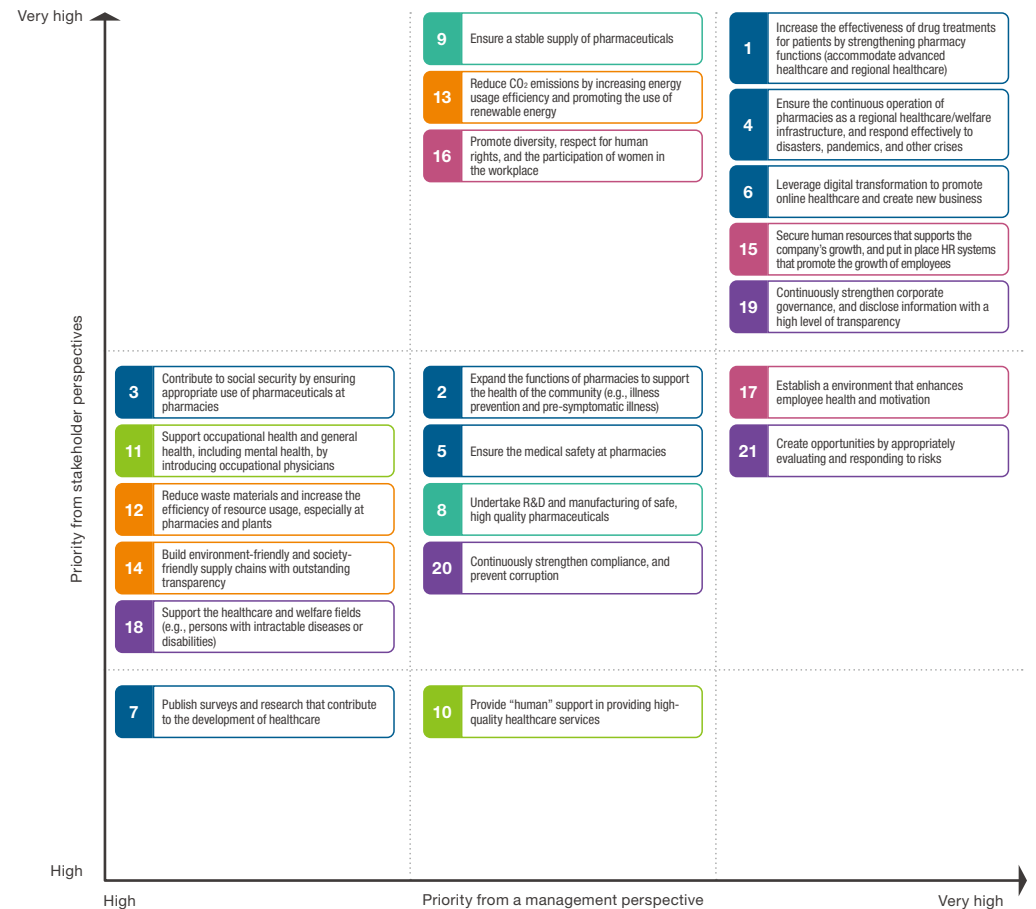
[Visit our sustainability site](https://www.nicho.co.jp/en/sustainability/materiality/)
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Materiality Group	Approach	Aim	Overview
<b>A</b> Healthcare quality and accessibility	Contributing through business activities	To build a society where everyone has access to high-quality medical care	We are working to strengthen pharmacy functions. Specifically, we aim to support advanced healthcare and regional healthcare as well as illness prevention and pre-symptomatic illness, contribute to social security by ensuring proper drug use, respond to disasters and ensure medical safety, leverage digital transformation to promote online healthcare and create new businesses, and engage in surveys and research.
<b>B</b> Quality and stable supply of pharmaceuticals		To build a society where everyone can use drugs without worry	We will research, develop, manufacture, and ensure the stable supply of high-quality, safe pharmaceuticals.
<b>C</b> Resolving human issues at healthcare institutions		To provide society with talent to support advanced healthcare	We aim to provide human resources to support high-quality healthcare services, and to support occupational health and health in general through the placement of occupational doctors.
<b>D</b> Contributing to a carbon neutral, circular economy	Strengthening our management foundation	To ensure a sustainable natural environment for future generations	We will reduce waste and engage in recycling, lower CO <sub>2</sub> emissions through the use of more efficient energy and renewable energy, and build environmentally and socially aware supply chains that ensure outstanding transparency.
<b>E</b> Fostering and utilizing a diverse workforce		To foster a corporate environment where all employees thrive	We will work to secure human resources to support the growth of the Group and put HR systems in place to further hone their capabilities. We will also promote respect for human rights, the empowerment of women in the workplace, and diversity, establishing a workplace environment that enhances employee health and motivation.
<b>F</b> Strengthening governance to fulfill social responsibilities		To become a socially responsible healthcare group	We will support the healthcare and welfare fields, such as for intractable diseases and disabilities, strengthen corporate governance and make transparent disclosure, stress compliance and prevent corruption, and create opportunities by appropriately assessing and responding to risks.

## Map of Materiality Priorities

### Materiality Group

- A** Healthcare quality and accessibility
- B** Quality and stable supply of pharmaceuticals
- C** Resolving human issues at healthcare institutions
- D** Contributing to a carbon neutral, circular economy
- E** Fostering and utilizing diverse workforce
- F** Strengthening governance to fulfill social responsibilities



# Sustainability Management

## Sustainability Strategy

The Nihon Chouzai Group positions sustainability as a key part of its management strategies for enhancing corporate value over the longer term and is taking action to help bring about a sustainable society.

We took steps in FY2023 to promote the cyclical use of resources as a way of lowering our environmental impact, including converting our pharmacies to LED lighting, recycling discarded blister packs in our Pharmaceutical Manufacturing and Sales Business, and introducing solar power generation at the Tsukuba Plant. As a result of such initiatives to address climate change and our progress in related disclosure, Nihon Chouzai has been selected for two years in a row 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.

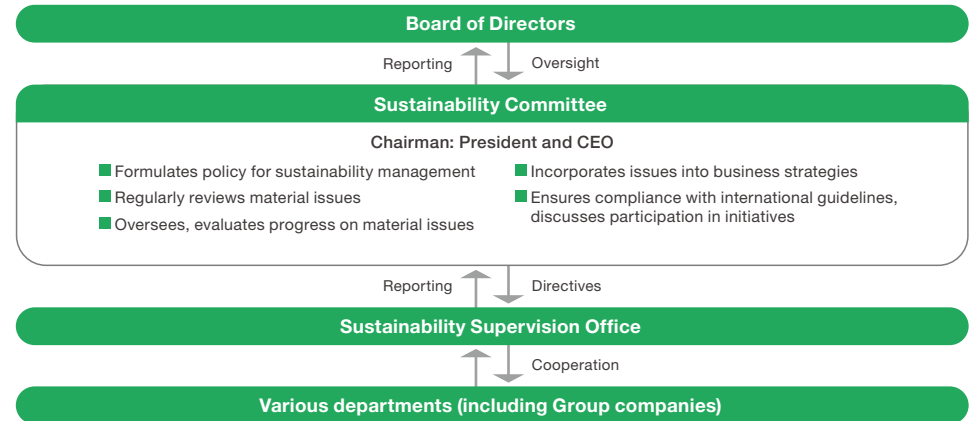
Longer-term actions will include setting performance indicators to help achieve sustainable growth and enhance corporate value, as well as further sustainability initiatives for the environment and in other areas, starting with measures to address climate change and contribute to a circular economy. As a healthcare group whose mission is to give people the closest possible support, we will continue to help address social issues while realizing corporate growth from a long-term perspective to meet stakeholder expectations.

### Sustainability Goals in Long-Term Vision 2035

Challenge	Target	Measures	FY2023 results
Climate change response	CO <sub>2</sub> reductions	<b>Scope 1, 2 intensity (compared to FY2020)</b> Dispensing Pharmacy Business: 30% reduction per pharmacy by FY2030 Pharmaceutical Manufacturing and Sales Business: 30% reduction per 100 million tablets produced Carbon neutral by FY2050	
		<b>Dispensing Pharmacy Business</b> ■ Converting pharmacies to LED lighting FY2023: 100 pharmacies FY2024: 200 pharmacies (planned) CO <sub>2</sub> reductions 29.9% decrease per pharmacy	
		<b>Pharmaceutical Manufacturing and Sales Business</b> ■ Solar panel installation ■ Introduction of carbon neutral utility gas CO <sub>2</sub> reductions Per 100 million tablets: 23.7% reduction	
Switch to renewable energy	Increase ratio of renewable energy	<b>Pharmaceutical Manufacturing and Sales Business</b> ■ In-house power generation ■ Switch to renewable energy Ratio of renewable energy 4.5%	
Contributing to a circular economy	Waste recycling	<b>Expanding recycling targets</b> Targets for mechanical recycling ■ Blister packs ■ Sludge ■ Collecting, recycling, and reusing waste ■ Use of fiber drums Treated waste volume/total waste volume ■ Blister packs: 25.0% (August 2023–March 2024) ■ Sludge: 27.3% (FY2023)	

## Sustainability framework

We pursue sustainability management in line with our basic sustainability policy. The Board of Directors makes decisions regarding material sustainability issues. We have also formed a Sustainability Committee that reports directly to the Board of Directors. Chaired by the President, this committee meets at least twice a year in principle to sum up and evaluate the progress of initiatives for identified material issues, incorporates these issues into business strategies, ensures compliance with international guidelines, discusses taking part in sustainability initiatives, and reports and makes recommendations to the Board of Directors as appropriate. We have also clearly defined various departments responsible for sustainability initiatives, including within Group companies, which are spearheading progress. The Sustainability Supervision Office is tasked with taking action with regard to sustainability issues. The office has established a framework to steadily move ahead with initiatives in conjunction with the various departments.



## Sustainability Committee Activities

### Sustainability Committee Activities (FY2023)

- Number of meetings: 3
- Main topics of discussion
  - Review of materiality performance indicators
  - Support for TCFD recommendations; calculation and disclosure of Scope 1, 2, and 3 emissions; and exploration of CO<sub>2</sub> reduction measures
  - Gap analysis of sustainability assessment
  - Revisions to Ethical Conduct Guidelines
  - Formulation of Human Rights Policy, Environmental Policy, and Basic Procurement Policy and Supplier Code of Conduct
  - Response to environmental and human rights risks
  - Human capital management

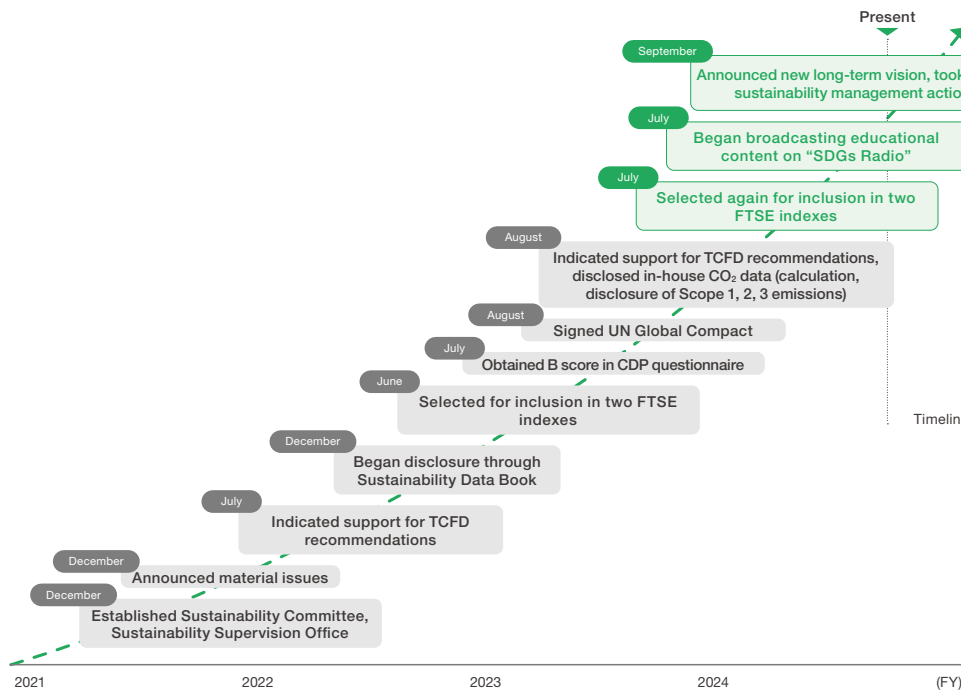
# Sustainability Management

## Sustainability Management Initiatives

### Sustainability roadmap and major future objectives

To continuously enhance corporate value and address societal demands, we are proactively augmenting our governance framework and making disclosure about human capital.

#### Initiatives to date



#### FY2024 Initiatives and Results

- Selected again for inclusion in FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index
- Broadcast educational content on "SDGs Radio"
- Announced new long-term vision, took further sustainability management actions

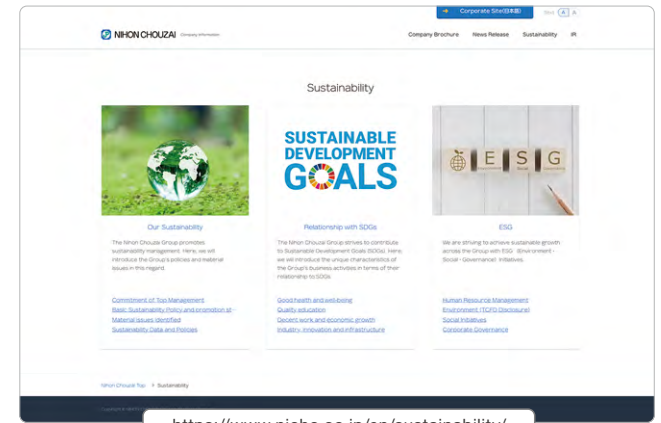
### Sustainability disclosure framework

We publish a Sustainability Data Book for the purpose of comprehensively disclosing sustainability information to stakeholders. For details on sustainability management, including our basic sustainability policy and promotion framework, please refer to the following.

#### Sustainability site content

- Commitment of Top Management
- Basic sustainability policy and promotion framework
- Material issues identified
- Sustainability data and policies
- Relationship with SDGs
- ESG initiatives

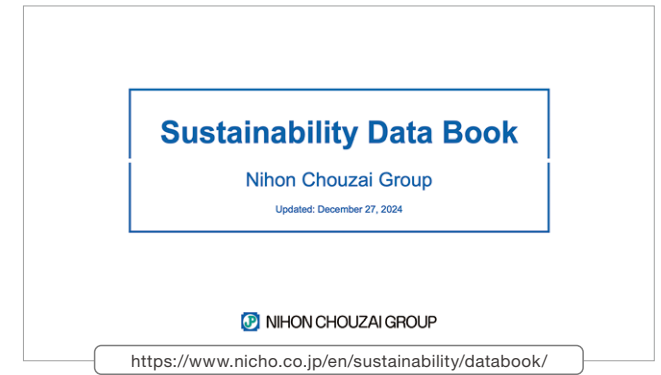
#### Sustainability website



#### Data Book Content

- Sustainability management
- Corporate Governance
- Compliance and risk management
- Environment
- Human rights and labor standards
- Supply chain management
- Responsibility to customers
- Local community relations

#### Sustainability Data Book



## Sustainability Management

### Special Feature

### D Initiatives to Contribute to a Carbon-Neutral Circular Economy

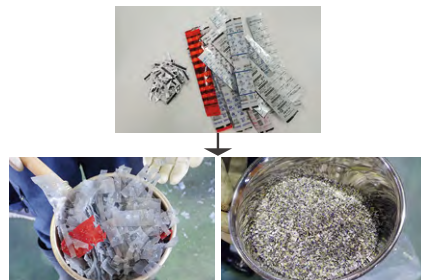
#### Mechanical recycling of blister packs

Nihon Generic is working with ORIX Eco Services, an industrial waste disposal company, to recycle blister packs, which are made from a single-layer plastic material. Formerly, blister packs that were no longer needed were disposed of as industrial waste and then incinerated, because it was impossible to separate the plastic and aluminum layers into a recyclable form. Now, drawing on a new technique and equipment that have been rolled out at ORIX Eco Services, it is possible to separate the plastic and aluminum layers of the packs. The plastic can then be used as a raw material for building materials and the aluminum can be melted down and reused in a variety of aluminum products.

Nihon Generic's Tsukuba Plant No. 2 discharged the equivalent of 29.5 tons of discarded blister packs in FY2023, all of which will now be eligible for recycling. Compared to the conventional incineration method, this approach is expected to reduce CO<sub>2</sub> emissions by around 90%.

12 Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
21,140 kilograms (August 2023–March 2024) (25% of total)	Expand number of participating plants



#### Mechanical recycling of sludge

Nihon Generic will also start recycling sludge materials in FY2024. Up until now, sludge generated in the drug manufacturing processes was discharged as industrial waste, incinerated at intermediate treatment facilities, and the residue was then disposed of in landfills at final treatment facilities. Now, by drawing on a new technique and equipment that have been rolled out at ORIX Environmental Resources Management, it is possible to recycle gas generated from the waste using a method of chemical recycling called pyrolysis-gasification reforming. Meanwhile, waste that has been dried and treated using pyrolysis and then melted (mechanical recycling) can be separated into slag, metal, metal hydroxide, and other materials and reused for roadbed materials and other applications. In FY2023, of the 30 tons of sludge discharged from Nihon Generic's Tsukuba Plant, nine tons of residue was disposed of in landfills after incineration. With the new recycling method, however, about 85% of waste will undergo chemical recycling (gasification) while around 15% will undergo mechanical recycling, yielding slag, metal, metal hydroxide, and other materials. This approach enables the complete recycling of sludge—it generates no incinerated or fly ash and no waste ends up in a landfill.

12 Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
46.59 tons (27.3% of total)	Expand number of participating plants



#### Adjustment of unused drugs

If patients receive a new prescription while still having unused medications at home, they may confuse the new and unused drugs and use them incorrectly. Likewise, they may take unused drugs 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 drugs 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 drugs by preparing memos explaining the situation for patients to give to the doctor directly at their next visit. Pharmacies also collect medications to be disposed of.

12 Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
Approximately 224.65 million yen	Implement schemes to reduce waste other than unused drugs

### Converting pharmacies to LED lighting

Nihon Chouzai has set a goal of reducing CO<sub>2</sub> emissions per pharmacy by 30% by FY2030 (compared to FY2020). After exploring various avenues toward achieving this goal, we opted to convert our pharmacies to LED lighting as one of several initiatives. We have adopted LED lighting in all new pharmacies opened since June 2016. Around 460 pharmacies that opened before that have not yet made the changeover. We will convert these locations to LED lighting in stages to reduce Scope 2 CO<sub>2</sub> emissions while working to cut electricity costs.

**13** Reduce CO<sub>2</sub> emissions by increasing energy usage efficiency and promoting the use of renewable energy

FY2023 results	Targets for FY2024 and beyond
Converted 97 pharmacies	Convert remaining 400 pharmacies to LED lighting in stages (200 in FY2024)



### Solar power generation

Nihon Generic's Tsukuba Plant has installed solar power generation equipment under a corporate power purchase agreement with Tokyo Century and Kyocera Communication Systems, an in-house power generation support service offered by these two companies in an effort to help achieve the SDGs. The use of renewable energy generated by solar power generation equipment installed on the grounds of the plant will reduce CO<sub>2</sub> emissions by approximately 347.1 tons-CO<sub>2</sub> per year (estimate for the first year of operation). Tokyo Century and Kyocera Communication Systems are covering the startup costs and procedures for this service. In addition, Tokyo Century will donate a portion of the service fees paid by the Tsukuba Plant to NPOs and other organizations taking action to achieve the SDGs.

**13** Reduce CO<sub>2</sub> emissions by increasing energy usage efficiency and promoting the use of renewable energy



### Scaling down the number of wholesale deliveries

In April 2023, Nihon Chouzai began coordinating with drug wholesalers to scale down the number of drug deliveries to pharmacies. We have harnessed the strengths of our pharmacy chain to conduct more streamlined inventory management, reducing the number of deliveries from two or three times a day to once a day, thus achieving lower CO<sub>2</sub> emissions and more efficient operations. We will continue to engage with business partners to optimize the supply chain.

**14** Build environment-friendly and society-friendly supply chains with outstanding transparency

FY2023 results	Targets for FY2024 and beyond
Launched initiative to scale down deliveries from two or three times a day to once	Expand initiative, achieve more optimal order quantities