



SUNDRUG

Integrated Report 2022

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Management philosophy

## Illuminate a corner of the world.

We hold high standards and start immediately from what we can do right at the moment.

By making each and every individual shine, we try to illuminate even just one corner of the world.

We hope that as our friends grow and our small lights come together, they will become a bigger light.



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## Editorial policy

The Integrated Report 2022 reports on the Group's business performance for the period covered and its efforts to create value over the medium- to long-term. It also links and explains our approach to sustainability as well as financial and non-financial information to help shareholders, investors, and other stakeholders better understand the Group and deepen dialogue.

## Applicable period

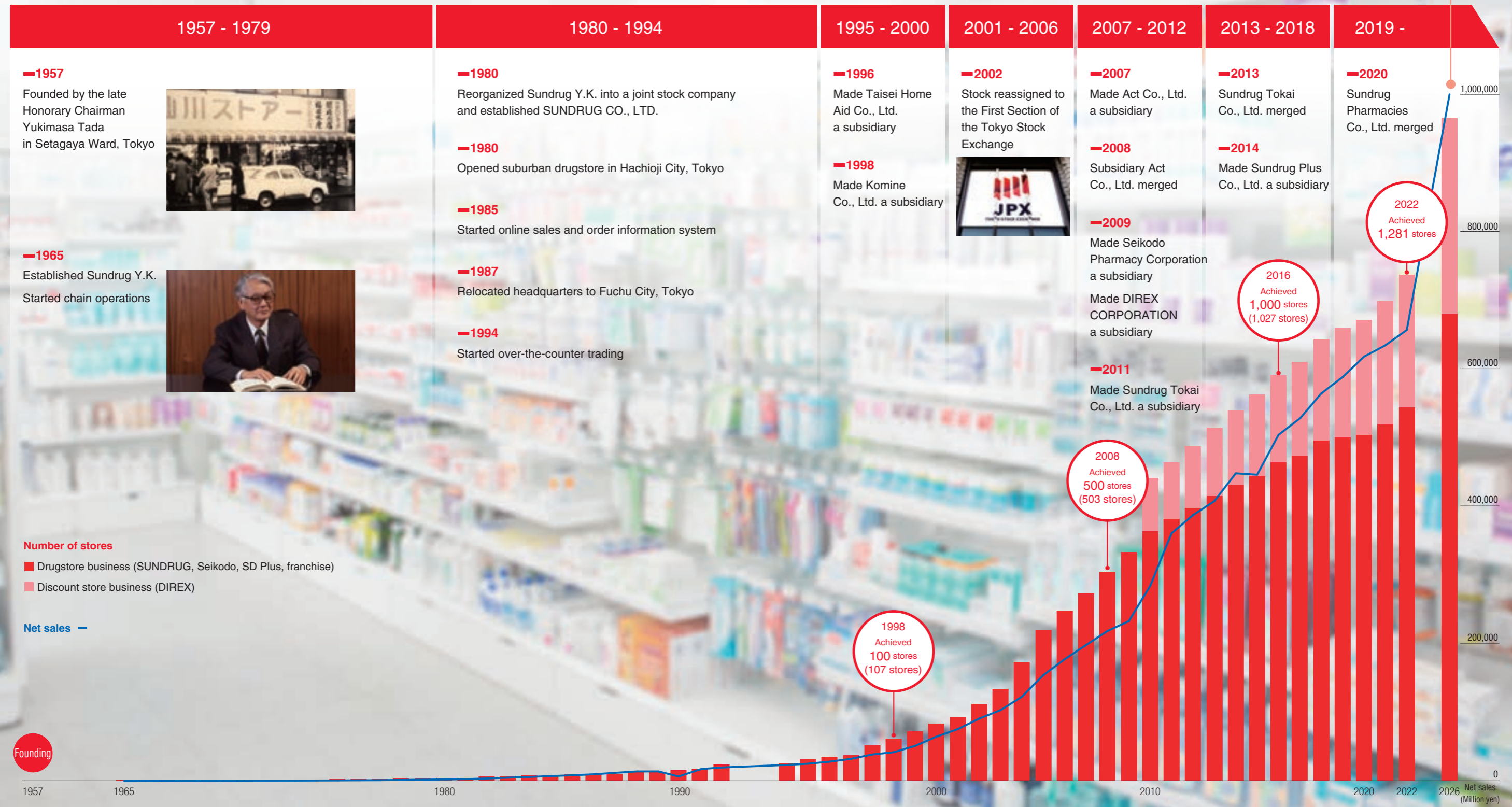
Some contents for the fiscal year ended March 31, 2022 (April 2021 - March 2022) include activities and forecasts before or after that period.

## Notes concerning forward-looking statements

The Integrated Report 2022 contains projections and forward-looking statements regarding the Group's plans and strategies for the future. These statements are not historical facts, but rather assumptions and beliefs based on information currently available. Actual results may differ from our projections due to risks and uncertainties associated with factors including future economic trends, consumer spending, market demand, and taxation.

## History of SUNDRUG

**Fiscal year ending March 31, 2026 (plan)**  
**Consolidated net sales ¥1 trillion**  
**Number of stores 1,750 stores**



### 1957 - 1979

**1957**  
 Founded by the late Honorary Chairman Yukimasa Tada in Setagaya Ward, Tokyo



**1965**  
 Established Sundrug Y.K. Started chain operations



### 1980 - 1994

**1980**  
 Reorganized Sundrug Y.K. into a joint stock company and established SUNDRUG CO., LTD.

**1980**  
 Opened suburban drugstore in Hachioji City, Tokyo

**1985**  
 Started online sales and order information system

**1987**  
 Relocated headquarters to Fuchu City, Tokyo

**1994**  
 Started over-the-counter trading

### 1995 - 2000

**1996**  
 Made Taisei Home Aid Co., Ltd. a subsidiary

**1998**  
 Made Komine Co., Ltd. a subsidiary

### 2001 - 2006

**2002**  
 Stock reassigned to the First Section of the Tokyo Stock Exchange



### 2007 - 2012

**2007**  
 Made Act Co., Ltd. a subsidiary

**2008**  
 Subsidiary Act Co., Ltd. merged

**2009**  
 Made Seikodo Pharmacy Corporation a subsidiary  
 Made DIREX CORPORATION a subsidiary

**2011**  
 Made Sundrug Tokai Co., Ltd. a subsidiary

### 2013 - 2018

**2013**  
 Sundrug Tokai Co., Ltd. merged

**2014**  
 Made Sundrug Plus Co., Ltd. a subsidiary

### 2019 -

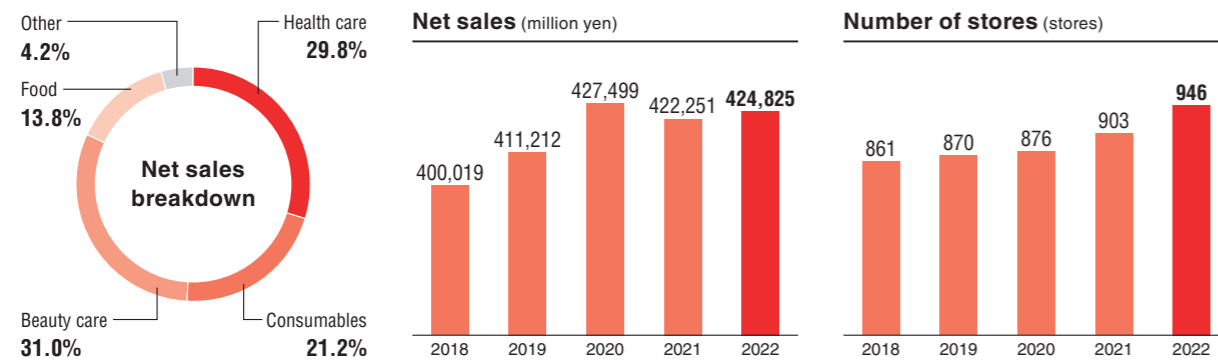
**2020**  
 Sundrug Pharmacies Co., Ltd. merged

**Number of stores**  
 ■ Drugstore business (SUNDRUG, Seikodo, SD Plus, franchise)  
 ■ Discount store business (DIREX)

**Net sales** —



## Two businesses



### Drugstore business

Under the motto of “safety, reliance and convenience,” the Group provides value-added products (pharmaceuticals) by offering a broad product lineup, providing customers with health counseling by professional staff, and offering detailed explanations about illnesses and medicines.

As a unique initiative in the industry, we have a “two lines per store system, with two roles” dividing

store staff into two groups: counseling and sales staff and operational staff. By dividing specialized work, we provide greater safety, reliance and convenience to our customers.

We are expanding nationwide based on efficient store operations, product supply systems, and advanced human resource training systems.

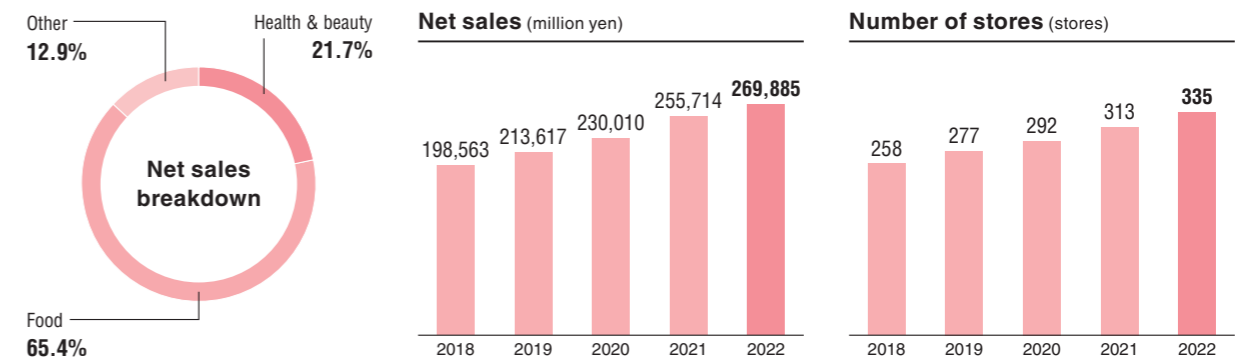
### Dispensing pharmacy business

The Group’s dispensing pharmacy business consists of two types of dispensing pharmacies: family care drugstore pharmacies and dispensing specialty pharmacies located near large hospitals, which are uniquely operated as educational institutions that provide services and train pharmacists.

As society ages and interest in health gradually increases, drugstores are expected not only to sell products but also to become a familiar presence for

local customers as home doctors for customers and provide comprehensive health management services.

The Group promotes highly specialized local family care drugstore pharmacies by training pharmacists with advanced dispensing skills, knowledge of a wide range of pharmaceuticals including over-the-counter drugs, and excellent communication skills to provide counseling from the customer’s perspective.



### Discount store business

Our discount store business handles a wide range of products, including 25,000 items of necessities such as food, daily necessities, clothing, cosmetics, home appliances, car accessories, sporting and leisure goods, and alcoholic beverages.

The basis of our pricing strategy is to offer products at lower prices at all times, and the key point is to maintain these low prices at all times (Everyday Low Prices) not just for specific featured products but for all products.

### Responding to customer needs

**DIREX is expanding its store openings nationwide with the goal of opening 1,500 stores.**

DIREX is currently operating a nationwide network of discount, drug, and fresh food integrated stores. We aim to be a discounter convenient for daily life.

We are currently developing new types of stores that combine the elements of a drugstore and a supermarket into a discount store, as well as community-based stores that meet local needs and offer the most necessary products for daily life at a lower price than anywhere else.



## Materiality

The Group has identified material issues (materiality) to prioritize in order to fulfil its social and economic role as a social entity.

### Process to determine material issues

<b>STEP 1</b> Management policy	<ul style="list-style-type: none"> <li>Management philosophy: "Illuminate a corner of the world"</li> <li>Management stance "Benefits for all"</li> </ul>	<ul style="list-style-type: none"> <li>Management mission "Providing safety, reliance and convenience"</li> <li>Management means "Think one step ahead and act half a step ahead"</li> </ul>
<b>STEP 2</b> Analysis	<ul style="list-style-type: none"> <li>Current and future changes in social structure</li> </ul>	<ul style="list-style-type: none"> <li>Materiality and opportunities / risks in the management of the Group</li> </ul>
<b>STEP 3</b> Identification	<ul style="list-style-type: none"> <li>SDG framework and standards</li> <li>SDGs</li> </ul>	<ul style="list-style-type: none"> <li>GRI / ISO26000 / TCFD</li> </ul>
<b>STEP 4</b> Reference	<ul style="list-style-type: none"> <li>ESG Committee</li> <li>① Organizational governance</li> <li>② Human rights</li> <li>③ Labor practices</li> <li>④ Environment</li> <li>⑤ Participation in the community</li> <li>⑥ Fair operating practices</li> <li>⑦ Consumer issues</li> </ul>	
<b>STEP 5</b> Discussions and decisions	Board of Directors	Materiality

### Topics covered in the analysis

Risk and opportunity factors	Risks	Opportunities
Increase in natural disasters due to climate change	<ul style="list-style-type: none"> <li>Damage to stores and products on display due to major wind and flood damage</li> <li>Implementation of policies and regulations such as introduction of carbon pricing</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue opportunities due to increased sales of environmentally friendly products</li> <li>Enhancement of corporate brand value by handling environmentally friendly products</li> </ul>
Declining birthrate and aging society Declining population	<ul style="list-style-type: none"> <li>Decrease in revenues due to a decrease in the number of items purchased and an increase in sales of products with price appeal</li> <li>Decrease in customer traffic</li> <li>Increase in difficulty in securing human resources</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue opportunities by providing new services such as health support pharmacies and family care pharmacists</li> </ul>
Policy changes due to increased social security costs	<ul style="list-style-type: none"> <li>Decline in revenues due to reductions in drug prices and dispensing fees</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue opportunities due to shift to OTC drugs</li> </ul>
Diversity & inclusion	<ul style="list-style-type: none"> <li>Difficulty in securing human resources and increased outflow of human resources due to inadequate working environment and systems</li> </ul>	<ul style="list-style-type: none"> <li>Easier to secure diverse and talented human resources</li> <li>Improvement in reputation and corporate brand value among society and stakeholders</li> </ul>
Changes in consumer awareness and lifestyles	<ul style="list-style-type: none"> <li>Increase in operational costs due to diversified needs and increased product assortment</li> <li>Loss of incentive to visit stores and opportunities for growth due to delays in or misjudgment of responses to consumers</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue opportunities by offering products that are safe and quality-conscious, health-conscious, and in line with customer needs</li> <li>Improvement in reputation and corporate brand value among society and stakeholders</li> </ul>
Expanded use of IoT and digital technology	<ul style="list-style-type: none"> <li>Information system problems (system failure, network failure)</li> <li>Increase in reputation risk due to information leakage</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in operational costs associated with human labor, etc.</li> <li>Increase in frequency of purchases and spend per customer through use of data</li> <li>Increase in revenue opportunities by providing convenient shopping environments such as online, apps, etc.</li> </ul>
Occurrence of large-scale infectious diseases	<ul style="list-style-type: none"> <li>Decrease in flow of people and loss of consumption by overseas visitors to Japan</li> <li>Delays or loss of product availability due to supply chain disruptions</li> <li>Impact on store operations due to employee infection</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue opportunities through sales of hygiene products such as masks and sanitizing sprays</li> <li>Increase in revenue opportunities through sales of alcoholic beverages, groceries, and other eating-at-home products</li> </ul>
Social and local community relations	<ul style="list-style-type: none"> <li>Lack of social contribution activities and tenuous relationships with local communities could damage the motivation to visit stores and the corporate brand, resulting in a significant loss of growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining positive relationships with society and local communities and contributing to their healthy development could greatly foster trust and increase the number of fans</li> </ul>

### Five material issues, direction of initiatives, and examples of major initiatives

Material issues	Direction of initiatives	Examples of major initiatives
<p><b>E</b></p> <p>Promotion of environmental management</p> 	<ul style="list-style-type: none"> <li>Incorporate action on environmental conservation in all areas of management and contribute to the creation of a circular economy and society that fully and effectively utilizes resources and energy</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of energy efficiency in line with the voluntary environmental action plan</li> <li>Reduction of waste by reviewing procurement and disposal rules</li> <li>Expansion of environmentally-friendly private brand products</li> </ul>
<p><b>S</b></p> <p>Promotion of compliance management</p> 	<ul style="list-style-type: none"> <li>Take action based on the criteria of what is best for our customers, employees, shareholders, business partners, communities, society, and the global environment</li> <li>Promote fair and appropriate management with the values and ethics required of us as a company and business people who are members of society, going beyond legal compliance</li> </ul>	<ul style="list-style-type: none"> <li>Formulation and dissemination of the Corporate Code of Conduct</li> <li>Establishment and dissemination of the Code of Conduct for Business Partners</li> <li>Responsible procurement and sales activities from the customer's perspective</li> <li>Promotion of white logistics</li> </ul>
<p><b>S</b></p> <p>Establishment of satisfying working environment</p> 	<ul style="list-style-type: none"> <li>Develop workplaces in which human resources with diverse values from various backgrounds can be themselves and shine where they are</li> <li>Work to improve the competitiveness of the Company through active human resource investment, organizational reform, and enhancement of the personnel system to draw out the latent potential of each employee</li> </ul>	<ul style="list-style-type: none"> <li>Certified as an outstanding enterprise engaging in efforts to advance health and productivity management</li> <li>Promotion of health guidance in cooperation with health insurance associations</li> <li>Expansion of systems and rules for work styles</li> <li>Strengthening training of female manager candidates</li> </ul>
<p><b>S</b></p> <p>Contribution to healthy, rich lives</p> 	<ul style="list-style-type: none"> <li>Work to propose and provide the healthcare products and services necessary for the daily lives of local customers, provide safety, reliance and convenience, and contribute to the creation of good cheer and fun in daily life</li> <li>Combine digital (ICT), physical (stores), and format (drugstores, discount stores, and new formats) to provide customers with new added value</li> </ul>	<ul style="list-style-type: none"> <li>Improving quality of customer service at all customer contact points</li> <li>Development of products and services that reflect customer feedback and lifestyles</li> <li>Development of business categories and business models that will open up opportunities in the new normal</li> </ul>
<p><b>G</b></p> <p>Promotion of governance management</p> 	<ul style="list-style-type: none"> <li>Apply various viewpoints to the management of the Board of Directors and enhance and strengthen the system for appropriately determining the overall direction of the Group and monitoring its implementation</li> <li>Properly manage a wide range of sustainability risks to simultaneously maximize opportunities and minimize threats</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate identification of risks, analysis and evaluation of business opportunities, and appropriate responses by the Board of Directors</li> <li>Disclosure of non-financial information and promotion of dialogue with stakeholders</li> <li>Strengthening IT governance and information security</li> </ul>

## Value creation process

The Group aims to be a valuable presence in the community by being a retailer that is in daily contact with customers, by having a mission as a drugstore that provides safety and security and a base for community health, and by operating stores in an environmentally friendly manner as a member of society that considers the future of the Earth.

## Corporate philosophy

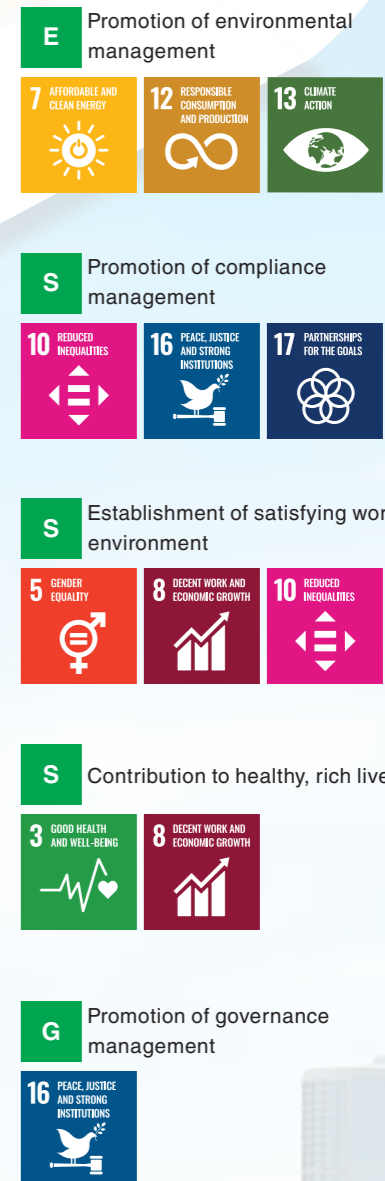
As a drugstore, dispensing pharmacy, cosmetics store, and variety store, we aim to realize "healthy, rich lives" for the Japanese people and contribute to the creation of "good cheer and fun in daily life."

### Changes in the external environment

- Increase in natural disasters due to climate change
- Declining birthrate and aging society, and declining population
- Policy changes due to increased social security costs
- Diversity & inclusion
- Changes in consumer awareness and lifestyles
- Expanded use of IoT and digital technology
- Occurrence of large-scale infectious diseases
- Local community relations

### Value provided to society

The Group is committed to providing value to its customers and society based on the following material issues.



### Vision

#### Significance of SUNDRUG's existence (Purpose)

- Gain the trust and satisfaction of our customers by providing valuable products
- Serving to realize safe, secure, healthy and rich lives

### Output

Fiscal 2022	Fiscal 2026
● Net sales ¥648,734 million	● Net sales ¥1 trillion
● Operating profit ¥34,052 million	● Operating profit ¥60.0 billion
● Operating profit ratio 5.2%	● Operating profit ratio 6.0%
● Number of stores 858 stores	● Number of stores 1,750 stores

### Corporate vision

#### Contributing to improving people's life experience through healthy, rich lives

- Environmentally friendly stores
- Stores that are easy to use for all generations
- Customer service with a peace of mind
- Satisfactory prices and product lineup
- Function as a drugstore
- Providing the roles of a health support pharmacy and family care pharmacist

#### Means of delivering value

- Drugstore
- Discount store
- Online store (e-commerce)
  - Expansion of store openings as physical stores
  - Expansion of e-commerce stores
  - Development of DX stores

#### Foundation for value creation

- Employees
  - Creation of a comfortable working environment
  - Expansion of training opportunities for employees
  - Supporting diverse work styles

#### Complementary functions for value creation

- IoT and DX
  - Investment in hardware and software
  - Support for and investment in human resources handling hardware and software

**Management foundation**  
Compliance and governance management

**Materiality**

#### Invested capital

##### Financial capital

- Total assets: ¥325.7 billion
- Net assets: ¥220.5 billion (As of March 31, 2022)

##### Human capital

- Number of Group employees: 14,239 (Full-time and part-time employees)

##### Manufacturing capital

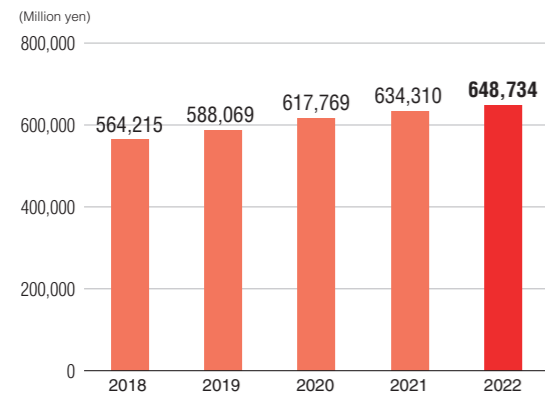
###### Stores

- Drugstore business: 946 stores
- Discount store business: 335 stores (As of March 31, 2022)

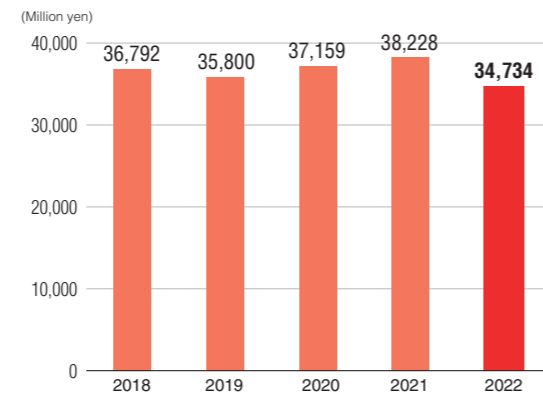
## Financial and non-financial highlights

### Financial performance

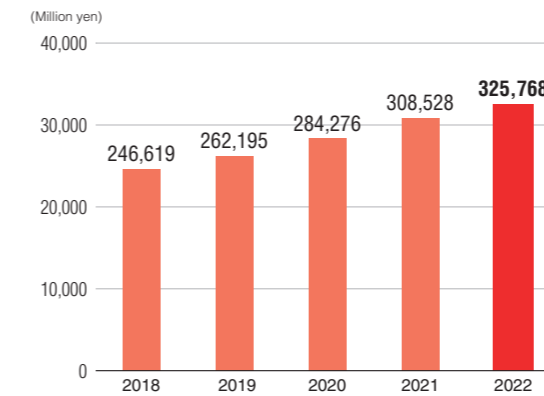
Net sales: **¥648,734 million**



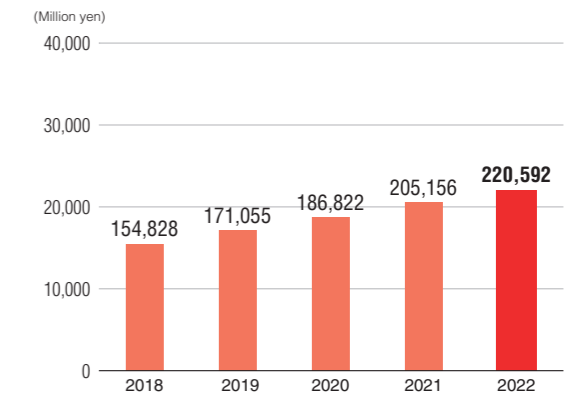
Ordinary profit: **¥34,734 million**



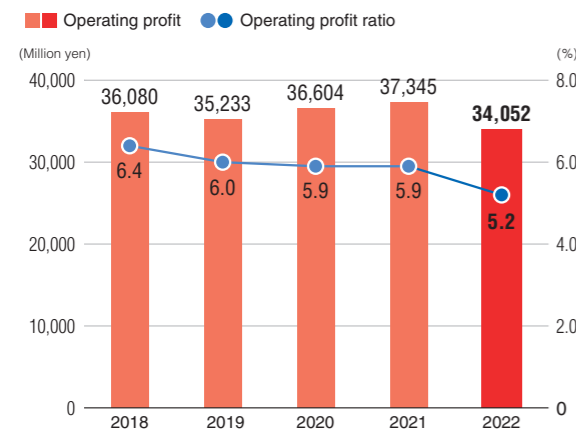
Total assets: **¥325,768 million**



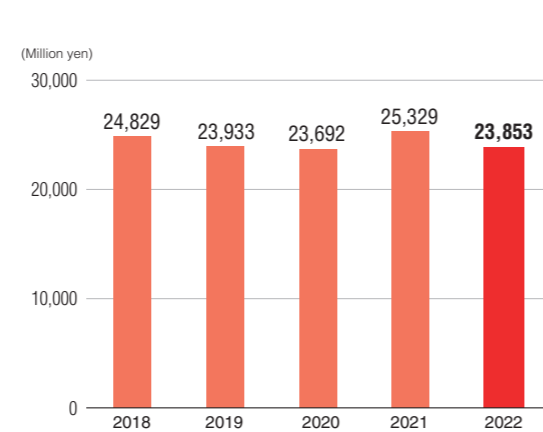
Net assets: **¥220,592 million**



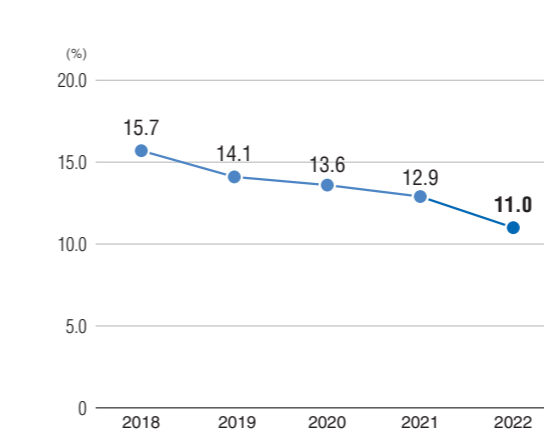
Operating profit: **¥34,052 million** Operating profit ratio: **5.2%**



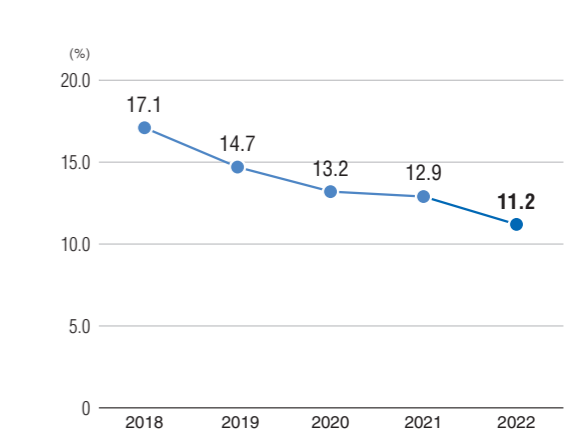
Profit attributable to owners of parent: **¥23,853 million**



ROA **11.0%**

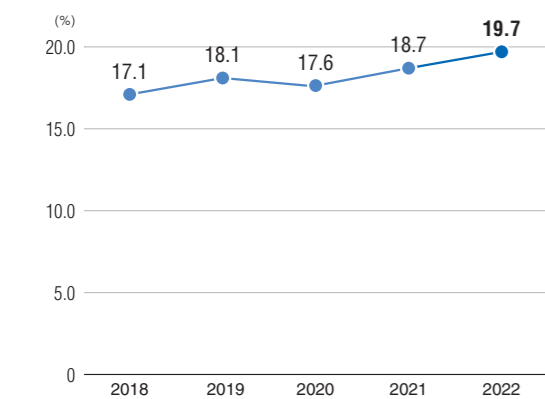


ROE **11.2%**

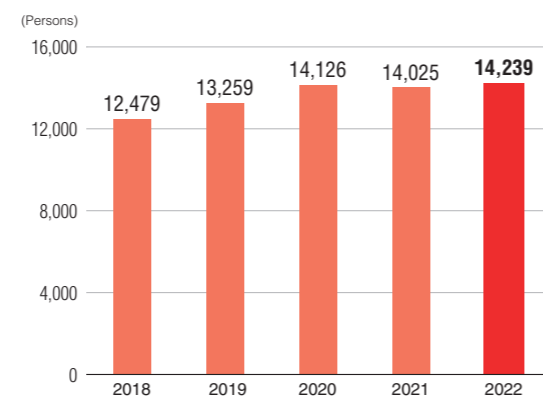


### Non-financial performance

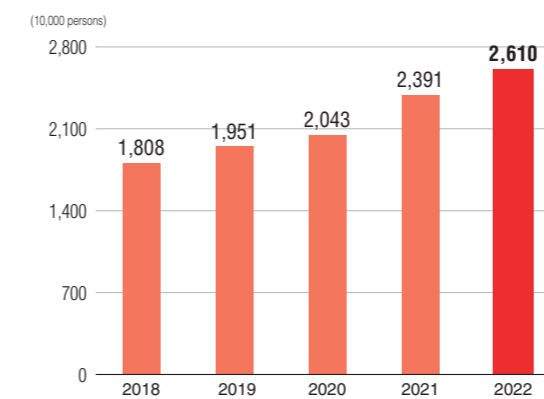
Ratio of female managers (SUNDRUG): **19.7%**



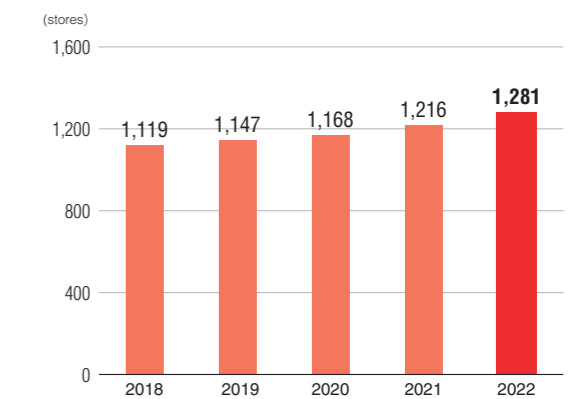
Number of employees: **14,239**



Number of Group card members: **26.1 million**



Number of stores: **1,281**





**Hiroshi Sadakata**

President and Representative Director

## Message from the President

**We respond swiftly to the changing social environment and continue to be a necessary part of people's lives.**

President and Representative Director Hiroshi Sadakata will discuss the Group's strengths, approach, and growth strategy.

### » What are the strengths of SUNDRUG?

#### **A well-balanced business and store development are the characteristics of our Group**

The SUNDRUG Group operates 1,281 stores (as of March 31, 2022) in 44 prefectures nationwide, centering around the drugstore SUNDRUG and discount store DIREX. Our drugstore and discount store businesses are characterized by a "good balance" in terms of store development, with suburban drugstores located along national highways and other major roads and station-front stores located in the center of shopping areas and in front of train stations.

I was appointed President and Representative Director of the Company in May 2019, after having served as a Director of the Company and President of DIREX. Since assuming the position of President, I have been working on a growth strategy that includes an aggressive strategy of opening new stores and strengthening the e-commerce and dispensing pharmacy businesses to achieve an even more balanced business model. Coincidentally, the year following my appointment, we were affected by the spread of a mood of self-restraint among customers and the decline in inbound demand due to the spread of COVID-19. However, we now feel that the measures taken over the past three years are steadily beginning to produce results.

As an example, the number of new store openings, which was around 50 stores per year before the COVID-19 pandemic, has increased from 69 stores to 84 stores in the past two fiscal years, and expected to reach a triple-digit number of 100 stores in the plan for the fiscal year ending March 31, 2023. Generally, companies in the drugstore industry specialize in either station-front stores or suburban stores. However, as I mentioned earlier, our businesses are characterized by a good-balance store development. We exceed in both station-front stores and suburban stores, including station-front,

shopping area and downtown stores where sales of general pharmaceuticals and other health products are the mainstay, suburban standalone stores with enhanced food sales, and complex stores with local supermarkets that provide enhanced sales of household goods. Furthermore, the discount store DIREX offers a wide range of products from daily commodities, clothing, fresh food, home appliances, and household goods to meet the needs of areas with a relatively low population density as a one-stop store. The key to this diverse store development is the store development staff. Although it takes about two years to train staff to a level where they can sign a contract for one store, we believe that the fact that we are now looking to open 100 stores is the result of our efforts to train personnel involved in development and increase the number of staff in order to focus on collecting property information, which we have started before the COVID-19 pandemic.

### » Overview of the fiscal year ended March 31, 2022

#### **Although a reactionary decline in stay-at-home demand affected results, we proceeded with planned store openings and renovations**

For the fiscal year ended March 31, 2022, net sales were ¥648.7 billion (up 2.3% YoY) and operating profit was ¥34.0 billion (down 8.8% YoY). By business segment, the drugstore business posted increase in sales but decrease in profit, while the discount store business posted increases in sales and profit, although lower than planned. In both businesses, sales at existing stores were impacted by the reactionary decline in stay-at-home demand related to the spread of COVID-19.

Reviewing the drugstore business, in the fiscal year ended March 31, 2021, when the COVID-19 pandemic began, inbound demand from overseas disappeared, especially in



downtown areas, and sales at station-front stores declined, while suburban stores experienced an increase in sales of food products and infectious disease prevention products such as alcohol disinfectants and hand soaps, creating so-called "stay-at-home demand." In the fiscal year ended March 31, 2022, sales at station-front stores continued to be weak, and although sales of infectious disease prevention products at suburban stores were stronger than before the COVID-19 pandemic, a larger than expected reactionary decline had a significant impact on results.

On the other hand, selling, general and administrative expenses increased from the previous year due to aggressive opening of new stores, mainly independent suburban stores, and large-scale renovations, but this increase in selling, general and administrative expenses was within expectations and lower than the planned expense figures. Store remodeling expenses decreased to approximately ¥1.4 billion in the fiscal year ended March 31, 2021 due to the avoidance of dense crowding of construction workers and other people due to the COVID-19 pandemic, but returned to normal levels before the COVID-19 pandemic in the fiscal year ended March 31, 2022 at approximately ¥3.0 billion, and are planned at the same level for the fiscal year ending March 31, 2023. In addition to renovations due to aging, we are also strengthening our efforts to renovate the fresh food, frozen food, and other food product sales areas in suburban stores, and in the fiscal year ended March 31, 2022, we renovated the fresh food sections of approximately 90 stores. Meanwhile, with an eye on the future, we plan to continue with our well-balanced store openings of station-front stores and suburban stores.

» Business strategy

**We are working to strengthen our e-commerce and dispensing pharmacy businesses from a customer-oriented perspective**

We are currently working to strengthen our e-commerce and dispensing pharmacy businesses as we pursue our growth strategy. As we operate our business, we do not believe that we are in a position to choose our customers, saying that "We want to target these regions and customers," to strengthen our business. It is natural that customer needs vary by location, resulting in the need for a variety of stores and business types. Our basic policy is to be sensitive to what our customers really want and to support various purchasing channels. The strengthening of our e-commerce and dispensing pharmacy businesses is part of this policy.

Currently, in the market environment for the e-commerce business, the online sales industry far exceeds the size of the drugstore industry. In addition to our SUNDRUG e-shop site, we already have domestic store sites on major internet shopping sites such as Rakuten, Yahoo!, and amazon, and we also sell our products on cross-border e-commerce sites such as Tmall Global.

Furthermore, we have now hired a full-time e-commerce business specialist from outside the Company in order to significantly grow our e-commerce business starting in 2023. In addition to increasing the number of products handled and sales channels, the Company will increase overall convenience and customer satisfaction by integrating its real stores with its online sales sites, for example, by allowing customers to use the Company's point service for online sales and to receive products purchased online at a nearby physical store. We are also working with major delivery companies to improve logistics efficiency and control delivery costs. It is expected that customers will use online shopping even more routinely going forward. In the future, we intend to increase e-commerce business sales to about 20% of total sales and grow the e-commerce business as one of our strengths.

**We are systematically hiring and training pharmacists and accelerating the opening of dispensing pharmacies**

In the dispensing pharmacy business, we are strengthening efforts to meet the demand for dispensing medicine in an aging society. In terms of demand for pharmaceutical dispensing, there has been a change in customer thinking, and an increasing number of customers are moving away from pharmacies located right in front of facilities such as hospitals to supermarket annexed stores, in order to shop and receive their medications more efficiently, while taking precautions against COVID-19. As of March 31, 2022, the Company operates 115 dispensing pharmacies (including 31 standalone pharmacies and 84 drugstore pharmacies), and plans to open an additional 26 stores, mainly drugstore pharmacies, in the fiscal year ending March 31, 2023.

As is the case with store opening staff, the recruitment and training of pharmacists are key to the opening and expansion of dispensing pharmacies. It takes at least one and a half years for a newly hired graduate pharmacist to be able to prescribe drugs as a full-fledged pharmacist. However, we have increased the hiring of pharmacists since I became President, and after about three years, many of our pharmacists have grown to the point where we can add 20 to 40 stores per year. In terms of the hiring of pharmacists, while

medical institutions have tended to curb hiring due to the COVID-19 pandemic, the Company's stores are performing well in hiring thanks to the fact that pharmacists can choose between over-the-counter (OTC) operations and dispensing operations, and the fact that we have established a training environment where pharmacists can enhance their skills, including through e-learning programs.

Recently, there has been a review of basic dispensing fees for large chain pharmacies with more than 300 stores in the same group, and in the future it will be even more important to respond to the additional fee system for community support that evaluates the results of contributions to community healthcare. It will still take time for us to reach the standard of 300 pharmacies as we are reaching the standard of 100 in the current fiscal year, but we will continue to work with local medical care from the perspective of creating pharmacies that provide value to customers and maintaining a stable revenue base in the dispensing pharmacy business.

**Successful strategy begins with facing the person in front of you**

I have come to believe that facing the on-site situation is more important than anything else, and I feel that this is largely due to my experience of concurrently serving as President of our subsidiary, DIREX, since June 2014. We acquired DIREX in December 2009 and now operate DIREX discount stores mainly in the Kyushu area, and also in Shikoku and Chugoku areas. We are proud to be one of the few cases in the drugstore industry that has successfully acquired a company in a different industry. The factor that made this successful was simply to implement the pre-acquisition business strategy as planned, together with the subsidiary's management and employees. The purpose of M&A is not for the parent company to control the acquired company, but to provide better store services to customers. In order to respect and encourage the motivation and initiative of the subsidiary's management and

● Promoting sustainable management

Category		Progress so far	Outlook
E	Promotion of environmental management	<ul style="list-style-type: none"> <li>Introduced environmentally friendly private brand products</li> <li>Reduced food waste, started building a recycling model</li> </ul>	<ul style="list-style-type: none"> <li>Introduce solar power generation and renewable energy</li> <li>Set targets and implement measures to reduce CO<sub>2</sub> emissions with business partners</li> </ul>
S	Promotion of compliance management	<ul style="list-style-type: none"> <li>Established the Code of Conduct, Human Rights Policy, etc.</li> <li>Expanded training content and opportunities</li> <li>Started human rights due diligence, CSR procurement</li> </ul>	<ul style="list-style-type: none"> <li>Promote white logistics</li> <li>Reinforce operation of whistle-blowing system</li> <li>Inculcate human rights due diligence, CSR procurement</li> </ul>
S	Establishment of satisfying working environment	<ul style="list-style-type: none"> <li>Improved systems for flexible working styles (regional employees, variable Working Hours System)</li> <li>Formulated the Declaration on Health</li> </ul>	<ul style="list-style-type: none"> <li>Encourage employees to take childcare leave and paid leave</li> <li>Enhance women's advancement (training of managers and candidates for managerial positions)</li> </ul>
S	Contribution to healthy, rich lives	<ul style="list-style-type: none"> <li>Trained supporters for people who suffer from dementia</li> <li>Introduced buy online pick up in store (BOPIS) system (4 prefectures in the Kanto region)</li> </ul>	<ul style="list-style-type: none"> <li>Work closely with local governments / comprehensive community support centers</li> <li>Online drug administration guidance</li> </ul>
G	Promotion of governance management	<ul style="list-style-type: none"> <li>Disclosed non-financial information (launched new site and provided related data)</li> <li>Conducted analysis of climate-change risks</li> </ul>	<ul style="list-style-type: none"> <li>Reinforce information security (policies, training, systems)</li> <li>Publish Integrated Report</li> </ul>





employees, we need to face them, people who are in front of us, sincerely. I often use the phrase “reading the atmosphere,” and I feel that I have learned at DIREX to listen to the opinions of not only those within the Company, but also those outside the Company and our customers.

I believe that there are no shortcuts to success in business, and that the only way to achieve success is to face the reality in front of you and do what needs to be done. We are sometimes asked if it will become difficult to operate stores, given that Japan is an aging society and the population is declining. However, operations will not be difficult if you conduct a careful marketing study to identify the trading area and determine the store location, determine the store type according to population density, and provide the assortment of products and services needed by the customers of each store. For example, the Higashifuchu Shop, where the headquarters is located, requires services for customers of all ages, from those in their 20s to 40s and elderly customers. We also feel that if we thoroughly implement the basics, such as offering a professional pharmaceutical service for customers who come to store for dispensing medicine, and speedy service at the cash register for customers who are purchasing food and daily necessities, positive results will naturally follow.

Recently, it seems that many companies are expanding the scale of their business through M&A without any careful consideration. An M&A itself is not something to be denied, but as long as it is a business, we should carefully consider whether we can properly recover the acquisition funds and whether we can create value through our involvement. We believe that the most important thing is to face our customers, rather than being swayed by the current trends of the world.

### » ESG management

## We are working on important issues that are truly within reach, rather than taking an idealistic approach

Our basic stance is to support the daily lives of our customers in an age of the 100-year-life and to solve various issues in a society of health and longevity, with the aim of providing products of value and serving to enrich people's lives. Meanwhile, we are striving to practice sustainable management by linking ESG to our business strategies, as we see increased expectations for the role of corporations in solving environmental and social issues, such as conservation of the global environment, effective utilization of resources, and respect for human rights.

Specifically, under the Basic Policy on ESG Activities, we established the ESG Promotion Committee, which I chair, to identify material issues to be addressed and summarize related goals and themes to be tackled over the medium- to long-term. While identifying material issues, we paid particular attention to building up issues and measures that we can truly address, rather than unreachable ideals.

As for environmental management, we have completed the installation of LED lighting in all stores, and are currently installing adjustable fixtures that can reduce in-store lighting to approximately 30%, replacing refrigerated cases with the latest energy-saving types, and managing lighting in restrooms and break rooms. Amid soaring fuel costs and requests from electric power companies to conserve electricity, we are taking a pioneering approach.

One of the initiatives we are considering for the future is the creation of a system to reflect personal efforts that contribute to ESG, in our employee evaluations. We are considering the possibility of evaluating not only initiatives within the Company, but also initiatives close to home, such as refraining from purchasing bottled water at home. Even if a company sets out its intention to address the environment and other sustainability issues and conducts employee education, I feel that employees may feel that these issues are somewhat removed from their own personal lives. And so we are aiming for a system in which the Company encourages employees to make environmental contributions that they can implement in their daily lives. Because we do not have a manufacturing process like in the manufacturing industry, the scope of our environmental management is limited to our headquarters and stores. Nonetheless, we will continue to examine the scope of our environmental management to the extent that we can.

To create a satisfying working environment, in our case, store staff cannot work from home. However, we have received

Eruboshi certification as a company that promotes the active participation of women, and we are working daily on store reforms that make it easier for all employees to work, including the digitization of store operations. Going forward, we will further strive to improve diversity by promoting the use of childcare leave and paid leave and fostering female managers.

In relation to contributing to healthy, rich lives, since many elderly people visit our stores, we are required to protect the safety and security of our customers in a variety of situations. For this reason, all store manager-level staff are certified as dementia supporters. We will continue to further strengthen cooperation with local governments and comprehensive community support centers.

Compliance management and governance management have been strengthened and promoted with the cooperation of External Officers and outside experts, including the establishment of the Legal Division with support from External Directors. Going forward, we will work to address compliance related to business partners and a wide range of other stakeholders, including white logistics to reduce the burden on delivery drivers, and human rights due diligence and CSR procurement for the supply chain. On the governance front, we will work to strengthen information security.

### » To our stakeholders

## We will come face to face with our customers in front of us and respond flexibly

While the COVID-19 pandemic of the past few years has created a challenging business environment for us, including the disappearance of inbound demand, it has also brought about various insights. Although the number of customers varied from store to store, there was no end to the number of customers asking for food, masks, and disinfectant. We are determined to open stores no matter what the environment, and at the same time, we would like to support our customers by opening our stores as quickly as possible when they are in need, such as in times of disaster.

We also live in an era in which we do not know when unexpected contingencies will occur in the future, as can be seen in the COVID-19 pandemic and the Russia-Ukraine conflict. We believe that the important thing is to face our stakeholders, including customers, shareholders, investors, employees, and business partners, be sensitive to the global trends, and respond with flexibility.

The most important theme for returning profits to shareholders and investors is to steadily increase business

performance and continuously improve corporate value through the implementation of various measures. The dividend policy is to pay stable and continuous dividends, and we have added the policy of aiming for a dividend payout ratio of 50%. For cash on hand, while achieving a balance with investments in new store openings, system facilities, and other growth investments, we will consider share buybacks and other measures that will be beneficial to shareholders, investors and other stakeholders as appropriate.

When we think about the significance of the Company's existence, we realize that people's lives are only possible when society and the environment are sustained, and that we are needed only then. Currently, the Company is striving to strengthen its business strategy and management foundation with a view to catching up with and surpassing other companies in the industry, aiming for consolidated net sales of ¥1 trillion by the fiscal year ending March 31, 2026. By creating social and economic value that contributes to the realization of a sustainable society, we also intend to achieve sustainable growth and development and demonstrate our value to society. I would like to ask our shareholders, investors, employees, business partners, and all other stakeholders for their continued understanding and support of our company.

Please refer to the financial results presentation materials for details of the Medium-term Business Plan

<https://contents.xj-storage.jp/xcontents/99890/c315f206/b8af/427d/9058/dfa99126717f/20220602163949239s.pdf>



Please refer to our website for more information on our sustainability initiatives.

<https://www.sundrug.co.jp/en/sustainability>



# Management issues and Medium-term Business Plan



## Business format strategy

### Covering various purchasing channels, trading areas, and customer segments through the integration of business formats

By integrating our drugstore, dispensing pharmacy, discount store, e-commerce, and digital businesses, we will be able to cover various purchasing channels, trading areas, and customer segments, enabling us to achieve future scale expansion.



### Expansion of the number of store openings

Develop and expand stores in various formats to meet social conditions and customer demand

Challenges in store development	Countermeasures		
<b>Drugstore business</b> Initiatives to further increase the number of store openings	<b>Strengthening collection of property information</b>	<b>Promoting suburban store openings</b>	<b>Allocation of personnel to eastern Japan area</b>
<b>Discount store business</b> Acceleration of store openings in eastern Japan Development of new areas	<b>Increasing store development staff</b>	<b>Strengthening free-standing stores</b>	<b>Store openings in eastern Japan area</b>
	As of March 31, 2021: 37 As of March 31, 2022: 41 As of March 31, 2023: 53 (plan)	As of March 31, 2021: 14 As of March 31, 2022: 30 As of March 31, 2023: 35 (plan)	As of March 31, 2021: 4 As of March 31, 2022: 7 As of March 31, 2023: 9 (plan)
	*Cumulative total of 38 stores (expected)		

### Strengthening e-commerce business

Accommodating various purchasing channels

#### Expansion of e-commerce product lineup / expansion of sales channels

- Increase number of products
- December 2021: Store opened in JRE MALL
- September 2021: Sales agent outlet opened in Bibian online site
- Store opening planned for LAZADA

#### Expand in-store pickup service

- Expansion to Hokkaido, Kyushu, and Tohoku areas
- Launched Rakuten Ichiba and PayPay Mall services

#### Marketing

- Realize 1-to-1 marketing by integrating physical and virtual channels
- Develop social media presence and new channels

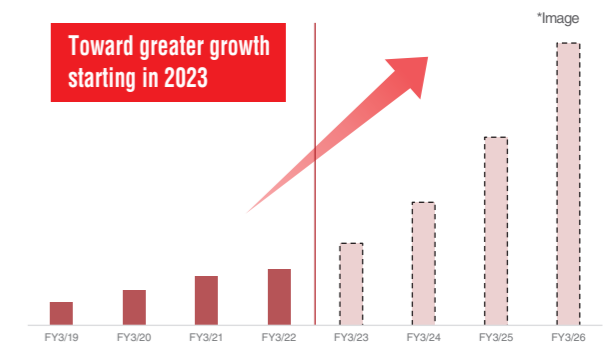
#### Improve logistics efficiency

- Yokohama / Fukuoka / Sapporo / Saitama / Sendai  
⇒ Plan to add another distribution site in the Kinki region

#### Improve customer satisfaction

- Customer satisfaction survey using NPS
- Improve website usability

#### Sales of the E-commerce business



#### Sites where we opened stores

- [Domestic sites]  
SUNDRUG e-shop / Rakuten Ichiba / Yahoo! / amazon / au Wowma! / JRE MALL
- [Cross-border e-commerce sites]  
Tmall Global / Bibian

### Toward greater growth

Further expand 1-to-1 marketing channels

Improve customer satisfaction  
Provide a seamless shopping experience

Improve productivity / strengthen organization  
Combine physical and virtual channels

### Strengthening dispensing pharmacy business

Initiatives to capture dispensing demand in Japan's aged society

#### Initiatives to open more dispensing pharmacies

##### Strengthening recruitment and promoting training to expand store openings

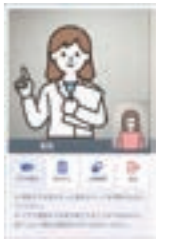
**Online drug administration guidance**  
Promoting introduction of online drug administration guidance system

**Establishment of follow-up system for drug administration**  
Confirmation of drug administration status for patients who require it

**Strengthening home medical care initiatives**  
Value of prescriptions received +41.6% YoY, number of visits +35.4% YoY

Promoting training and education of home-visiting pharmacists (internal certification system)

**Introducing LINE MINI app**  
Expansion of prescription transmission function



As of March 31, 2022

Number of standalone pharmacies: **31**

Number of drugstore pharmacies: **84**

# Strengthening of management foundation

## Promotion of digitalization

Promotion of further business growth by linking collected data to improve efficiency and realize optimization

Acquisition of customers by utilizing customer information collected from digital sales promotions such as via apps and social media

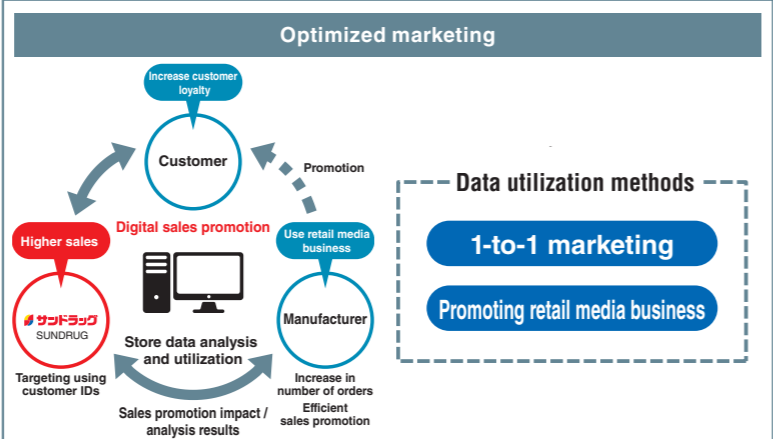
Number of SUNDRUG Group card members (as of March 31, 2022) **26.1 million**



- ### Digital sales promotion
- Online sales flyers
  - Online ads
  - Beacon
  - Digital signage
  - Proprietary app
  - LINE

**Digital-related sales**  
 Proportion of digital-related sales: **26.5%**  
 (+9.0 ppt YoY)  
 \*Drugstore business FY3/22 results

**Retail media business**  
 [Number of transactions] **+75.7% YoY**  
 [Net sales] **+314.5% YoY**



## Productivity improvement

Improve productivity and operational efficiency

### Introduction of electronic shelf labelling

#### STEP 1

Reduce in-store work of placing special sale sign cards, etc.

#### STEP 2

Streamlining of store operations through visualization of products subject to expiration date checks and visualization of store inventory, etc.

- FY3/22** Introduced at **20** stores
- FY3/23** Planned to be introduced at **100** stores
- Capital investment** Estimated total of roughly **¥25.0 billion**

#### Electronic shelf labelling



### Self-scan system

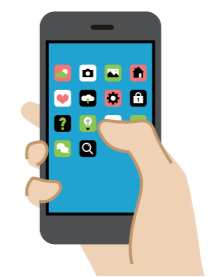
Smartphone apps for both customer convenience and productivity improvement

Trial to start in FY3/23

Reduction of waiting time for customers at the cash register and reduction of product registration time at the cash register

\*Promotion of non-contact transactions toward the new normal in the age of living with COVID-19

#### STEP 1



#### STEP 2



#### STEP 3



# Human resources development



## Two lines per store system, with two roles

Drugstores that sell pharmaceuticals have a great responsibility to safely conduct business that concerns health and life. At the same time, it is also important for a company to secure profits and pursue growth. Operations and the pharmaceutical / cosmetics specialty businesses both require highly specialized personnel, and each requires a different set of skills.

Therefore, SUNDRUG has adopted a unique two lines per store system in which specialized duties and store staff are divided into two groups: operations staff and counseling staff.

## The industry's best training system: 15-year training curriculum

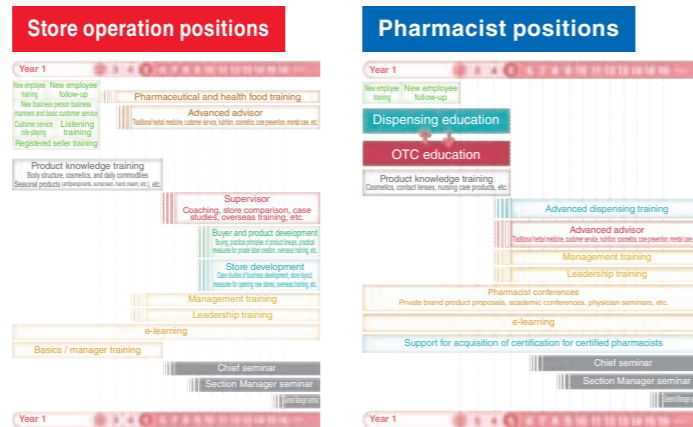
We have a 15-year training curriculum in order to nurture true professionals.

This program is said to be the best training system in the industry, with a detailed curriculum designed to meet each individual's career outlook and proficiency level, ranging from dispensing operations and OTC counseling to communication and management skills.

The program also covers training for overall operations such as staff management, in addition to product knowledge and customer service skills. After gaining experience of responsible roles at stores (on-site), and being assigned as headquarters staff at store management departments, product purchasing departments, store development departments, etc., training programs are provided in order to further refine business skills as professionals in each field.

As employees progress in their careers from newcomers to young and mid-career, our ample training system, which links both mind and body, supports pharmacists and leads them to become professionals.

In addition, after advancing to headquarters staff positions in the future, training in each specialized field will be provided. As a pharmacist in a nationwide company, employees will be involved in the healthy lives of people in Japan in an even bigger way.



## Linking the mind and body to establish live skills

At SUNDRUG, we emphasize the linkage between group training (Off-JT), in which knowledge is learned in a classroom setting away from the store, and on-the-job training (OJT), in which knowledge is learned through work in the store.

The content learned in group training during store operation training is communicated to store managers by the education staff to ensure that the knowledge learned can be put into practice on-site. In addition, the individual's training status is constantly monitored by both the store manager and the education manager, and guidance is provided according to their growth.

At stores, the store manager, who is responsible for operations, directly instructs the staff on store practices, and the supervisor instructs the store manager on overall operations management. By acquiring business knowledge that is obtained in knowledge education through actual

practice, we can create stores that are easy to work in and at the same time easy for customers to shop in.

In the group training that is part of sales knowledge training, employees will thoroughly learn pharmacology, physiology, pathology, how to recognize symptoms, how to select appropriate medicines, how to recommend medical examinations, how to treat patients, and other subjects. Furthermore, through discussions with peers, employees can deepen their understanding and acquire knowledge that they can apply to actual work.

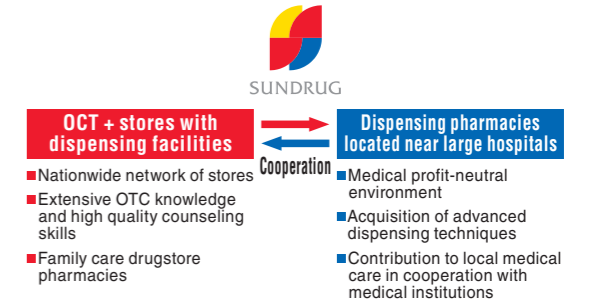
On-the-job training is aimed at putting such knowledge into practice. Based on what employees have learned in the group training, senior pharmacists will guide them on how to apply their knowledge in the field. We nurture pharmacists who can contribute to patients by linking the mind (knowledge education) with the body (on-the-job training).

## SUNDRUG's dispensing training

### Dispensing training

In an era when pharmacists work closely with each patient to provide total health support, it is important for pharmacists to understand all types of prescriptions and to be able to demonstrate a wide range of expertise in the field of OTC as well as dispensing.

Before working in a store with a dispensing facility, SUNDRUG pharmacists learn intensive dispensing skills in a dispensing pharmacy located near large hospitals with an excellent training environment.



### Operation policy emphasizing training

SUNDRUG dispensing pharmacies have an operating policy that focuses on training. In order to develop pharmacists who can handle any prescription in the future, it is essential for them to experience

prescriptions from a wide range of medical specialties. For this reason, the pharmacies where training is provided are located adjacent to general hospitals, medical malls, or medical buildings.

### Experience a variety of prescriptions to broaden scope as a pharmacist

Pharmacy operations vary widely depending on the medical specialties of nearby hospitals and the location of the store. For this reason, SUNDRUG's dispensing course provides pharmacists up to their third year of employment with store transfers within commuting distance at

intervals of six months to one year. Pharmacists who gain experience in different types of pharmacies and are able to handle all types of prescriptions can then grow into pharmacy directors or other positions of leadership who will supervise junior staff.

### Creating an appropriate size pharmacy as a dispensing training institute

SUNDRUG dispensing pharmacies have devised an environment in which pharmacists are assigned so that the number of prescriptions per pharmacist is held down to an appropriate level, enabling them to work closely with patients and participate in training. By continuing to nurture pharmacist professionals, the entire SUNDRUG Group will be able to provide quality medical care that allows patients to focus on treatment with a peace of mind. "We want to emphasize attentive customer service and training." This desire of SUNDRUG is reflected in our onsite environment.



### Regular seminars for systematic and up-to-date knowledge training

Seminars are held on average once a month at the training center for each proficiency class, providing training ranging from confirmation of the basics to key points

and the latest information on each subject. Participants can resolve their concerns on the spot and apply the knowledge to their work at the store the next day.

## Improving operations through employee opinions and ideas

### "Proposal meetings" to improve operations through employee opinions and ideas

At SUNDRUG, meetings to propose operational improvements to make store operations more efficient are held 10 times during the year. Employees who have been with the Company for two years or more and who work at the stores participate in these meetings, where they propose improvements they perceive in their daily work, leading to improved work efficiency at all SUNDRUG stores. If the proposed improvements are recognized at the meeting and verified as effective, they will be reflected in the Company's overall operations manual and incorporated as part of operations training. Each store employee, regardless of how long he or she has been with the Company, is involved in the creation of new company-wide manuals. At SUNDRUG, we value the opinions and ideas generated by our stores, and by making improvements based on solid verification, we aim to create stores that continue to be supported by local customers.



## Environment

With the aim of providing products of value and serving to enrich people's lives, the Group is committed to environmental management, including initiatives for a decarbonized society and the development of environmentally friendly products.

### SUNDRUG Group Environmental Policy

#### 1. Basic approach to the environment

Based on the belief that preservation of the global environment and protection of biodiversity are the foundation of human life and the source of our business activities, we have set environmental management as one of our material issues (materiality) and are promoting it strategically by integrating it into our management.

To put environmental management into practice, we have established an environmental policy and a voluntary environmental action plan to serve as the code of behavior for our various efforts. We take responsibility in all of our business fields and are working to solve environmental issues through our business activities while working together with various stakeholders.

#### 2. Environmental Policy

##### ① (Activity policy/target) Reduce environmental impact

We will use resources and energy efficiently and engage in business activities that have a low environmental impact at every stage of the supply chain.

##### ② (Product development/sales) Environmental consideration in product sales

We will promote planning and sales of products and services that take the environment into consideration not only in-house but also through collaboration and co-creation with our suppliers.

##### ③ (Promotion system) Development of promotion system

Recognizing the impact of our business activities on the environment, we will establish environmental objectives and targets and work on making continuous improvements.

##### ④ (Education/edification) Compliance

In addition to familiarizing all employees with the Environmental Policy, we will raise the environmental awareness of each employee to ensure compliance\*.

\* Aggregation and proper disposal of waste, chemical substances contained in products, Energy Saving Act (Act on Rationalizing Energy Use), Warming Countermeasures Act (Act on Promotion of Global Warming Countermeasures), etc.

##### ⑤ (Disclosures) Promotion of communication

We will provide regular internal and external reports on our environmental conservation activities to build good relationships with our stakeholders.

### Environmental Action Plan

#### 1. Basic policy

We aim to manage our business without causing a burden on the global environment and biodiversity by formulating and implementing an Environmental Action Plan based on the Group Environmental Policy.

We will also faithfully respond to new requests arising from changes in the times under the supervision of the President and other Directors.

#### 2. Code of conduct

- ① We will observe environmental laws and regulations, related agreements, etc.
- ② We will promote energy-saving activities and reduce consumption of electricity, gas, water, and other energy and wastes.
- ③ We will establish and regularly review targets for improving the environment and aim as an organization to sustainably reduce our environmental impact.
- ④ We will thoroughly familiarize our employees with this code of conduct and educate them to be human resources that act accordingly.

#### 3. Numerical targets

Reduce CO<sub>2</sub> emissions per floor area (total of Scope 1, 2, and 3) by 30% in the Group (in fiscal 2030, compared to fiscal 2013)

\* Targets are being formulated for water and waste

#### 4. Measures to implement

- ① Installation of solar panels
- ② Installation of efficient lighting, air conditioning, and refrigerators and freezers
- ③ Strengthen control of temperature settings and other energy management practices
- ④ Consider purchasing non-fossil certificates and renewable energy
- ⑤ Introduction of private label products that take into account energy, water, and waste
- ⑥ Improving employee awareness and knowledge of the environment and environmental management

### Consideration for the environment

#### 1. Protecting forests

##### ① Promotion of paperless/digital operations

The Group has, in principle, eliminated the distribution of paper copies of materials at meetings of the Board of Directors, internal meetings, and internal training. We are working to reduce paper consumption by promoting the sharing of digital copies of materials utilizing notebook PCs and tablets instead. We have also set to work on going paperless with forms related to logistics and purchasing and are working to increase the number of cooperating suppliers and penetration rate.

##### ② Use of certified paper

When preparing business reports and other documents for General Meetings of Shareholders, the Group uses Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification Schemes (PEFC) certified paper made from products (timber) produced without placing a significant burden on the environment or society.

##### ③ Protection/nurturing of forests and maintenance/conservation of biodiversity

The Group has been planting camellias in Goto City, Nagasaki Prefecture since 2011 for the purpose of protecting and nurturing forests, maintaining and conserving biodiversity, and contributing

to the reduction of CO<sub>2</sub> emissions. Since 2013, we have been planting cherry blossom trees, maple trees, and chestnut trees in Kofu City, Yamanashi Prefecture to make SUNDRUG Forest. Local governments, citizens and Group employees are cooperating in these activities. By continuing to work on these initiatives, we have raised awareness of social contribution and the environment among our employees and have also been able to network with local residents and non-profit organizations that are engaged in forest activities. Our policy is to continue expanding the regions and land area of these initiatives as we look ahead to the future.

#### 2. Controlling and reducing CO<sub>2</sub> emissions

##### ① Improvement of energy efficiency

The Group is working to create stores that incorporate various environmentally friendly technologies to reduce energy consumption. We are in the process of replacing the lights used at stores with LED lights. As of March 31, 2022, we have introduced LED lighting at around 90% of Group stores. Our plan is to complete the switch at all target stores in the next several years. In addition, air-conditioning equipment and refrigerators equipped with inverters that use CO<sub>2</sub> as a refrigerant and are highly energy efficient are being introduced at new stores. We are also in the process of updating existing stores where the equipment has become less efficient with age when renovating them. We are pursuing the possibilities of environmentally friendly stores, such as by installing windows for natural lighting in the storage and break rooms and using double-glazed glass offering high heat insulation.

We are working to reduce CO<sub>2</sub> emissions by establishing an improvement plan to achieve energy savings throughout the entire building.

##### ② Switch to renewable energy

We have begun reviewing our energy procurement and use, including installing solar panels on store rooftops, switching power consumption to renewable energy, and introducing hybrid vehicles in the fleet of company cars. We are preparing for full-scale introduction of solar panels while taking into account the integration into our Business Continuity Plan (BCP) as it will allow us to continue to operate stores and supply daily necessities in the event of a power outage caused by a natural disaster or other events as well as the possibility of the introduction of carbon pricing such as a carbon tax or emissions trading that are currently under discussion.

##### ③ Reduction of waste

The Group is working to optimize product lineups, shelving allotment (what products to put out on which part of the shelves and in what quantities), orders, and inventory levels at each store as it is important to eliminate dead stock in order to control and reduce food waste. In addition, when products near their sell-by dates based on internal criteria, we attempt to ensure they sell by marking them down with the optimal discount at the right timing in order to reduce waste. To improve the accuracy of these efforts, we work continuously to improve the operational logic of our IT systems, including automatic ordering systems.

##### ④ Adoption of business casual dress code

At the SUNDRUG headquarters, we implement Cool Biz measures in the summer and Warm Biz measures in the winter to reduce CO<sub>2</sub> emissions and improve the working environment of our employees continuously throughout the year. In October 2021, we adopted a business casual dress code (casual outfits with no neckties) for the whole year. In combining Cool Biz and Warm Biz, we are working to reduce CO<sub>2</sub> emissions by calling for proper room temperature control and reasonable means with light clothing according to each employee's time, place, and occasion (TPO).

#### 3. Increasing efficiency of resource use and promoting effective utilization

##### ① Reduction of plastic waste

All business operators running retail outlets are required to charge for plastic shopping bags. This is intended to address issues such as limiting waste and resource usage, the problem of marine waste, and global warming by reducing excessive use of plastic. At SUNDRUG, we have introduced an original point system in which customers that bring their own shopping bags and decline plastic shopping bags are granted eco-points (one point)\* in order to promote the reduction of plastic.

\* One eco-point is granted for every time a customer shops at SUNDRUG.

##### ② Management of water resources

The Group uses the water supply efficiently and works to reduce usage by installing water-saving toilets and automatic faucets at new stores. When renovating existing stores, we switch to this equipment.

In addition, because we use a significant amount of water to process the seafood products, which increasingly more Group companies are carrying, we are introducing equipment that adjusts the water to maintain a fixed volume and feeds water while taking in air. As foamy water contains air and eliminates splashing during processing, it improves operational efficiency as well. As such, we are working to save water by establishing a cooperative system with our business partners and tenants.

##### ③ Utilization of store facilities

The Group refurbishes the showcases, furniture, and refrigerators from stores that are relocated, rebuilt, or closed and reuses them at other stores to reduce waste and effectively utilize resources. By properly managing and reusing the resources from stores and offices, we are contributing to the realization of a circular economy.

#### 4. Selling environmentally friendly products

SUNDRUG develops and sells various private brand (PB) products, including over-the-counter (OTC) drugs, cosmetics, and processed foods. When developing these PB products, we always incorporate the elements of sustainability and environmental friendliness. We take various approaches, including using recycled resources in containers and packaging materials, conserving containers and packaging materials, using recyclable containers and packaging materials, using natural materials with little environmental impact, and extending the consume-by and use-by dates.

With new products, we take the environment into account from the planning stage. As for products that are already being sold, we gradually switch them out while taking into account material and product inventories, contracts, and other factors. We are actively working to ensure that 100% of our products are environmentally friendly as quickly as possible.

To reflect the element of environmental friendliness, we are working to reduce manufacturing costs while maintaining functional value by applying the concept of value engineering\* in the product design stage. Normally, if FSC-certified pulp is used to make the decorative box of a product and vegetable ink or biomass ink for printing, that will drive the manufacturing cost up higher than it was before. For that reason, we are working to reduce the cost by switching to recycled paper containing a higher ratio of used paper after confirming that there are no issues with functionality when using it for the outer box of another product. Going forward, we will continue to use wisdom and innovative ideas to balance the value provided to customers with the economic value to be gained by our Company.

\* A method of improving value through a systematic method by ascertaining the value of a product or service in relation to the function that it should perform and the corresponding cost

**Initiatives based on TCFD recommendations**

The Group discloses information in accordance with the framework recommended by the TCFD, promotes initiatives to address climate change issues, and contributes to the realization of a sustainable society.



**Response to TCFD recommendations based on the requirements of the Corporate Governance Code**

<b>Objectives</b>	<ul style="list-style-type: none"> <li>Identify high-impact risks using a scenario analysis approach that assumes what kind of society the world will be like in 2030 to 2050, and study, formulate, and implement the necessary countermeasures in advance to maintain business continuity and corporate growth.</li> </ul>
<b>Scenarios</b>	<ul style="list-style-type: none"> <li>Both scenarios of (1) a 2°C increase and (2) a 4°C increase in global average temperature by 2100 compared to pre-industrial levels</li> <li>2°C increase: Assumption of a decarbonized society with stricter policies than the status quo</li> <li>4°C increase: Assumption that current decarbonization policy and CO<sub>2</sub> emission pace will continue</li> </ul>
<b>Target businesses</b>	<ul style="list-style-type: none"> <li>Retail business (drugstores and discount stores combined)</li> </ul>
<b>Scope of analysis</b>	<ul style="list-style-type: none"> <li>For the time being, SUNDRUG Group (headquarters and stores)</li> <li>In the future, the entire supply chain, including business partners</li> </ul>
<b>Considerations</b>	<ul style="list-style-type: none"> <li>Transition risk: Changes in policies, laws, technologies, and markets as we transition to a low-carbon society aimed at mitigating climate change, which may affect the financial position of a company or its reputation/rating</li> <li>Physical risk: Short-term weather-related disasters such as typhoons, floods, and forest fires (acute risk), and long-term ongoing weather-related disasters such as water shortages, rise in sea level, extreme heat, and air pollution (chronic risk), which may affect the financial position of a company.</li> </ul>
<b>Scope of analysis</b>	<ul style="list-style-type: none"> <li>Increase in electricity prices due to introduction of carbon pricing</li> <li>Weather-related disasters</li> </ul>
<b>Scenario period</b>	<ul style="list-style-type: none"> <li>"Present to 2050" is recommended, but "up to 2030" will be used</li> <li>CO<sub>2</sub> emissions increase along roughly the same path until around 2030 under both 2°C and 4°C increase scenarios</li> </ul>

**Contents of disclosure**

Governance	Strategy	Risk management	Indicators and targets
<b>Oversight by the Board of Directors</b> <ul style="list-style-type: none"> <li>Environmental management promotion and guidelines (Environmental Policy)</li> <li>Governance on climate change (discussions by the Board of Directors, internal structure)</li> <li>Linking ESG indicators to internal Director compensation</li> </ul>	<b>Risks and opportunities</b> <ul style="list-style-type: none"> <li>Identification of opportunities and risks in 2°C and 4°C scenarios</li> </ul>	<b>Risk identification and assessment process</b> <ul style="list-style-type: none"> <li>Roles and activities of the ESG Promotion Committee and the Compliance and Risk Management Committee</li> <li>Stakeholder engagement through industry associations (capturing social demands)</li> </ul>	<b>Indicators used by the organization</b> <ul style="list-style-type: none"> <li>Greenhouse gas (GHG) and CO<sub>2</sub> emissions volume</li> <li>Expanding sales of environmentally friendly products (SKUs and composition of sales)</li> <li>Introduction of EVs, reduction of incinerated waste, etc.</li> </ul>
<b>Roles of management</b> <ul style="list-style-type: none"> <li>Company policy and top management commitment on climate change</li> <li>Management of Group risks through operation of the ESG Promotion Committee and the Compliance and Risk Management Committee</li> </ul>	<b>Impact on the organization</b> <ul style="list-style-type: none"> <li>Assessment and estimation of opportunities and risks under 2°C and 4°C scenarios</li> </ul>	<b>Risk management process</b> <ul style="list-style-type: none"> <li>Execution of PDCA cycle through the ESG Promotion Committee and the Compliance and Risk Management Committee</li> <li>Promotion of environmental management (organization building, operation, education, etc.)</li> </ul>	<b>GHG emissions for Scope 1, 2 and Scope 3 (where appropriate)</b> <ul style="list-style-type: none"> <li>Scope 1, 2, (3) data disclosure</li> <li>Utilization and rate of recycling</li> <li>Waste management and emissions (third-party assurance report)</li> </ul>
	<b>Organizational resilience (toughness, resilience, tolerance)</b> <ul style="list-style-type: none"> <li>Issues and responses necessary to capture opportunities and avoid risks in 2°C and 4°C scenarios</li> </ul>	<b>Integration into comprehensive risk management</b> <ul style="list-style-type: none"> <li>Oversight by the Board of Directors</li> <li>Collaboration among the Board of Directors, ESG Promotion Committee, and Compliance and Risk Management Committee</li> </ul>	<b>Goals and performance as an organization</b> <ul style="list-style-type: none"> <li>Medium-term environmental targets and performance</li> <li>Progress monitoring based on KPIs</li> <li>Efforts to save energy and reduce CO<sub>2</sub> emissions</li> </ul>

**Governance: oversight and risk management structure of the Board of Directors**

**Governance**

**Oversight structure of the Board of Directors and role of management related to climate change issues**

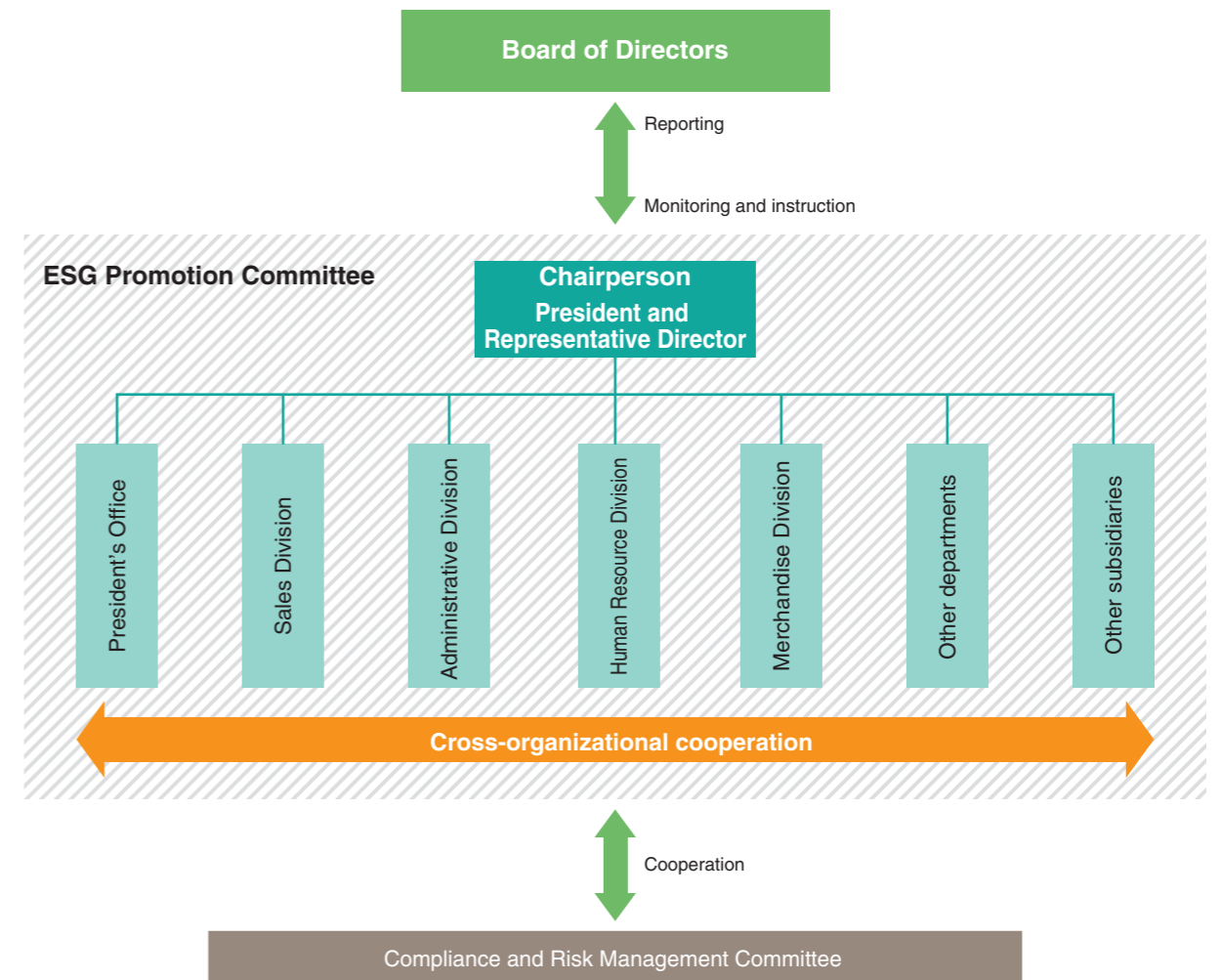
- Establishment of the ESG Promotion Committee in April 2020 as an organization under the direct control of the President and Representative Director
- The committee oversees sustainability activities aimed at sustainable growth of society and the Group, and is responsible for formulating implementation plans and managing progress
- The committee meets monthly, and the matters and contents discussed at the committee meetings are reported to the Board of Directors as appropriate
- The President and Representative Director assumes ultimate responsibility for issues related to climate change and makes decisions on the allocation of management resources, the development of systems, and the implementation of initiatives, while ensuring consistency between business activities and initiatives
- Promoting environmental management with an Environmental Policy
- Already introduced a compensation system that links ESG indicators to internal Director compensation

**Risk management**

**Assessment and management of risks and opportunities associated with climate change, and processes for identifying and assessing risks and opportunities associated with climate change**

- Climate change has a significant impact on the Group's business strategy as it relates to all of its business activities, including product development, logistics, store operations, and the products it handles and their assortments. Identification of risks and opportunities associated with climate change and appropriate responses based on an assessment of their materiality are essential
- Regarding opportunities and risks related to climate change, the ESG Promotion Committee identifies Group-wide risks, assesses those risks, and compiles countermeasures
- The risk and opportunity identification process comprehensively identifies risks and opportunities associated with climate change for each activity item in the supply chain and identifies material risks and opportunities
- In fiscal 2021, we analyzed climate-related risks and opportunities, and assessed the impact on business strategies, then reviewed business strategies and considered various measures to mitigate and adapt to climate change
- Separately, the Compliance and Risk Management Committee manages the identification of risks and implementation of countermeasures for each functional department (of each Group company), including products, sales, and logistics

**Structure**



## Recognition of risks and opportunities

- Scenario analysis**
- Conduct scenario analysis to understand the risks and opportunities posed by climate change and its financial impact on the Group.
  - Referring to multiple scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), two scenarios are assumed: the 2°C scenario, which is the goal of the Paris Agreement, and the 4°C scenario, which assumes no advancement in decarbonization.
  - Analyze the impact of climate change on the SUNDRUG Group's business and financial position under two scenarios, and examine the Group's resilience to climate change by considering how to respond to the impact of climate change.

### Worldview and business environment

	+2°C scenario	+4°C scenario	Aiming for +2°C but +4°C
Climate	A world in which the global average temperature by 2100 increases 2°C above pre-industrial levels (as agreed in the Paris Agreement)	A world in which the global average temperature by 2100 increases 4°C above pre-industrial levels	4°C increase despite efforts to limit global average temperature increase to 2°C
Worldview	<ul style="list-style-type: none"> <li>Policies are introduced and development of technologies that will facilitate the transition to a decarbonized society, such as the shift to renewable energy and adoption of a carbon tax, are promoted</li> <li>Society where changes in the business environment associated with the transition to a decarbonized society are highly likely to affect business</li> <li>Regulatory (transition) risks materialize</li> </ul>	<ul style="list-style-type: none"> <li>Increasingly severe and frequent extreme weather events due to climate change increasing the risk of natural disasters, infectious diseases, etc.</li> <li>Society where changes in the business environment and consumer behavior due to climate change are highly likely to affect business</li> <li>Physical risks materialize</li> </ul>	
Policy	<ul style="list-style-type: none"> <li>Carbon tax is introduced</li> <li>Energy conservation and renewable energy measures are further promoted</li> </ul>	<ul style="list-style-type: none"> <li>Carbon tax is not introduced</li> <li>Current energy conservation and renewable energy promotion measures are maintained</li> </ul>	
Procurement and logistics	<ul style="list-style-type: none"> <li>Increasing due to cost of environmental measures (forest protection, plastic regulations, introduction of carbon tax, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Increasing for agricultural, livestock, and fishery products (yield decrease, quality decline, etc., due to disasters in production areas, climate change, etc.)</li> </ul>	
Stores	<ul style="list-style-type: none"> <li>Flooding risk is at current level</li> </ul>	<ul style="list-style-type: none"> <li>Increase in related costs (relocation, closure, insurance) due to higher flooding risk resulting from increased heavy rainfall</li> </ul>	
Electricity bills	<ul style="list-style-type: none"> <li>Increasing through the supply chain with the introduction of a carbon tax</li> </ul>	<ul style="list-style-type: none"> <li>Current level throughout the supply chain</li> </ul>	
Changes in consumers	<ul style="list-style-type: none"> <li>Establishment of environmentally friendly lifestyles</li> <li>Increased demand for sustainable products</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of lifestyles to cope with extreme heat</li> <li>Increased demand for disaster prevention and stockpiling products</li> </ul>	

### Transition/physical risks

	Item	Risks
Transition risks	Policies and regulations	<ul style="list-style-type: none"> <li>Carbon pricing puts a price on carbon emissions to reduce greenhouse gas emissions</li> <li>Support for carbon sinks (CO<sub>2</sub> sinks) and carbon capture and storage (CCS) technologies that restore forests and oceans, which absorb carbon dioxide (CO<sub>2</sub>) and other greenhouse gases in the atmosphere</li> <li>Improvement in automobile fuel efficiency standards and limit of automobile use in urban areas</li> </ul>
	Technologies	<ul style="list-style-type: none"> <li>Renewable energy production and power storage</li> <li>Spread of electric vehicles (EVs)</li> </ul>
	Consumer behavior and social norms	<ul style="list-style-type: none"> <li>Transition to renewable energy and materials, purchase of energy-efficient and energy-saving products</li> <li>Reduced consumption of highly carbon-intensive products</li> <li>Companies engaged in operations that negatively impact climate change and companies that are not (or perceived not to be) proactive in environmental measures underperform in recruiting top talent</li> <li>Corporate brand and reputation risk, criticism and accusations on social media</li> </ul>
	Litigations and guarantees	<ul style="list-style-type: none"> <li>Litigations against companies and other entities that emit CO<sub>2</sub></li> <li>Litigations related to health</li> </ul>
Physical risks	Acute risks	<ul style="list-style-type: none"> <li>Impact of sudden weather events such as heavy rainfall, floods, high tide, droughts, or wildfires on business activities and financial position</li> <li>Impact on financial position of direct damage, such as restoration costs incurred due to damage to a company's production bases, and indirect damage, such as a decline in sales due to disruption of the supply chain</li> </ul>
	Chronic risks	<ul style="list-style-type: none"> <li>Impact on financial position of long-term climate change, such as rising temperatures, reduced cryosphere, and rising sea levels</li> </ul>

## Indicators and targets

### Indicators for assessing climate change-related risks and opportunities

- Assessment indicators**
- Greenhouse gas/CO<sub>2</sub> emissions (Scope 1 and 2; Scope 3 in the future)
  - Greenhouse gas/CO<sub>2</sub> emissions per floor area
  - Waste generation (food: per sales, non-food: absolute amount)
  - Number of environmentally friendly product items, item composition ratio
  - (Reduction effect of greenhouse gas/CO<sub>2</sub> emissions through sales of environmentally friendly products)
- Initiatives and results**
- The SUNDRUG Group recognizes the importance of proactively addressing the risks and opportunities associated with climate change
  - Set a reduction target for greenhouse gas/CO<sub>2</sub> emissions by 2030 for the SUNDRUG Group to contribute to the realization of a scenario that limits the global temperature increase to less than 2°C
  - Risk reduction initiatives
    - Reduction of greenhouse gas/CO<sub>2</sub> emissions through transition to renewable energy by installing solar power generation systems and switching to non-fluorocarbon freezing and refrigeration equipment
    - Promotion of energy conservation through the introduction of highly efficient equipment and switching to LED lighting
    - Achieving resilient supply chains by addressing physical risks associated with climate change
  - Capturing opportunities
    - Proactively developing and introducing environmentally friendly products that contribute to sustainability in response to changes in consumers' consumption behavior
  - Further quantifying climate change-related risks and opportunities to improve the accuracy of scenario analysis
  - Through analysis, hedge and address risks appropriately while identifying market changes and proactively pursuing business opportunities to achieve sustainable growth of the Group

### Climate-related risks and opportunities

	Risk items	Impact	Assessment
Transition risks	Introduction/increase of carbon pricing	Increased electricity costs for stores and logistics facilities due to introduction of carbon pricing	Large
		Increased commodity procurement costs due to introduction of carbon pricing (higher manufacturer production and shipping prices)	Medium
		Increased delivery costs due to introduction of carbon pricing (contractors)	Small
	Policies and regulations	Increased investment costs in equipment and machinery to reduce and control GHG emissions	Small
		Failure to reduce GHG emissions incurs the cost of purchasing emission credits	Medium
		Increased commodity procurement costs due to stricter emission regulations (higher manufacturer production and shipping prices)	Small
		Increased delivery costs (contractors) due to capital investment to reduce and control GHG emissions	Small
	Stricter GHG emission regulations	Increased investment expenses for CFC-free facilities in stores, etc.	Small
		Increased procurement costs due to higher prices of alternative materials to meet plastics regulations	Small
		Responding to (shareholder and administrative) litigations for inadequate environmental measures	Small
Tighter CFC regulations	Increased energy prices due to higher electricity prices (including renewable energy surcharge)	Medium	
	Increased commodity procurement costs (higher manufacturer shipping prices) due to higher electricity prices (including a surcharge on renewable energy)	Medium	
Stricter plastics regulations	Increased energy costs due to higher renewable energy prices	Medium	
	Increased logistics costs	Medium	
Litigation (environmental measures, GHG emissions)	Increased renewable energy prices and electricity prices, and increased logistics costs due to environmental investments	Medium	
	Decreased sales due to delayed introduction of environmentally friendly products and services	Medium	
Market	Deterioration of brand image and a decrease in sales due to delays in environmental considerations	Medium	
	Decline in consumer reputation	Medium	
	Decline in social reputation	Medium	
Decline in valuations by investors and rating agencies	Decline in corporate reputation among investors and rating agencies and higher financing costs due to delays in environmental considerations	Small	
	Loss of sales opportunities due to damage or closure of stores caused by flooding, etc.	Medium	
Acute	Loss of sales opportunities due to the shutdown of information system centers	Medium	
	Inventory disposal/shortages and loss of sales opportunities due to flooding, etc. of factories, wholesalers, distribution facilities, etc.	Medium	
Rising average temperatures	Increased electricity consumption at stores and distribution facilities	Medium	
	Increased insurance costs and relocation costs for stores due to increased risk of flooding from high tides and tidal waves	Small	
Sluggish	Lower procurement costs due to more efficient business processes and equipment at suppliers	Small	
	Decreased logistics costs due to more efficient logistics	Small	
Introduction/increase of carbon pricing	Decreased energy costs due to the introduction of solar power generation with lower costs	Medium	
	Increased sales due to the development and expansion of environmentally friendly products and services	Medium	
Renewable energy technology development	Increased sales through development and expansion of products and services adapted to rising average temperatures	Medium	
	Improved brand image and increased sales by addressing environmental considerations	Medium	
Changes in consumer lifestyles and preferences	Improved corporate reputation among investors and rating agencies and lower financing costs by addressing environmental considerations	Small	

### Long-term goals in the environmental field

Society we aim for	Initiatives	2030 goals
Low carbon society	Reduction of CO <sub>2</sub> emissions (Plastic countermeasures)	<ul style="list-style-type: none"> <li>Reduce emissions per floor area by 30% (compared to fiscal 2013)</li> <li>(100% reduction of plastic shopping bags, switch to plastic shopping bags made of environmentally friendly materials (biomass, biodegradable, recycled materials))</li> </ul>
Circular society	Promotion of food loss reduction and food recycling	<ul style="list-style-type: none"> <li>Reduction of food waste by 50% per sales (compared to fiscal 2020)</li> <li>(Reduction of non-food waste by 20% per sales (compared to fiscal 2022))</li> <li>Food waste recycling rate of 30%</li> </ul>
Society in harmony with nature	Sustainable procurement	<ul style="list-style-type: none"> <li>100% environmentally conscious private brand (PB) products as a percentage of all PB items in the drugstore business</li> </ul>

### CO<sub>2</sub> emissions

Item	Unit	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
CO <sub>2</sub> emissions**1	t-CO <sub>2</sub>	131,989	150,830	154,193	140,414	142,598	152,795
CO <sub>2</sub> emissions (per gross floor area)**2	t-CO <sub>2</sub> /m <sup>2</sup>	0.139	0.150	0.146	0.128	0.122	0.121

\*1 CO<sub>2</sub> emissions include emissions associated with the use of fuels and use of electricity and heat supplied. The method and scope used for calculation are the same as those stated in the regular report under the Act on the Rationalization, etc. of Energy Use.

\*\*2 Gross floor area is as of March 31 of each fiscal year.



## Social

The Group aims to “create good cheer and fun in daily life to realize healthy, rich lives for the Japanese people,” which is our corporate philosophy, through drugstore, dispensing pharmacy, cosmetics store, and variety store operations. Each and every person working in the Group is to understand and comply with this Group Code of Conduct, and act with sincerity and integrity in accordance with high ethical standards.

### Employee health and workplace safety and health

#### 1. Declaration on Health

- One of the most important ingredients for a rich life is “good health.”
- Naturally, our employees are a precious asset and key driving force for our Company.
- Good health is the foundation for employees both while at work and in order to lead long lives after retirement.

By maintaining good mental and physical health as individuals, employees also contribute to better health and greater fulfillment for their families and customers.

We believe that our ongoing health promotion activities will steadily make a positive impact on the wellbeing of numerous people right across the globe.

Lifestyle habits developed in one's 20s and 30s are said to affect mental and physical health outcomes in one's 40s and beyond. Because the average age of employees of our Company is relatively low, we believe that the first step is to raise our own awareness of health related matters.

We are raising health consciousness and vigorously advancing health management initiatives in order to promote better mental and physical health among our employees.

#### Material issues

##### ① Preventing severe illness

We have adopted a thoroughgoing approach to the management of health examination results, and are bolstering programs to encourage employees to undergo examinations to prevent the onset of severe illness and raise the proportion of employees receiving specific health guidance.

##### ② Promotion of mental health

We are strengthening education programs essential to the maintenance of mental and physical health, and promoting the use of external counselling service, etc.

##### ③ Diverse measures for work style reform

We are working actively on measures such as rectifying excessive work hours, and securing adequate intervals between work shifts, and conducting surveys and analysis of employee motivation.

### Promotion of work-life balance

#### Initiatives to promote work-life balance

The Group is aiming to provide workplaces where each and every employee feels secure to continue working as they select from a variety of flexible working styles in accordance with different life stages and life events. We are introducing a number of systems and measures with a view to resolving any issues that arise, regardless of employees' nationality and gender.

#### 1. Systems promoting diverse work styles

At the Group, responsibilities are allocated on the basis of job type, not gender. We are continually taking action to provide women with opportunities for personal growth and self-realization at work. We aim to create an environment where employees can easily take maternity and childcare leave, successfully return to work afterwards, and continue working while they raise children. In addition to the legally mandated systems, the Group has also

#### 2. Health initiatives for employees

Management to safeguard the personal health of diverse workers is an increasingly important priority in corporate management. We believe that rather than leaving the maintenance and promotion of health solely up to individual employees, their families, and health insurance associations, pursuing proactive involvement at the company level can help invigorate our organization and thereby raise the competitiveness of the SUNDRUG Group, contributing to the achievement of sustainable growth.

Based on these ideas, we are collaborating with industrial health professionals such as industrial physicians and public health nurses, health insurance associations, labor unions, and employees to establish organizational structures and deliver systems and programs in areas including the development of healthy work environments for employees, routine health management to prevent the occurrence of health-related problems, and ascertainment and provision of support for employees in poor health.

We believe that health examinations are the cornerstone of health management, and one of our health management goals is to have 100% of employees undergoing such examinations. Reservation rates for health examinations are announced in the Department Managers' Meeting and Safety and Health Committee, which is attended by the President, who personally contacts departments with low rates to ask for explanations and request improvements. For our stores, this engagement is handled by supervisors in charge of overseeing combined groups of stores. As a result, SUNDRUG has been able to maintain a health examination participation rate of close to 100%.

We collaborate with industrial physicians and public health nurses to follow up with employees on an individual basis after their health examinations, from recommending further examinations to receiving examination reports. The results and other details of health examinations are stored in a database and rendered visible using a health management system that enables both employees themselves and health managers to review data chronologically. We are pursuing further health promotion initiatives by cross-referencing our own data on working conditions with medical treatment and prescription statements and results from specialized examinations held by health insurance associations, etc.

adopted a number of its own initiatives such as a childcare leave extension system, options to reduce work hours to facilitate ongoing work (childcare reduced working hours system), and a returnee follow-up system that makes it easier for employees to return to work after taking maternity and childcare leave. We also encourage our male employees to participate actively in childcare, and have established a childcare leave system for this purpose.

#### 2. Promoting use of childcare leave

Based on an awareness that men's work styles need to change in order for women to be empowered in the workplace, we promote male involvement in parenting by actively encouraging our male employees to take childcare leave. In fiscal 2020, the proportion of eligible SUNDRUG Group employees taking childcare leave was 52.3% for men and 96.9% for women, significantly exceeding the national averages of 12.7% and 81.6%, respectively.

### Promotion of diversity

#### Initiatives in diversity & inclusion\*

We believe that the purpose of diversity & inclusion is to actively incorporate and utilize diverse values and diverse human resources in our business operations without being restricted by gender, age, or nationality, and we are promoting diversity throughout the Group. At the same time, we are developing systems to promote flexible work styles, such as a Monthly Flexible Working Hours System, and workplace environments that enable a diverse range of individuals to engage in their work with a sense of motivation.

\* Diversity & inclusion: Respecting and recognizing each individual, and making the most of their positive qualities, regardless of gender, age, disability, nationality, and other external attributes, as well as internal attributes such as lifestyle, work history, and values.

#### 1. Appointment of women to managerial positions

As of March 31, 2022 (the end of fiscal 2021), 19.7% of managerial positions in the Group were held by women. We are an organization that allows employees to shine regardless of their gender, and now we are also pursuing initiatives that proactively provide opportunities to women and encourage them to take up the challenge of a managerial role. Two job types with particularly high proportions of women are pharmacist and registered seller\*. We are developing workplace environments open to a diverse range of individuals, and designing modes of employment/work and career paths that are easy to balance with marriage and childbirth and friendly to employees returning to work after taking leave.

\* Registered seller: A job that mainly involves providing customers with advice on selection of pharmaceutical products. Registered sellers hold a specialized qualification for the sale of cold remedies, painkillers, and other non-prescription drugs (Types 2 and 3 only).

#### 2. Mid-career recruitment

With the aim of reliably implementing business strategies and realizing management objectives, the Group promotes the employment of individuals with skills and knowledge that are currently lacking in-house, and those capable of undertaking specialized work that cannot be performed by members of our existing workforce. For this purpose, we provide employees with training and career advancement opportunities that are impartial and not dependent on how they were hired, and systems of evaluation and employment conditions aligned with individual abilities and performance. Moreover, we actively promote the re-employment\* of former employees who resigned owing to childbirth, parenting, nursing care, and other life events, and the re-hiring of returnees who previously worked in the Group and subsequently pursued careers elsewhere.

\* System for re-employment of resigned employees: In the event that former employees who resigned owing to childbirth, childcare, care duties, or another life event wish to work for the SUNDRUG Group again, this system enables them to be re-employed on conditions that take full account of their role and salary level at the time of resignation in comparison with those employed for the first time. It also allows them to select modes of work flexibly in light of their circumstances.

#### 3. Employment of people with disabilities

We are taking steps to employ people with disabilities through SUNDRUG Dream Works, a special-purpose subsidiary under the Act to Facilitate the Employment of Persons with Disabilities. Our efforts to develop an environment that empowers people with disabilities to participate actively in the workplace were recognized in September 2019 when we received a Bureau of Industrial and Labor Affairs Chief's Award in the Tokyo Metropolitan Government's Excellent Company Awards for Employment of Persons with

Disabilities. We will continue our work to promote the employment of people with disabilities and the creation of opportunities for their vocational autonomy and social participation.

#### 4. Variable Working Hours System

The Group has introduced a Monthly Flexible Working Hours System\* that enables employees to plan their work attendance flexibly and thereby achieve a better balance between their work and their duties as parents or carers. We have also made it easier to take days off in line with periodical fluctuations in the volume of work, leading to an increase in the number of days of paid annual leave taken by regular employees, and a reduction in their average monthly overtime hours.

\* Monthly Flexible Working Hours System: A system that enables working hours to be prescribed in excess of the statutory working hours on designated weeks and days within a specific monthly variation period, provided that the average working hours per week within that period do not exceed the weekly statutory working hours.

#### 5. Work attendance interval system

The Group has introduced a work attendance interval system to enable employees to achieve a better balance between their work and their duties as parents or carers, and to make effective use of time before and after work. This initiative is also designed to support the mental health of employees and their families. Used in combination with the Flexible Working Hours System, it helps the Group alleviate employees' concerns relating to work-life balance and thereby fulfill its corporate social responsibilities.

#### 6. External evaluation of women's advancement and childcare support

In August 2018, SUNDRUG was recognized for its good corporate practices in promotion of work-life balance for women with the award of three stars (the highest rating) under the Ministry of Health, Labour and Welfare's Eruboshi system, established pursuant to the Act on the Promotion of Female Participation and Career Advancement in the Workplace. Moreover, the Group obtained “Platinum Kurumin” certification from the same Ministry in April 2019 for our proactive support for parenting. This certification reflects our attainment of objectives under an action plan formulated in line with the Act on Advancement of Measures to Support Raising Next-Generation Children (hereinafter referred to as “Next-Generation Act”), and recognizes our initiatives and achievements as models of good corporate practice. Platinum Kurumin certification is awarded by the Minister of Health, Labour and Welfare only to companies whose support for parenting under the Next-Generation Act has already been recognized with Kurumin certification and who satisfy more rigorous standards in terms of good practice in formulation and implementation of measures toward balancing work and home life, including male employees taking childcare leave, continuation of work after taking childcare leave, reduction of overtime work, and provision of diverse working conditions.



## Respect for human rights

### Basic policy on human rights

The Group aims to create good cheer and fun in daily life, envisaging a future in which all people can lead healthy, rich lives. We believe that respect for human rights is a precondition for business activity, and that contributing to the creation of a society that respects human rights is a key element in our future vision of healthy, rich lives through our business activities. We have established this SUNDRUG Group Human Rights Policy (hereinafter referred to as "this Policy") consistent with the United Nations' Guiding Principles on Business and Human Rights, and will advance our activities toward respect for human rights in accordance with this Policy. This Policy complements the SUNDRUG Group Code of Conduct, and under this Policy, the Group will make concerted and united efforts to promote respect for human rights.

### SUNDRUG Group Human Rights Policy

#### (1) Basic approach

The Group understands that all business activities have the potential to impact human rights, either directly or indirectly. We believe that one of our key responsibilities as a business operator is to uphold international norms of human rights such as the UN Guiding Principles on Business and Human Rights, cultivate deeper understanding of human rights problems, and conduct ourselves appropriately.

#### (2) Scope of application

The Group applies this Policy to all officers and employees of the Group, including part-time, contract, and temporary hire employees. Moreover, the Group requires its suppliers to understand and comply with this Policy, and expects business partners to support it.

#### (3) Human rights due diligence

The Group builds human rights due diligence systems, identifies negative impacts on human rights related to the Group's business, and pursues initiatives for the prevention and alleviation of these impacts.

#### (4) Relief

In the event that the Group's activities are found to have caused or exacerbated any negative impact on human rights, we endeavor to institute appropriate and effective relief measures. Moreover, in the event that the Group is connected with any negative impact on human rights as a result of its business relationships, we take steps toward correction or mitigation.

#### (5) Education and training

The Group conducts appropriate education and training programs for all its officers and employees, including part-time, contract, and temporary hire employees, to ensure that this Policy is incorporated and implemented effectively in all business activities.

#### (6) Dialogue and consultation

In the course of implementing this Policy, we make use of the expert knowledge of independent external organizations, and engage in sincere dialogue and consultation with stakeholders.

#### (7) Information disclosure

The Group discloses the status of progress on its own initiatives toward respect for human rights via its website and other channels appropriately.

#### (8) Important themes

The Group ensures the prevention of discrimination and harassment, a friendly working environment, achievement of work-life balance, respect for and assurance of privacy.

### Initiatives toward respect for human rights

The Group appreciates that respecting human rights is an extremely important social responsibility in business activities. We are working to ensure that all customers, business partners, employees, and all others involved in our business activities conduct themselves responsibly to avoid causing any negative impact on human rights or being indirectly associated with such impact. To do so, we pursue awareness-raising and educational activities under the Human Rights Policy, Group Code of Conduct, and Code of Conduct for Business Partners.

#### (1) Human rights management system

Human rights are inherent rights to live one's life as a human should, and their scope and content is broad-ranging. There are various types of human rights problems that can occur in business activities, ranging from sexual harassment, abuse of power, and other forms of harassment in the workplace, to discrimination and bias against people with disabilities, and labor accidents resulting from long working hours, just to name a few. In addition, As the Group handles pharmaceutical products, we potentially face specific human rights problems stemming from the risk of mistakenly selling products that have an impact on the health and lives of our customers. We see human rights management as integral to corporate risk management, and believe it is crucial to develop systems for respecting human rights.

In the Group, issues involving human rights such as feedback and complaints arising from inadequate consideration for customers, in-house harassment, and labor accidents are addressed by sharing information at monthly meetings of the Compliance and Risk Management Committee and Safety and Health Committee with the involvement of all departments, and instituting necessary countermeasures through the responsible departments. In the event of a serious incident, we notify related departments and individuals via the company intranet, and report to the Board of Directors.

#### (2) Education on respect for human rights

The Group is working continually to ensure respect for diversity, elimination of all kinds of discrimination on the basis of race, nationality, sex, age, disability, and other attributes, prevention of harassment (including abuse of power, sexual harassment, harassment on the basis of maternity or caregiver duties, and other forms of victimization), promotion of gender equality, and enhancement of working environments and systems. We are taking pre-emptive steps to avert the occurrence of problems, through awareness-raising activities for employees including dissemination of the Compliance Guidebook and Harassment Prevention Guidelines, display of harassment prevention posters, internal email alerts, human rights training for different seniority levels, and e-learning programs.

Moreover, for staff in charge of employee recruitment and appointment in the Human Resource Division and store managers responsible for recruiting part-time workers, we have introduced an employment manual to ensure that appointments are made fairly and without reference to attributes such as race, sex, age, and gender identity. In marketing and promotional activities, we take care not to cause misunderstandings or misperceptions through the use of expressions that may exacerbate discrimination or human rights infringements, or those that may defame or denigrate other people.

#### (3) Respecting customers' human rights

As the Group is involved in the sale of pharmaceutical and cosmetic products, there is a risk of mistakenly selling products that have an impact on the health and lives of our customers. We recognize this as one of the Group's major risks in the areas of sustainability and human rights. Our number one focus in order to mitigate this

risk is human resource development: training employees involved in dispensing prescription pharmaceuticals and selling over-the-counter (OTC) pharmaceuticals and cosmetics to become professionals within their respective fields of work. They need to use their pharmaceutical and product knowledge, communication skills, and other attributes to the full when consulting with patients and customers and determining the appropriate use of pharmaceutical and cosmetic products. We have designed education and training curricula that are finely tuned to the career outlooks and proficiencies of each individual employee.

At the same time, on the basis that humans inevitably make mistakes now and then, we have adopted systematic, automated risk mitigation strategies in the form of a Barcode Dispensing Error Prevention System and Camera Monitoring Guidance System for dispensary staff, and a Quantity Limit System\* in the sale of OTC pharmaceuticals and cosmetics. Employee education is an investment that protects the health and lives of customers and reduces human rights risks, at the same time as lessening sustainability risks and raising the Group's capacity for continued growth. We will work to make further enhancements to the educational curricula into the future.

\* Quantity Limit System: A system that triggers an alert at the checkout if the volume of OTC pharmaceuticals purchased exceeds a specified level

In our drugstore business, we handle sensitive information such as customers' medication history and pharmaceutical purchase history. We situate proper administration and protection of personal information as a key issue in management and business, and an obligation to be discharged by officers and all employees as part of our social responsibility. With a view to safeguarding customers' privacy and the security of personal information, the Group has established a Basic Policy on the Protection of Personal Information, along with measures such as access restrictions and access logs to ensure that personal information stored in our systems can only be obtained by those who require it in order to perform their work duties. Through measures such as these, we aim to manage our organization so that every employee upholds the Act on the Protection of Personal Information and other related

statutory provisions and internal rules, and performs their work appropriately while protecting personal information.

#### (4) Respecting employees' human rights

We are pursuing human rights awareness-raising activities and developing internal regulations and guidelines in areas such as respect for diversity, prohibition of all forms of discrimination on the basis of attributes such as race, nationality, sex, age, and disability, and prevention of harassments. In addition, we have established dedicated in-house contact points in accordance with the Whistleblower Protection Act, and are working to ensure proper receipt of reports relating not only to sexual harassment but also all other forms of workplace harassment, early detection of problems, and their swift resolution. We also engage in ongoing and periodical consultations with labor unions, in order to tackle a broad range of issues through collaboration between labor and management.

As we are in distribution business, where operating hours are long, we have a responsibility to manage employees' work hours properly and appropriately. We use mechanisms such as attendance systems, PC logs, security records of store entry and exit, and POS transaction records to monitor working hours and avoid having employees working long hours, thereby protecting workplace safety and health. We have also been able to reduce monthly average overtime hours using the Monthly Flexible Working Hours System, which was introduced with the aim of helping employees achieve a better balance between work and home life.

#### (5) Respecting human rights in the supply chain

The Group does not manufacture any of the products it sells in-house: even those products that are sold as SUNDRUG original brands are manufactured for us by business partners. For this reason, we consider it important to work together with our business partners to prevent human rights infringements in the supply chain. We discharge our social responsibility by strengthening structures for collaboration with business partners and a range of other stakeholders and putting respect for human rights into practice, guided by the Human Rights Policy and the Group Code of Conduct.

## Quality improvement

### Initiatives to prevent dispensing errors

We have introduced a unique Barcode Dispensing Error Prevention System that utilizes barcode, and a Camera Monitoring Guidance System, the only one of its kind in the industry, to prevent dispensing errors caused by false assumptions. The Dispensing Business Division is working to create these systems to prevent dispensing errors.

### Barcode Dispensing Error Prevention System

When prescription details are entered into a computer terminal, it outputs a barcode, which is then checked against the same barcode-controlled medication to prevent human error, such as

#### ● Handheld (barcode audit)



mistakenly taking the wrong medication due to false assumptions. We have also made our own customizations to reduce errors even further. This system has been implemented in all dispensing departments of the SUNDRUG Group.

### Camera Monitoring Guidance System

From prescription checks to dispensing monitoring and advice on medication instruction, senior supervisors of pharmacists dedicated to dispensing and headquarters dispensing managers provide guidance to on-site pharmacists via high-performance television cameras installed in the dispensing facilities. Normally, other pharmacists perform checks in stores, but with the development and introduction of this system, we have established a system in which multiple pharmacists perform checks in any given situation. Currently, the system has been installed to all stores with dispensing facilities, and approximately 8,000 to 9,000 camera monitoring audits are conducted each month.

#### ● Camera monitoring audit



**Coexistence with local communities**

**1. Community contribution activities**

SUNDRUG contributes to the creation of “healthy, rich lives” by hosting health-related events such as Health/Beauty Measurement and Consultation Sessions and Health Promotion Workshops. We also conduct make-up therapy activities, in which SUNDRUG beauty experts deliver good health and smiles by providing make-up services to residents of nursing homes for the elderly.

**2. Support for child welfare facilities and disaster-affected areas**

SUNDRUG issues points based on the value of customers’ purchases and makes donations to socially beneficial activities in accordance with the number of points accumulated. This enables customers to contribute to the community by shopping at SUNDRUG.

**Diagram of the SUNDRUG Foundation**



**3. Contribution to society through the SUNDRUG Foundation**

The Group has established the SUNDRUG Foundation as its social engagement arm to pursue activities such as support for victims of disasters and contribution to local communities.

● SUNDRUG Foundation

When customers use their loyalty cards, SUNDRUG makes donations to socially beneficial activities in accordance with the number of points accumulated by customers. This enables customers to contribute to the community.

**Recent initiatives**

● **Signed Collaboration Agreement on Health Support with Hachioji City, Tokyo.**

We dispatch our pharmacists to the Karada Check\* project at the Minami-Osawa Health Center in Hachioji City to provide medication counseling.

\* Karada Check  
Hachioji City implements grip strength measurement, vascular age measurement, body composition measurement, and oral frailty measurement for the purpose of health promotion, including frailty prevention. Public health nurses, dietitians, and other health workers provide individual guidance and support for health promotion based on the measurement results.

● **Support in response to the Atami Mudslide Disaster**

We have started in-store fund-raising activities and donated the relief money received from our customers to Atami City.

● **Support activities for medical countermeasures in response to COVID-19**

We are collecting in-store donations at each of our Group stores for doctors, nurses, and others who are working in medical facilities in response to COVID-19. Donations collected at stores were donated to local governments in each of the prefectures where Group stores are located that are seeking medical assistance.

● **Donation of gloves as a countermeasure against the COVID-19 infection**

As a countermeasure against the COVID-19 infection, we donated 126,000 Dunlop Vinyl Gloves to the Ministry of Economy, Trade and Industry in Chiyoda-ku, Tokyo.

\* This activity is made possible by support from loyalty points of customers.

**Past initiatives**

● **Saga Scholarship Association support activities**

The Saga Scholarship Association, a part of Saga Prefecture’s project to promote the creation of towns, people, and work, is a foundation that supports the aspirations of young people and supports their future success. The association owns a student dormitory in Koganei City, Tokyo and we made donations to them as we agree with the content of the program that supports the success of young people.

● **Support activities for the Fukushima Earthquake Disaster**

We held in-store fund-raising activities and donated the relief money received from our customers to the Japan Association of Chain Drug Stores.

● **Relief activities for the torrential rain disaster in July 2020**

We have held in-store fund-raising activities and donated the relief money received from our customers to Fukushima Prefecture.

● **Relief activities for damage caused by the Hokkaido Eastern Iburi Earthquake**

We held in-store fundraising activities and donated the relief money received from our customers to Hokkaido.

● **Relief activities for the torrential rain disaster in western Japan**

We held in-store fundraising activities and donated the relief money received from our customers to Hiroshima, Okayama, and Ehime prefectures.

● **Relief activities for the torrential rain disaster in northern Kyushu**

The relief money from in-store fundraising activities and from the Group was donated.

● **Relief activities for the damage caused by the Kumamoto Earthquake**

The relief money from in-store fundraising activities and from the Group was donated.

● **Disaster recovery assistance for areas affected by Typhoon Eta (Kanto and Tohoku)**

We held in-store fundraising activities and donated the money received, as well as money from the SUNDRUG Foundation to five municipalities in Tochigi and Miyagi prefectures.

● **Disaster recovery assistance for areas affected by Typhoon Talas (Kii Peninsula flooding)**

We have held in-store fund-raising activities and donated the relief money received from our customers to Wakayama and Nara prefectures.

● **Donation of relief supplies to Ishinomaki City, Miyagi Prefecture**

The relief money from in-store fundraising activities and from the Group was donated. In addition, pharmacists participated in support activities as volunteers at evacuation centers in Miyagi Prefecture.

● **Donation of masks to Miyakonojo City following the eruption of Shinmoedake (Kyushu)**

We donated 2.5 million masks to Miyakonojo City as relief supplies.

● **Participation in Solapetite Kids Camp Charity**

A medical care facility was established in Hokkaido to provide children battling childhood cancer, heart disease, and other intractable diseases with a place to play without worrying about their illnesses or treatments and the SUNDRUG Group provided Dr. Sundrako goods.

● **Creation of SUNDRUG Forest**

We plant seedlings of mountain cherry trees, mountain maple trees, and chestnut trees in Kofu City, Yamanashi Prefecture, for the purpose of protecting forests in Japan, promoting CO<sub>2</sub> reduction, and raising social contribution and environmental awareness of employees through participation in volunteer activities.



● **Camellia planting event**

We are holding a camellia planting event for the TSUBAKI Beautify Camellia Island Campaign in Goto City, Nagasaki Prefecture. We are planting camellia seedlings with the mayor of Goto City, the winners of the campaign, and volunteers from Goto City.

● **Conducting make-up therapy at senior citizen facilities**

Beauty advisors visit facilities and work with facility users with a goal of making them smile through make-up.

● **Donation of goods to child welfare facilities (February 2015)**

We donated our first-aid band-aids (our private brand) and dried noodles (Goto Udon) to 40 child welfare facilities in Tokyo.

● **Donation of Prussian masks (high-performance masks) (March 2013)**

The SUNDRUG Foundation donated 300,000 Prussian masks to seven municipalities in Fukushima Prefecture: Iitate Village, Okuma Town, Katsurao Village, Tamura City, Namie Town, Futaba Town, and Minamisoma City. All municipalities have evacuation zones, and in some areas, radiation levels are high, and we were given a following word of thanks: “we would like to distribute these to residents for their temporary returns to their homes and during decontamination work.”

● **Donation of goods to local communities (February 2012)**

In response to the flu epidemic, we donated 21,000 alcohol hand gels and 490,000 disposable masks to municipalities in Kyushu and the Tokyo metropolitan area. In March 2015, we donated 2.87 million masks to local governments in Miyagi and Fukushima prefectures.

## Dialogue between officers

### We will work with External Officers to steadily implement reforms in order to promote sustainability management.

**Nobuhiko Sugiura**  
External Director

**Naoki Tada**  
Chairman and Director

With the aim of providing products of value and serving to enrich people's lives, the Group considers corporate governance to be an important management issue. Chairman and Director Naoki Tada and External Director Nobuhiko Sugiura will discuss recent initiatives and future issues.

#### The presence of External Officers is itself a part of risk management of the company

**Tada** My position as Chairman and Director is modeled after Walmart Inc. in the United States. As the Company approaches its 65th anniversary of its founding, we have been promoting a new growth strategy led by President Hiroshi Sadakata, while at the same time striving to carry on the corporate culture of working for the customer above all while sometimes fighting against industry norms, which is the starting point of SUNDRUG established by the Company's founder Yukimasa Tada and Chairman Tatsuro Saito. My role is diverse, including scouting, building a senior management development system, supporting the Board of Directors and the Nomination and Compensation Committee, proposing capital policies, proposing medium to long-term strategies, and serving as the point of contact for M&As. Strengthening corporate governance is also one of the areas I will focus on.

**Sugiura** Frankly speaking, the chain drugstore industry gave me the impression of a group of companies with strong owner authority. However, when I became an External Director of SUNDRUG in June 2014 and looked inside the company, things were being done democratically, as they should be. I now find it rewarding to be able to realize various reforms with everyone.

**Tada** External Directors not only attend meetings of the Board of Directors, but also provide valuable advice on reforms that lead to specific governance improvements. Typical examples are the reform of the whistle-blowing system and the establishment of a new Legal Division.

**Sugiura** What initially surprised me was to hear that there was very little whistle-blowing to begin with. Based on my experience as the head of the compliance department of a foreign financial institution and as an Outside Director of another company, I felt that the number of whistle-blowing cases was too small considering the size of a company as large as SUNDRUG, and I proposed the need for reform, including the fact that the labor union was the only whistle-blowing contact point at that time. The management was frankly aware that they had been overconfident in their communication with employees and that they should respond to the changing times, and they innovated the system all at once. Currently, the Legal Division, the Human Resource Division, and the external lawyers have been added as whistle-blowing contact points, and the number of reports has increased to a level that can be considered healthy from a general perspective.

**Tada** The Legal Division was newly established in 2021 as a result of advice from External Directors. We were given detailed instructions on specific organizational structures, including the necessary human resources, and now it is an important division in administrative charge of corporate governance, compliance, risk management, etc. In addition, we ask External Directors and Corporate Auditors to hold seminars on human rights issues and whistle-blowing systems, and their presence itself can be considered a check-and-balance role in the company and a form of risk management.

**Sugiura** I think it is true that SUNDRUG previously had a weak governance function for oversight compared to the strength of its business execution unit. However, under the new management

structure that President Hiroshi Sadakata assumed in 2019, there is a predisposition to proactively incorporate outside forces, and we quickly became aware of the importance of governance. It took time to start from scratch, including the establishment of the Legal Division, but thanks to the reforms we undertook in cooperation with the Internal Officers, I feel that the role of the External Officers has become concretely known to them.

I think it is one of the characteristics of SUNDRUG that External Officers are humble in a good sense, as employees they have met through forums such as seminars feel comfortable asking them questions.

#### In-depth discussion of management strategies to further raise the bar

**Tada** External Officers also provided advice to the Compensation and Nominating Committee in its efforts to revise the officer compensation system. Although the reform of compensation was a heavy-handed process due to our past history, we proceeded with the creation of specific rules while recognizing the compensation levels of other companies based on the experience of the External Officers themselves. In addition, revisions are made every year if there are areas that need to be improved.

**Sugiura** There may be times when an owner decides on officer compensation, such as when a company is founded. However, as a company grows, various systems will be questioned as to whether they are appropriate for a stock company. Part of this is the revision of the compensation system, which requires a system in which officer compensation is determined by certain rules, regardless of who the top management is. The system is being developed under the leadership of Chairman and Director Tada, who has also begun working on the compensation system for Executive Officers following that for Directors.

**Tada** Sustainability information and ESG/SDGs initiatives, which the revised Corporate Governance Code requires of Prime Market listed companies, also remain an issue. To promote sustainability management, SUNDRUG has identified five material issues: environment, compliance management, development of workplace environment, contribution to healthy and affluent living, and governance management. In the process of deciding on these material issues, we had many discussions



to address ESG/SDGs out in the field, not with idealism. We are currently working on identifying and compiling specific disclosure data, from general discussion to specifics. We are bracing ourselves to get our resolve tested to disclose information in a speedy and accurate manner from now on. Regarding human resources, we are actively investing in human capital as a human resource strategy, not as mere personnel affairs, by hiring mid-career executives and training female executives.

**Sugiura** I saw the ESG/SDGs policy that was formulated and felt that it was very meticulously crafted and a powerful declaration that will create the future of SUNDRUG. As the Chairman mentioned, we will now be tested on our ability to execute on our goals.

The drugstore business format, which has long been touted as a success myth, seems to be on the verge of a plateau. SUNDRUG has the ability to create new business formats, as it has done in the past with its Group company DIREX, which has been successful as a discount store. We need to establish new business styles such as e-commerce business for future growth. On the other hand, as External Officers, we also have a responsibility to SUNDRUG's shareholders. In order to confirm and oversee the content of the management strategy and help SUNDRUG become even better, we, the External Officers, are also asked how much passion and time we devote to getting to know SUNDRUG.

All of the External Officers, including myself, have been actively studying the business conditions such as by going to see the stores and visiting distribution centers, in order to respond to the attitude of the people of SUNDRUG who sincerely and actively listen to the voices of the External Directors.

**Tada** Amidst a rapidly changing external environment, the level of demand for ESG compliance and corporate governance is increasing and speeding up. We are aiming for an exemplary level as a Prime Market-listed company, and I have a strong sense of urgency that we have not caught up yet to this aspiration. We intend to continue to improve our risk management and internal controls to a higher level with the advice of our External Officers, including External Director Sugiura. To this end, we will work to create a system that enables in-depth discussions on management strategies with our External Officers, whose time, etc. available to us is limited, primarily by establishing an information sharing system that is as efficient and accurate as possible.



# Governance


## Corporate governance

### List of officers



**Hiroshi Sadakata**  
President and Representative Director

March 1989 Joined the Company  
 April 2001 Section Manager, Corporate Planning Office  
 January 2003 Deputy Manager, the Second Sales Division  
 April 2004 Manager, the Second Sales Division  
 April 2005 Executive Officer and Manager of the Second Sales Division  
 June 2008 Director and Manager of the Second Sales Division  
 December 2009 Director  
 December 2009 Vice President and Representative Director, DIREX CORPORATION  
 June 2014 President and Representative Director, DIREX CORPORATION  
 May 2019 President and Representative Director, the Company  
 May 2019 Director, DIREX CORPORATION  
 June 2020 Chairman and Representative Director, DIREX CORPORATION (to present)  
 April 2022 President and Representative Director, the Company (to present)



**Naoki Tada**  
Chairman and Director

May 1990 Joined the Company  
 April 1995 Section Manager, Corporate Planning Office  
 September 2000 President and Representative Director, IRYUSHOJI CO., LTD.  
 March 2001 Retired from the Company  
 June 2001 Director (Non-Executive Director), the Company  
 June 2007 President and Representative Director, Forest Co., Ltd. (currently Forest Mall Co., Ltd.)  
 June 2009 Chairman and Representative Director, Forest Co., Ltd.  
 April 2015 President and Representative Director, Forest Co., Ltd.  
 March 2019 Chairman and Representative Director, IRYUSHOJI CO., LTD. (to present)  
 March 2019 Chairman and Representative Director, Forest Mall Co., Ltd. (to present)  
 April 2019 Director and General Manager, Administrative Division, the Company  
 April 2022 Chairman and Director (to present)



**Yoshimitsu Sakai**  
Director

November 1983 Joined the Company  
 April 1998 Section Manager, Sales Division  
 April 2001 Deputy Manager, Store Development Division  
 April 2005 Executive Officer and Manager, Store Development Division  
 June 2010 Director and Manager, Store Development Division  
 March 2019 Executive Officer and Manager, Store Development Division  
 June 2022 Director and Manager, Store Development Division  
 July 2022 Director and General Manager, Store Development Division (to present)



**Takashi Tada**  
Director

April 1992 Joined Ito-Yokado Co., Ltd.  
 October 1996 Joined the Company  
 March 2001 Director (Non-Executive Director), IRYUSHOJI CO., LTD. (to present)  
 April 2001 Section Manager, Information Section, Merchandise Division, the Company  
 January 2003 Section Manager, Supplier Section, Merchandise Division  
 May 2005 Section Manager, Corporate Planning Office  
 December 2006 Retired from the Company  
 January 2007 Senior Managing Director, Yamaki SC Kaihatsu Co., Ltd. (currently Forest Mall Co., Ltd.)  
 June 2009 President and Representative Director, Forest Co., Ltd. (currently Forest Mall Co., Ltd.)  
 April 2014 President and Representative Director, C'sRetail Co., Ltd. (currently C's One Co., Ltd.)  
 March 2017 Retired from the position of C'sRetail Co., Ltd.  
 June 2017 Director, the Company (to present)  
 June 2017 Vice President and Representative Director, DIREX CORPORATION  
 May 2019 President and Representative Director, DIREX CORPORATION (to present)



**Nobuhiko Sugiura**  
External Director

April 1989 Joined The Hongkong and Shanghai Banking Corporation Limited  
 August 2001 Research Officer at Financial Research and Training Center of Policy and Legal Division, Planning and Coordination Bureau, Financial Services Agency  
 March 2004 Completed the Doctorate Course, Civil Legislation Major at the Graduate School of Law of the Chuo University (Doctor of Jurisprudence)  
 April 2006 Senior Legal Advisor, JP Morgan Securities Japan Co., Ltd.  
 April 2008 Professor at the Chuo Graduate School of Strategic Management (to present)  
 June 2014 External Director, the Company (to present)



**Masato Matsumoto**  
External Director

April 1979 Joined The Nomura Securities Investment Trust Sales Co., Ltd.  
 September 2002 Executive Officer, Mitsubishi Securities Co., Ltd. (currently Mitsubishi UFJ Securities Holdings Co., Ltd.)  
 May 2010 Managing Executive Officer, General Manager of Osaka Branch, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 June 2012 Senior Managing Director, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 June 2013 Executive Vice President, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 June 2015 Executive Vice President, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., Managing Executive Officer, Mitsubishi UFJ Financial Group, Inc.  
 June 2016 Chairman and Representative Director, MUS Business Service Co., Ltd.  
 July 2017 Advisor, SBS Holdings, Inc.  
 June 2018 External Director, the Company (to present)  
 March 2019 Outside Audit & Supervisory Board Member, SBS Holdings, Inc.  
 March 2021 Outside Director (Audit Committee Member), SBS Holdings, Inc. (to present)




**Tomoko Tsuji**  
External Director

April 1979 Joined Ajinomoto Co., Inc.  
 February 1987 Received a doctorate in Agriculture (former Laboratory of Applied Microbial Chemistry, the University of Tokyo)  
 March 1988 Postdoctoral Fellow at The Rockefeller University  
 November 1988 Postdoctoral Fellow at the Pennsylvania State University  
 December 1989 Joined Sagami Chemical Research Institute  
 May 1999 Joined FANCL CORPORATION  
 June 2007 Executive Director, General Manager of FANCL Research Institute, FANCL CORPORATION  
 May 2008 Advisor, Nippon Suisan Kaisha, Ltd. (currently Nissui Corporation)  
 April 2009 General Manager of Human Life Science R&D Center, Nippon Suisan Kaisha, Ltd.  
 May 2015 Executive Officer; General Manager of Ingredients Development Department, Group Merchandising Division, YOSHINOYA HOLDINGS CO., LTD. (to present)  
 June 2020 External Director, the Company (to present)  
 June 2022 Outside Member of the Board, FUJI OIL CO., LTD. (to present)



**Kazutoshi Yamashita**  
External Full-time Corporate Auditor

April 1983 Joined KOKUSAI Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)  
 April 1997 General Manager of Hachioji Branch, KOKUSAI Securities Co., Ltd.  
 September 2002 General Manager of Hiroshima Branch, Mitsubishi Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)  
 October 2005 Deputy General Manager of Institutional Marketing Second Division, Nagoya Branch, Mitsubishi UFJ Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)  
 April 2010 General Manager of Kochi Branch, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 June 2014 Director and General Manager of Kobe Branch, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.  
 June 2017 Full-time Corporate Auditor, MUS Business Service Co., Ltd.  
 June 2019 External Full-time Corporate Auditor, the Company (to present)



**Tetsuro Ozawa**  
External Corporate Auditor

April 1987 Admitted as a Member of Tokyo Bar Association  
 May 1993 Joined Oppenhoff & Rädler Law Office (Cologne, Germany)  
 June 1997 Completed Master Course of Laws of the University of Cologne  
 April 2002 Head, Ozawa General Law Office (to present)  
 June 2012 External Corporate Auditor, the Company (to present)



**Kazuma Shinohara**  
External Corporate Auditor

October 1998 Registered as Certified Public Accountant  
 January 2001 Joined SHINSOH Audit & Co  
 April 2007 Partner, SHINSOH Audit & Co  
 June 2012 External Corporate Auditor, the Company (to present)  
 September 2021 Representative, Shinohara CPA Office (to present)



**Kishiko Wada**  
External Corporate Auditor

April 1996 Joined Fuji Godo Law Office (to present)  
 July 2015 Outside Director, Toshiba Plant Systems & Services Corporation  
 April 2016 Practicing Attorney Professor for Civil Advocacy at the Legal Training and Research Institute of the Supreme Court  
 February 2020 Examiner for the Preliminary Bar Examination (Code of Civil Procedure)  
 March 2021 External Corporate Auditor, L is B Corp. (to present)  
 April 2021 Vice-President, the Dai-ichi Tokyo Bar Association Executive Director, Kanto Federation of Bar Associations  
 June 2022 External Corporate Auditor, the Company (to present)  
 Outside Director (Audit and Supervisory Committee Member), TAKAOKA TOKO CO., LTD. (to present)

### Skills matrix

	Name	Current positions at the Company	Corporate management	Industrial experience	Global	ESG	Finance / Accounting / M&A	Risk management / Legal affairs
Director	Hiroshi Sadakata	President and Representative Director	●	●		●		●
	Naoki Tada	Chairman and Director	●	●	●	●	●	
	Yoshimitsu Sakai	Director		●		●		
	Takashi Tada	Director	●	●		●		●
	Nobuhiko Sugiura	External Director			●	●	●	
Corporate Auditor	Masato Matsumoto	External Director	●			●	●	
	Tomoko Tsuji	External Director	●	●	●	●		
	Kazutoshi Yamashita	External Corporate Auditor				●	●	
	Tetsuro Ozawa	External Corporate Auditor			●	●	●	●
Corporate Auditor	Kazuma Shinohara	External Corporate Auditor				●	●	
	Kishiko Wada	External Corporate Auditor				●		●

## Basic approach

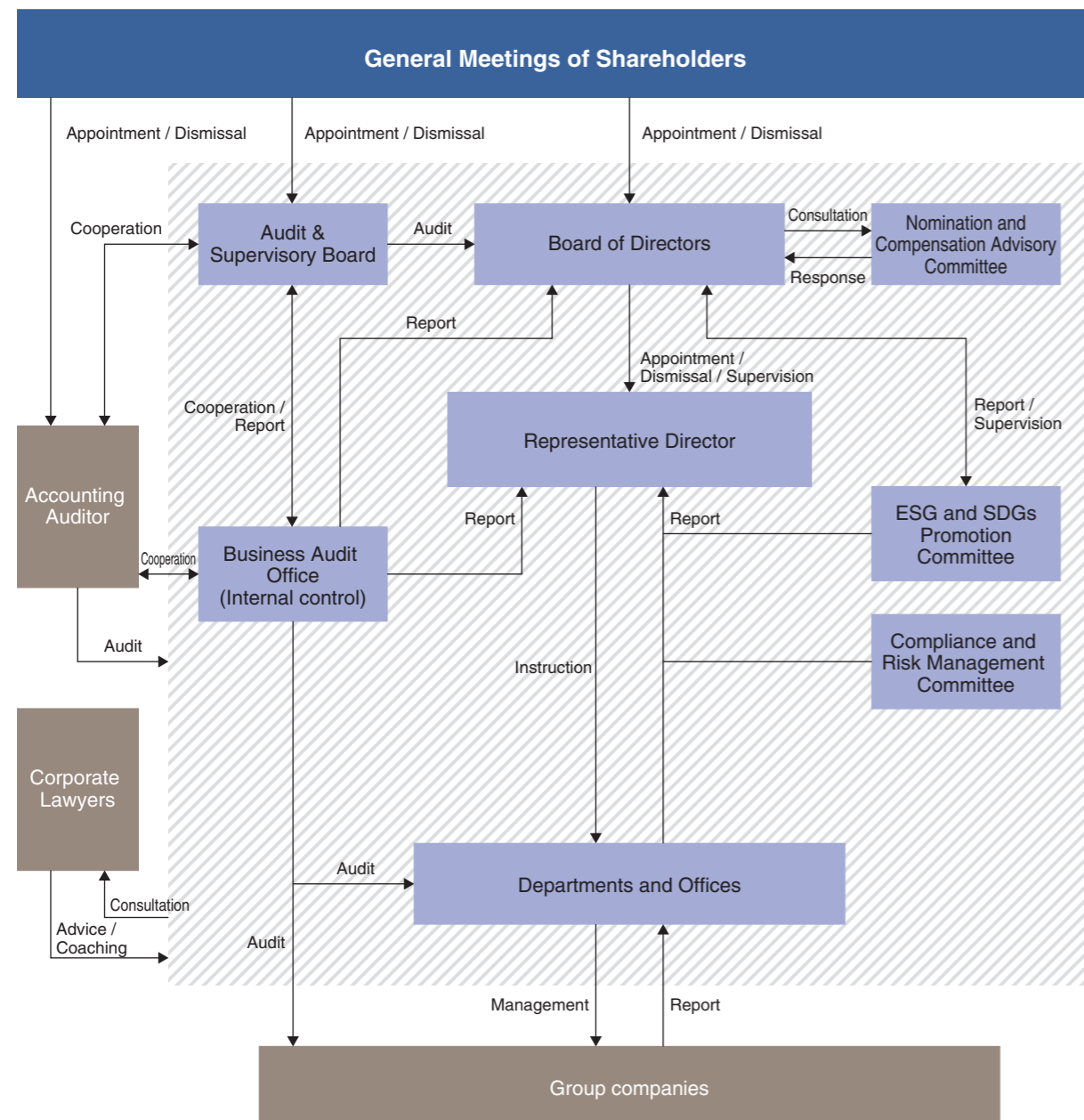
The Group has a corporate philosophy, such as “Provide safety, reliance and convenience,” and “Start immediately from what we can do right at the moment, try to illuminate even just one corner of the world, make best decisions for all customers, employees, shareholders, business partners, communities, society, and the global environment, and always act with thoughtfulness,” aiming to realize “healthy, rich lives” for the Japanese people and contribute to “the creation of good cheer and fun in daily life.”

We are aware of our responsibilities for all stakeholders, including shareholders, position corporate governance,

compliance, risk management, etc. as important management issues, establish a management system to make fair, transparent, and conscientious decisions from a medium- to long-term perspective, and disclose management strategies and plans in a timely and appropriate manner.

Furthermore, we adapt to changes in the environment, continuously enhance the significance of the Group’s existence, and strive for long-term, stable, and sustainable growth and higher corporate value of the Group.

## Corporate governance system



## Board of Directors

The Board of Directors makes decisions on management strategies, management plans, and other important management matters related to management in accordance with laws, regulations, the Articles of Incorporation, and the Regulations of the Board of Directors, with the aim of achieving sustainable growth of the Company and improving corporate value over the medium to long term. In addition, the Board of Directors supervises the overall management of the Company and its subsidiaries and affiliates mainly by ascertaining the status of the execution of duties by each Director, the status of important operations at subsidiaries and affiliates, and the operation status of internal control systems such as compliance and risk management at the Company and its subsidiaries and affiliates.

The Regulations for Approval Authority stipulated by the Board of Directors clearly defines the authority of the Board of Directors, the President, each General Manager, each Department Manager, etc., and such information is disclosed to all employees. The respective decision-making bodies and decision-makers make decisions after deliberation with the relevant Department Managers, etc., and execute their operations.

## Audit & Supervisory Board

The Audit & Supervisory Board consists of four Corporate Auditors, including one Full-time External Corporate Auditor and three External Corporate Auditors. The Full-time External Corporate Auditor attends the Board of Directors meetings, as well as the Management Committee, Compliance and Risk Management Committee, and other major meetings, cooperates with the Accounting Auditor and the Business Audit Office to audit the status of the execution of duties by Directors and others from an objective and neutral standpoint, and also works to enhance the audit function through monthly meetings of the Audit & Supervisory Board, as well as through the sharing of information and exchange of opinions with other Corporate Auditors as necessary.

## Nomination and Compensation Advisory Committee

The Company is a company with an Audit & Supervisory Board. The Board of Directors consists of seven Directors, three of which are Independent External Directors.

With respect to the nomination and compensation of Directors, the Company has established a voluntary Nomination and Compensation Advisory Committee to obtain appropriate involvement and advice, especially in light of the need to strengthen independence, objectivity, and accountability. The Nomination and Compensation Advisory Committee consists of three External Directors and two Internal Directors. The majority of the committee consists of External Directors, which enhances independence, objectivity, and transparency (including gender and other diversity and skill perspectives).

The members of the Nomination and Compensation Advisory Committee shall be appointed by a resolution of the Board of Directors.

The Nomination and Compensation Advisory Committee shall, in consultation with the Board of Directors, deliberate and report to the Board of Directors on the following matters.

## Diversity and structure of the Board of Directors

The Company’s Board of Directors consists of Directors and Corporate Auditors (the number of Directors is limited to ten and Corporate Auditors to four as stipulated in the Articles of Incorporation). It is composed of a small number of elite members to ensure prompt and accurate information grasping and full discussion and decision-making with the participation of all Directors.

When appointing candidates for Directors, we select Internal Directors who are familiar with the Company’s business and have a high level of professional knowledge, abundant experience, and insight, and External Directors who have abundant outside experience and a high level of professional knowledge, such as management experience at other companies and graduate school professors (Doctor of Jurisprudence), and who can be expected to perform supervisory and advisory functions. The Board of Directors determines the candidates after receiving the report of the Nomination and Compensation Advisory Committee, taking into consideration diversity and overall balance to ensure the sustainable growth of the Company.

## Evaluations of the effectiveness of the Board of Directors

The Company conducts an evaluation questionnaire on the effectiveness of the Board of Directors for all Directors and Corporate Auditors who attend the meetings, based on their self-evaluations. Based on the results of the questionnaire, the Board of Directors exchanges opinions on the effectiveness and works to make further improvements.

The contents and results are disclosed on the website.

### 1. Evaluation method

All Directors and Corporate Auditors, including those from outside the Company, were asked to complete an evaluation with their names on the effectiveness of the Board of Directors, based on the questionnaire on the effectiveness of the Board of Directors prepared by the secretariat, and to provide a self-assessment as well to propose issues in a free column. Based on the results of the questionnaire, we exchanged opinions and deliberated on future measures to share recognition of issues and improve the effectiveness and functionality of the Board of Directors, and evaluated the results.

### 2. Summary of the results of the analysis and evaluation of the effectiveness of the Board of Directors

The size, frequency, duration and other matters of the Board of Directors meetings were mostly appropriate, with free and vigorous discussions taking place. With regard to the previously-addressed issue of External Directors visiting operational sites, a distribution center visit was conducted. In addition, the appointment of a female External Director to the Board of Directors has helped to ensure a certain degree of diversity among the members of the Board of Directors, and the overall effectiveness of the Board of Directors has been generally evaluated as satisfactory.

However, we recognize that there is room for improvement, which is an issue for the future, in such areas as (1) deepening discussions on medium to long-term management strategies through debates on current management issues, (2) further improving the number, quantity, content, and quality of agenda items, and (3) further promoting the active participation of women through the appointment of female External Directors, as well as the need to promote refinement and examination for further improvement of the effectiveness of the system.

### 3. Future response

The Company will continue its efforts to improve the effectiveness and vitality of the Board of Directors, as we continue to deepen discussions on management issues and strategies that will contribute to medium-to long-term corporate value enhancement with a view to the future of the industry, including further enhancement, early provision, and improvement of advance materials and explanations; making internal conditions known to External Officers, including reports of various committees at the Board of Directors, to enable them to make appropriate judgments; further efforts to utilize the insights of External Officers at the Board of Directors; thorough compliance and corporate governance; and efforts to identify and train successors, including the CEO.

## Reasons for appointment of External Directors and Corporate Auditors / Attendance at Board Meetings

Position and name	Reasons for appointment	Attendance at Board Meetings
External Director Nobuhiko Sugiura	As an academician, Mr. Nobuhiko Sugiura is a member of the Financial Services Agency Advisory Council, and as a graduate school professor (Doctor of Jurisprudence), he has abundant knowledge of corporate management strategy and compliance. We have determined that he is capable of supervising the Company's management from an objective and neutral standpoint and that there is no risk of a conflict of interest between him and general shareholders. Therefore, we have appointed him as an External Director and designated him as an independent officer.	100% (17/17)
External Director Masato Matsumoto	Mr. Masato Matsumoto has extensive experience in the management of financial and other institutions, and possesses a high level of insight and supervisory capability with respect to management. We have determined that he is capable of supervising the Company's management from an objective and neutral standpoint and that there is no risk of a conflict of interest between him and general shareholders. Therefore, we have appointed him as an External Director and designated him as an independent officer.	100% (17/17)
External Director Tomoko Tsuji	As a Doctor of Agriculture, Ms. Tomoko Tsuji has experience and knowledge in strategic promotion management from multiple perspectives in the retail industry, including R&D. We have determined that she is capable of supervising the Company's management from an objective and neutral standpoint and that there is no risk of a conflict of interest between her and general shareholders. Therefore, we have appointed her as an External Director and designated her as an independent officer.	100% (17/17)
External Corporate Auditor Kazutoshi Yamashita	Mr. Kazutoshi Yamashita has considerable knowledge of and extensive insight into finance and accounting, having held various positions at financial institutions, and he has served as a full-time corporate auditor and is well versed in corporate governance and auditing. We have determined that he has monitoring and auditing functions independent of the Company's management, that he is capable of auditing from an objective and neutral standpoint, and that there is no risk of a conflict of interest between him and general shareholders. Therefore, we have appointed him as an External Corporate Auditor and designated him as an independent officer.	100% (17/17)
External Corporate Auditor Tetsuro Ozawa	As a Lawyer, Mr. Tetsuro Ozawa has expertise and extensive experience in legal and other matters. We have determined that he has monitoring and auditing functions independent of the Company's management, that he is capable of auditing from an objective and neutral standpoint, and that there is no risk of a conflict of interest between him and general shareholders. Therefore, we have appointed him as an External Corporate Auditor and designated him as an independent officer.	100% (17/17)
External Corporate Auditor Kazuma Shinohara	As a Certified Public Accountant, Mr. Kazuma Shinohara has expertise and extensive experience in accounting and other matters. We have determined that he has monitoring and auditing functions independent of the Company's management, that he is capable of auditing from an objective and neutral standpoint, and that there is no risk of a conflict of interest between him and general shareholders. Therefore, we have appointed him as an External Corporate Auditor and designated him as an independent officer.	100% (17/17)
External Corporate Auditor Kishiko Wada	As a Lawyer, Ms. Kishiko Wada has expertise and extensive experience in legal and other matters. We have determined that she has monitoring and auditing functions independent of the Company's management, that she is capable of auditing from an objective and neutral standpoint, and that there is no risk of a conflict of interest between her and general shareholders. Therefore, we have appointed her as an External Corporate Auditor and designated her as an independent officer.	—

## Officer compensation system

## Matters concerning policy for determining total amount of compensation for Directors and Corporate Auditors and compensation, etc. for individual Directors and Corporate Auditors

The compensation system for Internal Directors consists of fixed compensation based on their position in the Company and variable compensation in the form of bonuses and stock options as an incentive linked to business performance and efforts to improve business performance over the medium to long term. In addition, External Directors and Corporate Auditors receive only fixed compensation.

Regarding compensation for officers, etc., the compensation for Directors is determined by the Board of Directors and that for Corporate Auditors is determined by the Audit & Supervisory Board within the limit of compensation approved by resolution of the General Meeting of Shareholders in accordance with internal regulations, after gaining advice and reports based on the results of deliberations by the voluntary Nomination and Compensation Advisory Committee consisting of all External Directors (3 persons), the President and Representative Director, and the Chairman and Director.

The Nomination and Compensation Advisory Committee met five times during the fiscal year under review, and its themes included a proposal for officer compensation (including bonuses for Internal Directors), a proposal for the design of the compensation system, and a proposal for the selection of candidates for Directors and Corporate Auditors, and the committee reported the results of its review to the Board of Directors.

Because the total amount of compensation for Directors and the amount of compensation for each individual Director were determined through the above procedures, the Board of Directors believes that the content of these decisions is in line with the decision-making policy.

The ratio of fixed compensation, variable bonuses, and stock options is in the range of (63.0 - 33.3) : (21.0 - 57.9) : (5.2 - 7.6), although the ratio of each type varies depending on performance and achievement of evaluation items.

## Details of compensation

Officer category	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)			Number of eligible officers (persons)
		Fixed compensation	Variable compensation		
			Basic compensation	Bonuses	
Internal Directors	75	35	35	5	4
External Directors	18	18	—	—	3
Internal Corporate Auditors	—	—	—	—	—
External Corporate Auditors	12	12	—	—	3

(Notes) 1. The number of Directors paid of seven includes one Internal Director who resigned in April 2021.  
2. The amount of compensation, etc. paid to Internal Directors does not include employee salaries for Directors who concurrently serve as employees.  
3. The Company's officers receive compensation, etc. only from the Company and not from any of its consolidated subsidiaries.

## Matters related to fixed compensation and performance-linked compensation, etc.

The fixed compensation for Internal Directors is determined in accordance with the Officer Compensation Regulations and is commensurate with each position as compensation for management delegation.

Bonuses are paid to Directors as performance-linked compensation, etc. in order to further enhance motivation and morale of Directors to improve business performance, thereby ensuring a sustained improvement in corporate value. The method is to determine the total amount of base Director bonuses based on the payment standards stipulated in the Officer Compensation Regulations in accordance with the ratio of the increase in consolidated ordinary profit to consolidated net sales for each fiscal year, etc., and then to proportionally distribute the total amount to each Director according to their position. The amount is increased or decreased according to the performance evaluation and qualitative evaluation of each individual Director, and the payment amount is determined based on the advice and report of the voluntary Nomination and Compensation Advisory Committee consisting of all External Directors (3 persons), the President and Representative Director, and the Chairman and Director.

## Details of non-monetary compensation

The Company grants stock-based compensation to Directors in order to enhance their value sharing with shareholders through shareholdings, thereby continuously improving the Company's corporate value. Such compensation comprises stock compensation-type stock options and the number of stock options granted is determined in accordance with the Stock Compensation-type Stock Option Regulations, with an annual value of ¥30 million and a maximum number of 12,000 shares.

## Policy on strategic shareholdings

The Company makes a distinction between investment shares held for pure investment purposes and investment shares held for purposes other than pure investment (strategic shareholdings), and acquires and holds such shares as strategic shareholdings when the Company judges that such shares will contribute to medium- to long-term enhancement of corporate value, such as building, maintaining, and strengthening relationships with business partners and business alliances.

The Company's policy is to reduce its current strategic shareholdings, which are not cross-shareholdings, as appropriate, taking into consideration stock prices and market trends.

With regard to strategic shareholdings, the Board of Directors regularly reviews the rationality and necessity of continued holdings from a medium to long-term perspective for each individual issue, in comparison with the cost of capital, every year to determine whether or not to retain the shares.

The rationale for holding the shares is examined with respect to the acquisition process, the nature of the business relationship, the current and future strategic significance and risk of the holding, the comparison with the cost of capital, and other items.

## Number of issues and balance sheet amount

	Number of issues	Total amount on the balance sheet (million yen)
Unlisted stocks	2	1
Stocks other than unlisted stocks	5	103

## Preparing for and responding to risks

## Concept of risk management

The SUNDRUG Group positions risk management as an important management issue, and works to identify risks hidden in business activities, such as large-scale disasters and customer information leaks, and strengthen our system to manage them. The Group has established a system, in which, at normal times, each department identifies risks it has and works to mitigate them, and at an emergency, a task force is formed as stipulated in the Risk Management Regulations and the Group as a whole responds to the emergency. As for Corporate Lawyers, the Group has concluded advisory contracts with four law firms, and whenever we have a legal issue related to management or operations, we consult with and get advice from them. The Group thus strives to avoid and mitigate unforeseeable risks as much as possible.

Major matters that are deemed to be business risks of the SUNDRUG Group are as follows. (For details, please refer to the Annual Securities Report.)

- (1) Risks related to businesses of managing pharmacies and selling pharmaceuticals, cosmetics, daily sundries, etc.
- (2) Risks related to the financial position and operating results
- (3) Risks related to legal regulations
- (4) Risks related to litigation, etc.
- (5) Risks related to the business structure

## 1. Establishment and operation of the Compliance and Risk Management Committee

In order to identify issues related to compliance and risks and respond to them appropriately, the Group has established the Compliance and Risk Management Committee, which is chaired by the President and consists of Directors and Department Managers. The Committee is responsible for reporting compliance cases related to business operations, formulating and instructing response policies, and establishing the foundation of the compliance system (promotion and education systems, promotion and audit plan formulation, etc.). External Full-time Corporate Auditors and the General Manager of the Business

Audit Office also participate in the Committee to share information promptly and work in cooperation. Of the contents of deliberations of the Compliance Committee, important matters are reported at Board of Directors' meetings.

## 2. Compliance education

The Group creates a Compliance Guidebook so that employees can always refer to it for the latest laws and regulations that are essential for those engaged in a pharmacy and drugstore business or a retail business, such as the Act on Pharmaceuticals and Medical Devices, the Food Recycling Act, and the Antimonopoly Act. In addition to laws and regulations, the guidebook presents issues, including the prohibition of harassment, insider trading, and discrimination. The Group thus works to raise awareness of compliance widely among employees (including part-time employees). Furthermore, the Group gives a compliance exam once every six months to confirm and establish knowledge in line with constant revisions to laws and regulations.

## 3. Establishment and operation of compliance hotlines (a whistle-blowing system)

The SUNDRUG Group has established a whistle-blowing system that allows all officers, employees, and all people working in the Group to directly report and ask for resolution of compliance issues. The hotlines are located not only inside the Company but also outside the Company (lawyers). Regarding the whistle-blowing system, internal regulations of the Group strictly stipulate that confidentiality of whistleblowers be protected and disadvantageous treatment of whistleblowers be prohibited. In addition, the Group has strengthened activities to make the above hotlines broadly known in order to raise awareness and understanding of them.

## Code of Conduct for Business Partners

## Code of Conduct for Business Partners

The SUNDRUG Group aims to create good cheer and fun in daily life to realize healthy, rich lives for the Japanese people, which is our corporate philosophy, through drugstore, dispensing pharmacy, cosmetics store, and variety store operations. To pursue this philosophy, we believe it is essential to practice responsible conduct and maintain the respect of all stakeholders for being a corporate group that is well equipped to discharge its responsibilities to society. The SUNDRUG Group has established a Group Code of Conduct to be observed in the course of work, as a set of norms for an organization that regulates itself in relation to society. Based on this approach, we have also established a Code of Conduct for Business Partners, in order to contribute to the realization of a sustainable society across the entire supply chain.

## Application of the Code of Conduct for Business Partners

- (1) We ask our business partners to understand the Code of Conduct for Business Partners (hereinafter referred to as "the Code") and pursue their activities in accordance with it.
- (2) We ask our business partners to take steps to put the Code into practice not only within their own companies but also encompassing the suppliers that they deal with.
- (3) We ask our business partners to cooperate with sharing information on adherence to the Code with the SUNDRUG Group as necessary.
- (4) We ask our business partners to report to SUNDRUG Group operating company with which they deal in the event that they detect conduct in contravention of the Code. In addition, we will take corrective action promptly, and institute countermeasures to prevent recurrence.



For details, please refer to the Annual Securities Report.



<https://www.sundrug.co.jp/ir/irdata/securities>

## Business and other risks

Major matters that are deemed to be business risks of the Group are as follows. Although we proactively disclose items that do not necessarily fall under the category of business risks, but are considered important for investment decisions, they do not cover all of the business risks of the Group. The following items are based on our judgment as of the end of the fiscal year under review.

### Risks related to businesses of managing pharmacies and selling pharmaceuticals, cosmetics, daily sundries, etc.

- (1) The Group operates four types of stores: drugstores, dispensing pharmacies, drugstores with dispensing facilities, and discount stores.

In the dispensing business, which is operated at 115 of all the Group's stores, the number of prescriptions received is expected to increase further as the separation of medical and dispensary practice progresses. In the future, the Group may be subject to lawsuits or administrative penalties due to defects in dispensed drugs, dispensing errors, etc. In such cases, the Group's social credibility may be damaged and it may impact business performance.

The Group is working to improve the skills related to dispensing operations and knowledge of pharmaceuticals throughout the Group supported by the Dispensing Division, and is conducting dispensing operations with the utmost care under a thorough management system to prevent dispensing errors. In addition, to prevent dispensing error risks and improve efficiency, we have installed audit check cameras and are considering further investment in introducing dispensing robots to reduce risks. Furthermore, all stores have pharmacy liability insurance for risk management.

- (2) Dispensing fees and pharmaceuticals used with prescriptions or guidance (drug prices) related to sales of dispensing business are set by laws and regulations. Future revisions of these dispensing fees and drug prices may impact business performance.

The Group focuses on the sustainable implementation of low-cost operations and the promotion of cost reductions and the maintenance and improvement of profit margins to mitigate risks by constructing a further advanced system that utilizes ever-evolving digital, AI and IoT and by improving productivity through investments in labor-saving and efficiency-enhancing operations.

- (3) Although the Group purchases most of its products from wholesalers and some from manufacturers, purchase prices may fluctuate, which may affect sales and gross profit.

In order to respond to market fluctuations and to support and uncover customer needs, the Group is working to mitigate risks by strengthening the development of new private brand products (high value-added products and functional, low-priced products).

- (4) In the event of a natural disaster such as a major earthquake, an unexpected accident or crime, or a pandemic of a new virus or bacterial infection at the Group's headquarters, stores, or distribution centers, human casualties, physical damage, supply chain disruptions, etc. at each location.

This could disrupt business activities and impact business performance. To minimize the risk of damage and contribute to the affected areas, the Group conducts training and drills based on a Disaster Response Manual at the headquarters and all stores on a regular basis each year. In addition, the spread of COVID-19 has affected station-front stores due to factors including the loss of demand from overseas visitors. Depending on the future course of events, there is a possibility that this will further impact business performance. The Group is committed to ensuring that customers can use our services with peace of mind by taking thorough measures to prevent infectious diseases, prioritizing the safety of customers and employees, and supporting customers through products and services that prevent infectious diseases.

### Risks related to the financial position and operating results

- (1) In the drugstore industry, competition from other industries, in addition to aggressive store openings by other companies in the same industry, may impact the Group's business performance primarily due to a decrease in the number of customers visiting stores and lower unit sales prices.

In addition, rents and other costs may soar due to competition for properties as other companies in the same industry and other industries aggressively open new stores. Under these circumstances, as for the Group's selection of new store openings, the number of planned new stores may be subject to change if there are no properties that meet the Group's strict criteria for new store openings, and this may impact the Group's business outlook.

The Group is mitigating risks by easing criteria for store openings through strengthening M&As and store development strategies and improving profitability with more

accurate merchandising and enhanced sales promotion planning; increasing diversity by recruiting personnel including talented new graduates and mid-career workers with expertise and ability to make an immediate contribution; and strengthening the quality of personnel by further enhancing training programs.

- (2) In some cases, the Company deposits or lends security deposits, guarantee money, construction cooperation money, etc. to lessors under store lease contracts. However, it may be difficult to collect such deposits or loaned funds due to reasons such as the bankruptcy of the lessor.

The Group endeavors to collect information on the financial condition of the lessor and the establishment of security interests, etc. in order to avoid as much risk as possible.

## Risks related to legal regulations

### (1) Legal regulations

In order to sell pharmaceuticals, etc. as defined in the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (hereinafter referred to as "Pharmaceuticals and Medical Devices Act"), the Group is required to obtain registration, designation, and license from each prefecture and make notification according to the details of such sales. In addition, the sale of alcoholic beverages, food products and the like also requires approval, registration, etc. by the competent government agencies in accordance with the relevant laws and regulations. Accordingly, any changes such as revisions to these laws and regulations may impact store operations, etc.

### (2) Deregulation of pharmaceutical sales

The Act to Partially Amend the Pharmaceutical Affairs Act (promulgated on December 13, 2013, effective June 12, 2014) has effectively lifted the ban on online sales of OTC pharmaceuticals. Currently, pharmacists are required to provide information on pharmaceuticals when selling Type 1 pharmaceuticals. However, further deregulation and intensified competition from other industries may impact the Group's business plans and business performance in the future.

In order to mitigate the risks described in (1) and (2) above, the Group is taking steps to promptly respond to the revision of the law by further refining and providing its training programs, which are focused on developing human resources to think one step ahead and act half a step ahead as part of its corporate philosophy.

### (3) Securing qualified personnel

Pharmacies and pharmaceutical sales businesses are required by the Pharmaceuticals and Medical Devices Act to have a pharmacist or registered seller at each store, and pharmacists must perform dispensing operations. Therefore, the number of pharmacists and registered sellers enrolled is an important limiting factor for new store openings.

In the drugstore industry, competition to recruit pharmacists continues to intensify due to factors such as the aggressive opening of new stores by other companies in the same industry. As a result, recruitment costs and other expenses for securing pharmacists are expected to continue to rise. In the area of registered sellers as well, there are concerns that more and more companies from other industries will enter the pharmaceutical sales market, and that registered sales clerks will be lured away by these other industry companies. Under these circumstances, if we are unable to secure the pharmacists and registered

sellers needed to open new stores, this could impact the Group's plans for opening new stores and impede growth, and even if pharmacists and registered sellers are secured, continued increases in labor costs could impact the Group.

The Group aims to be a company where each and every employee, regardless of gender, can demonstrate their abilities and actively participate in their work, and we strive to secure human resources by creating a comfortable working environment and various systems primarily in terms of working styles and treatment to accommodate the diversification of work styles, as well as an operational system that constantly strives to improve employment management while keeping abreast of external changes.

(Note that the Company received (1) Eruboshi certification of three stars (the highest rating) based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace and (2) Platinum Kurumin certification based on the Act on Advancement of Measures to Support Raising Next-Generation Children from the Minister of Health, Labour and Welfare. Moreover, we have acquired the Tomonin Mark as a company that supports achieving a balance between work and family care (nursing care).

In addition, we are working to increase the number of employees who pass examinations and reduce the risk of a shortage of qualified employees by enhancing our training system that encourages employees to obtain various qualifications and our system for granting study time for examinations.

### (4) Protection of personal information

The Group retains information including customer information associated with the operation of the point card system and patient and employee information associated with dispensing operations, which is managed by computer. In accordance with the Act on the Protection of Personal Information, we take all possible measures to manage such information. However, in the unlikely event of an information leak, the Group's business performance could be impacted by such reasons as loss of social credibility.

In accordance with the Act on the Protection of Personal Information, the Group has established an information management system, which is monitored by the Business Audit Office. The Group also takes measures to mitigate risks through periodic training sessions and status checks by the Compliance and Risk Management Committee.

## Risks related to litigation, etc.

Although the Group has never been sued in connection with its pharmaceutical sales or dispensing operations and has an internal system in place to deal with legal risk management, the nature of the business of prescribing and selling pharmaceuticals makes it susceptible to litigation.

Depending on the details and amount of litigation, it could have an impact on business performance.

The Group holds regular and ad-hoc meetings of the Compliance and Risk Management Committee to strengthen its systems.

In addition, the Group is working to mitigate risks by having pharmacists and registered sellers actively participate in internal and external training programs to familiarize them with revisions to the Pharmaceuticals and Medical Devices Act and to acquire more advanced knowledge of pharmaceutical affairs. Meanwhile, we also dispatch lecturers to industry and other training sessions.

## Risks related to the business structure

The President and Representative Director and other members of the management team play important roles in each business areas. In the event that these officers are unable to execute their duties, it may impact our business performance.

The Group has developed a system for officers and candidates for officers to participate in training programs (e-learning),

providing them with systematic learning, including governance and compliance. We are also promoting the development of the management team members by enhancing the training system to provide employees by position with training programs for compliance, management, etc.



## Consolidated Balance Sheets

(Million yen)

	For the fiscal year As of March 31, 2021	For the fiscal year As of March 31, 2022		For the fiscal year As of March 31, 2021	For the fiscal year As of March 31, 2022
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and deposits	86,495	89,330	Accounts payable - trade	65,297	67,029
Accounts receivable - trade	18,414	19,108	Income taxes payable	7,566	5,199
Merchandise	72,363	72,415	Contract liabilities	—	4,301
Raw materials and supplies	143	126	Provision for point card certificates	3,914	—
Accounts receivable - other	13,095	14,352	Other	18,338	19,514
Other	3,753	4,209	<b>Total current liabilities</b>	<b>95,116</b>	<b>96,045</b>
Allowance for doubtful accounts	(3)	(4)	<b>Non-current liabilities</b>		
<b>Total current assets</b>	<b>194,262</b>	<b>199,537</b>	Retirement benefit liability	1,481	1,696
<b>Non-current assets</b>			Asset retirement obligations	4,809	5,300
<b>Property, plant and equipment</b>			Other	1,963	2,133
Buildings and structures	83,801	94,904	<b>Total non-current liabilities</b>	<b>8,254</b>	<b>9,130</b>
Accumulated depreciation	(37,018)	(39,947)	<b>Total liabilities</b>	<b>103,371</b>	<b>105,175</b>
<b>Buildings and structures, net</b>	<b>46,782</b>	<b>54,957</b>	<b>Net assets</b>		
Land	8,074	7,639	<b>Shareholders' equity</b>		
Other	45,005	51,304	Share capital	3,931	3,931
Accumulated depreciation	(32,693)	(36,046)	Capital surplus	7,414	7,430
<b>Other, net</b>	<b>12,312</b>	<b>15,257</b>	Retained earnings	200,007	215,145
<b>Total property, plant and equipment</b>	<b>67,169</b>	<b>77,855</b>	Treasury shares	(3,977)	(3,939)
<b>Intangible assets</b>			<b>Total shareholders' equity</b>	<b>207,376</b>	<b>222,567</b>
Goodwill	16	2	<b>Accumulated other comprehensive income</b>		
Other	5,287	5,951	Valuation difference on available-for-sale securities	59	56
<b>Total intangible assets</b>	<b>5,304</b>	<b>5,954</b>	Revaluation reserve for land	(2,248)	(1,940)
<b>Investments and other assets</b>			Remeasurements of defined benefit plans	(106)	(120)
Investment securities	300	296	<b>Total accumulated other comprehensive income</b>	<b>(2,295)</b>	<b>(2,003)</b>
Long-term loans receivable	7,172	7,704	<b>Share acquisition rights</b>	<b>75</b>	<b>28</b>
Deferred tax assets	6,375	6,435	<b>Total net assets</b>	<b>205,156</b>	<b>220,592</b>
Deferred tax assets for land revaluation	992	856	<b>Total liabilities and net assets</b>	<b>308,528</b>	<b>325,768</b>
Leasehold and guarantee deposits	24,730	25,207			
Other	2,225	1,926			
Allowance for doubtful accounts	(5)	(4)			
<b>Total investments and other assets</b>	<b>41,791</b>	<b>42,420</b>			
<b>Total non-current assets</b>	<b>114,265</b>	<b>126,230</b>			
<b>Total assets</b>	<b>308,528</b>	<b>325,768</b>			

## Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
<b>Net sales</b>	<b>634,310</b>	<b>648,734</b>
<b>Cost of sales</b>	<b>475,760</b>	<b>492,228</b>
<b>Gross profit</b>	<b>158,550</b>	<b>156,506</b>
<b>Selling, general and administrative expenses</b>		
Provision for point card certificates	325	—
Salaries, allowances and bonuses	44,478	46,514
Retirement benefit expenses	528	600
Rent expenses	25,974	27,578
Other	49,896	47,762
<b>Total selling, general and administrative expenses</b>	<b>121,204</b>	<b>122,454</b>
<b>Operating profit</b>	<b>37,345</b>	<b>34,052</b>
<b>Non-operating income</b>		
Interest income	125	122
Dividend income	5	6
Commission income	99	70
Subsidy income	96	33
Gain on receipt of donated non-current assets	345	301
Other	216	159
<b>Total non-operating income</b>	<b>890</b>	<b>693</b>
<b>Non-operating expenses</b>		
Interest expenses	6	9
Other	0	0
<b>Total non-operating expenses</b>	<b>7</b>	<b>10</b>
<b>Ordinary profit</b>	<b>38,228</b>	<b>34,734</b>
<b>Extraordinary income</b>		
Gain on sale of non-current assets	119	290
Insurance claim income	36	—
Penalty income	5	—
Compensation income	9	51
National subsidies	73	114
Other	10	3
<b>Total extraordinary income</b>	<b>255</b>	<b>459</b>
<b>Extraordinary losses</b>		
Loss related to infectious disease	581	—
Loss on sale of non-current assets	15	58
Loss on retirement of non-current assets	92	143
Loss on cancellation of rental contracts	158	147
Impairment losses	229	110
Loss on tax purpose reduction entry of non-current assets	54	29
Other	163	28
<b>Total extraordinary losses</b>	<b>1,295</b>	<b>519</b>
<b>Profit before income taxes</b>	<b>37,188</b>	<b>34,675</b>
<b>Income taxes - current</b>	<b>12,338</b>	<b>10,738</b>
<b>Income taxes - deferred</b>	<b>(479)</b>	<b>83</b>
<b>Total income taxes</b>	<b>11,859</b>	<b>10,821</b>
<b>Profit</b>	<b>25,329</b>	<b>23,853</b>
<b>Profit attributable to non-controlling interests</b>	<b>—</b>	<b>—</b>
<b>Profit attributable to owners of parent</b>	<b>25,329</b>	<b>23,853</b>

## Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
<b>Profit</b>	<b>25,329</b>	<b>23,853</b>
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	28	(2)
Revaluation reserve for land	1,011	308
Remeasurements of defined benefit plans, net of tax	20	(13)
<b>Total other comprehensive income</b>	<b>1,060</b>	<b>292</b>
<b>Comprehensive income</b>	<b>26,390</b>	<b>24,145</b>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,390	24,145
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
<b>Cash flows from operating activities</b>		
Profit before income taxes	37,188	34,675
Depreciation	8,663	10,209
Impairment losses	229	110
Loss on tax purpose reduction entry of non-current assets	54	29
Increase (decrease) in retirement benefit liability	124	214
Increase (decrease) in allowance for doubtful accounts	(16)	(0)
Increase (decrease) in provision for point card certificates	325	(3,914)
Increase (decrease) in contract liability	—	4,301
Interest and dividend income	(131)	(129)
Interest expenses	6	9
State subsidy	(73)	(114)
Loss on retirement of non-current assets	92	143
Decrease (increase) in trade receivables	(3,604)	(693)
Decrease (increase) in inventories	(3,582)	(34)
Decrease (increase) in accounts receivable - other	(16)	(1,256)
Increase (decrease) in trade payables	603	1,731
Increase (decrease) in accrued expenses	273	34
Increase (decrease) in long-term deposits received	51	10
Increase (decrease) in accrued consumption taxes	1,306	(1,659)
Other, net	1,841	972
<b>Subtotal</b>	<b>43,336</b>	<b>44,645</b>
Interest and dividends received	6	10
Interest paid	(0)	(0)
Income taxes paid	(11,655)	(13,083)
Subsidies received	73	114
<b>Net cash provided by (used in) operating activities</b>	<b>31,761</b>	<b>31,682</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(15,817)	(18,825)
Purchase of intangible assets	(658)	(964)
Loan advances	(844)	(1,248)
Proceeds from collection of loans receivable	62	60
Payments of leasehold and guarantee deposits	(1,456)	(1,177)
Proceeds from refund of leasehold and guarantee deposits	605	803
Other, net	207	694
<b>Net cash provided by (used in) investing activities</b>	<b>(17,901)</b>	<b>(20,659)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(8,064)	(8,187)
Purchase of treasury shares	—	(0)
Proceeds from exercise of employee share options	—	0
<b>Net cash provided by (used in) financing activities</b>	<b>(8,064)</b>	<b>(8,187)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,795</b>	<b>2,835</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>80,699</b>	<b>86,495</b>
<b>Cash and cash equivalents at end of period</b>	<b>86,495</b>	<b>89,330</b>

## Company information

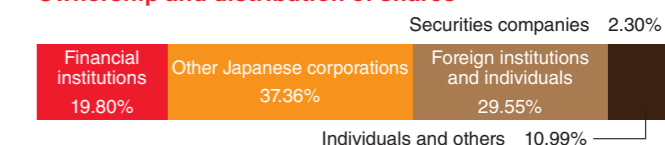
Company name	SUNDRUG CO., LTD.
Headquarters	1-38-1 Wakamatsucho, Fuchu, Tokyo 183-0005, Japan
Established	April 1965
Capital	¥3,931.2 million
Representative	Hiroshi Sadakata, President and Representative Director
Number of employees	7,450 (including part-time; as of March 31, 2022)
Group companies	Seikodo Pharmacy Corporation, Sundrug Plus Co., Ltd., DIREX CORPORATION, Daiya Inc. (Special-purpose subsidiary) SUNDRUG Dream Works Co., Ltd. (Franchise store) Ichiyamamart Corporation
Description of business	Drugstore chain operation Dispensing pharmacy operation Product provision and business guidance to franchise and voluntary chain stores, etc.
Business sites	748 directly-managed stores, 64 franchise stores, 46 distribution centers nationwide (as of March 31, 2022)

## Stock information

### Status of stock (as of March 31, 2022)

Number of shares authorized	536,000,000 shares
Number of shares issued	119,331,184 shares (including treasury shares)
Number of shareholders	17,430

### Ownership and distribution of shares



### Major shareholders (top 10)

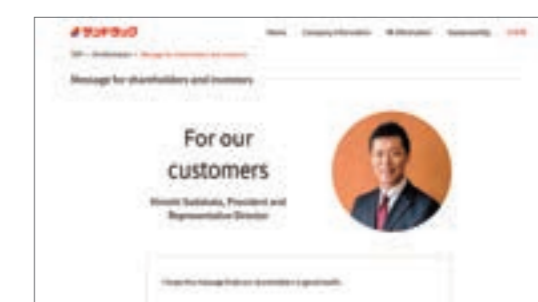
Name of shareholders	Number of shares held (thousands)	Shareholding ratio (%)
IRYUSHOJI CO., LTD.	43,776	37.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,124	12.08
Custody Bank of Japan, Ltd. (Trust Account)	4,913	4.20
Naoki Tada	3,112	2.66
BBH for Fidelity Low-Priced Stock Fund	2,936	2.51
Takashi Tada	2,200	1.88
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,809	1.55
JPMorgan Chase Bank 385632	1,797	1.54
OM02 State Street 808424 Client Omni	1,568	1.34
JPMorgan Chase Bank 385047	1,508	1.28

Notes: 1. Although the Company holds treasury shares (2,407 thousand shares), it is excluded from the above major shareholders.  
2. The shareholding ratio is calculated excluding treasury shares.

### Information on the website



Website  
<https://www.sundrug.co.jp/en>



IR site  
<https://www.sundrug.co.jp/en/ir/message>

