



SUNDRUG

Integrated Report 2023



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Editorial policy

The Integrated Report 2023 reports on the SUNDRUG 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 SUNDRUG Group and deepen dialogue.

Applicable period

Some contents for the fiscal year ended March 31, 2023 (April 2022–March 2023) include activities and forecasts before or after that period.

Notes concerning forward-looking statements

The Integrated Report 2023 contains projections and forward-looking statements regarding the SUNDRUG 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, taxation and other various systems.



About the SUNDRUG Group

The SUNDRUG Group comprises SUNDRUG CO.,LTD. and its consolidated subsidiaries Seikodo Pharmacy Corporation., Sundrug Plus Co., Ltd., DIREX CORPORATION, Daiya Inc., and SUNDRUG Dream Works Co., Ltd.

Businesses	Segments
SUNDRUG CO., LTD.	Drugstore business
Seikodo Pharmacy Corporation	Drugstore business
Sundrug Plus Co., Ltd.	Drugstore business
DIREX CORPORATION	Discount store business
Daiya Inc.	Drugstore business
SUNDRUG Dream Works Co., Ltd.	Drugstore business/Special-purpose subsidiary in accordance with the provisions of Article 44 of the Act to Facilitate the Employment of Persons with Disabilities

Management philosophy

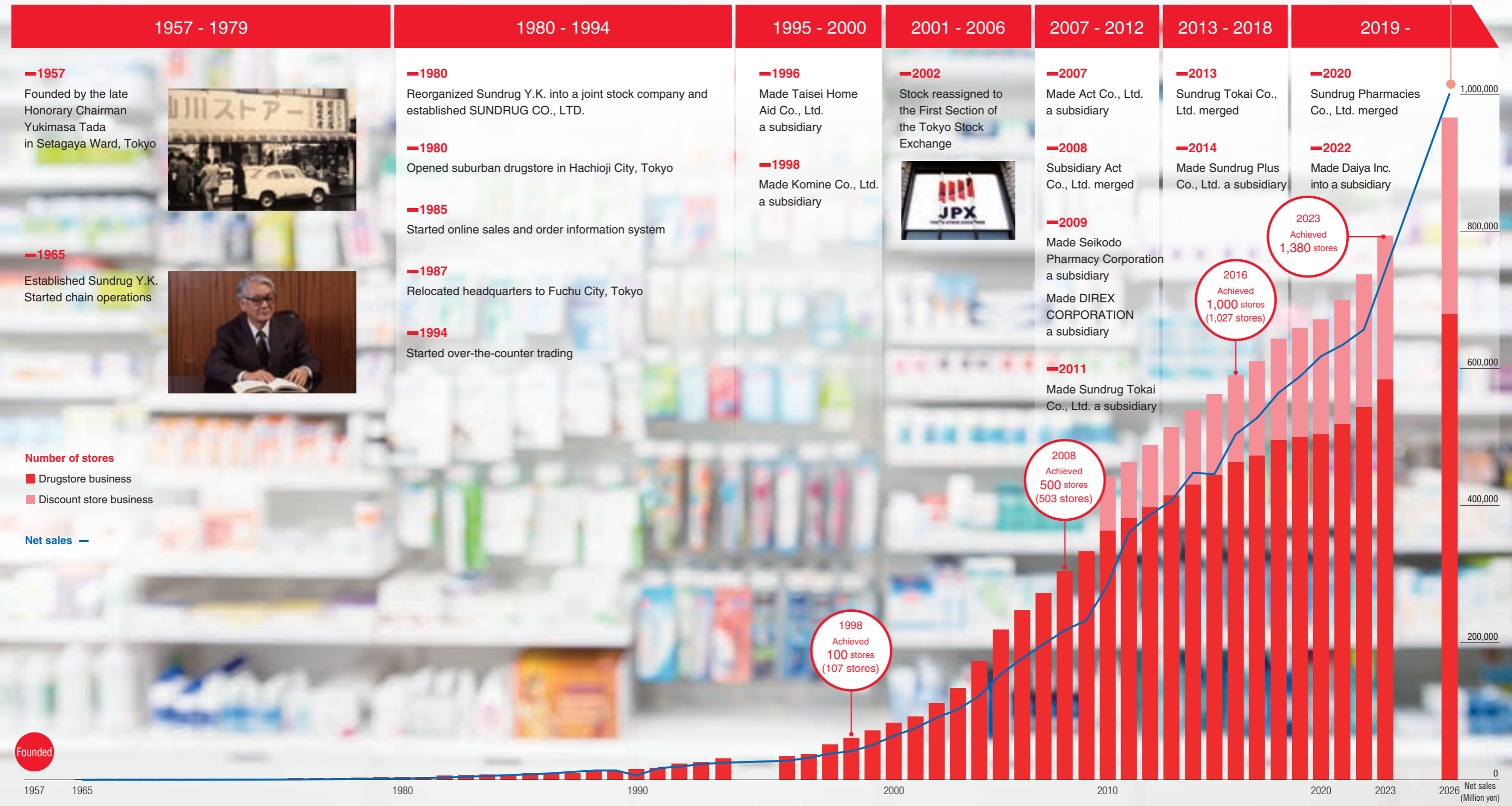
**Illuminate
a corner of the world.**

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.

History of SUNDRUG

Since its founding in 1957, the Company's guiding principle has been to provide "safety, reliance, and convenience" from a customer-focused mindset; that is to always act from the perspective of ensuring customer satisfaction.

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



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



1965
 Established Sundrug Y.K. Started chain operations



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

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

1998
 Made Komine Co., Ltd. a subsidiary

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



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
 Sundrug Tokai Co., Ltd. merged

2014
 Made Sundrug Plus Co., Ltd. a subsidiary

2020
 Sundrug Pharmacies Co., Ltd. merged

2022
 Made Daiya Inc. into a subsidiary

Number of stores
 ■ Drugstore business
 ■ Discount store business

Net sales —



SUNDRUG Group in Numbers



Drugstore market

Approximately 50 years have passed since the creation of the “drugstore” business format. In fiscal 2022, the market grew to 8.7 trillion yen, accounting for 5.6% of the total retail market.

In the past three years, we have had to face the unforeseen situation posed by the outbreak of COVID-19, but by being able to capture the demand for COVID-19-related products such as masks, disinfectants, and test kits, as well as daily necessities and other items, we have been able to secure our position as part of the “basic infrastructure for daily life.”

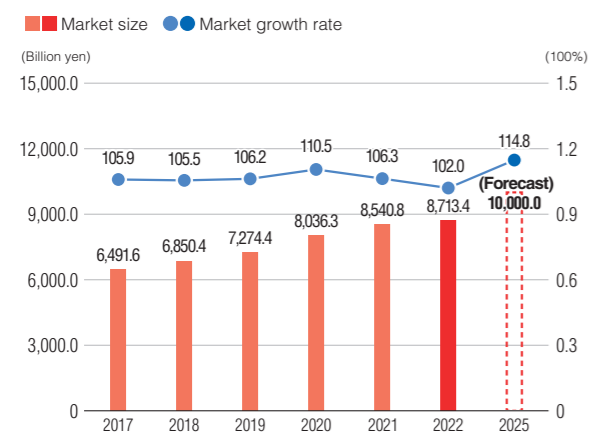
By continuing to expand fresh food offerings and enhancing one-stop shopping functions, we expect the market to reach 10 trillion yen by 2025.

In the future, as Japan will face a super-aging society with an ultra-low birthrate, we believe that the role expected for drugstores must be further promoting “self-medication” and functioning in close-tandem as regional healthcare stations and self-medication centers. In addition, we are expected to “strengthen initiatives such as measures to assist shopping refugees using pharmaceuticals, etc.” We believe that “the drugstores, which sell a range of daily necessities and may offer dispensing functions,” will serve as key bases for such shopping refugees by offering at-home medication dispensing, providing information related to nursing care, and delivering pharmaceuticals to remote locations.

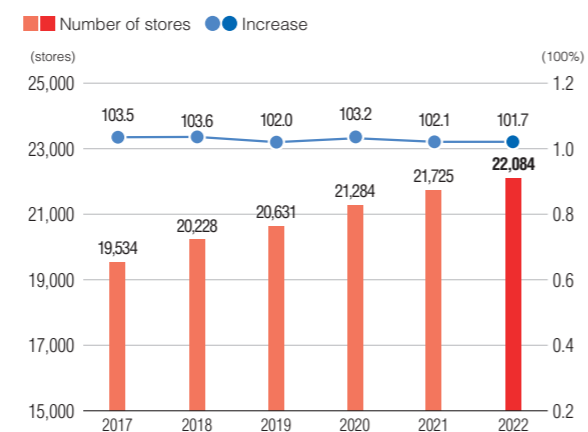
Total sales in the drug market
¥8,713.4 billion
Up 2.0% YoY

Share in overall retail market: 5.6%
Share in overall commercial sales: 1.3%

Market size and growth rate

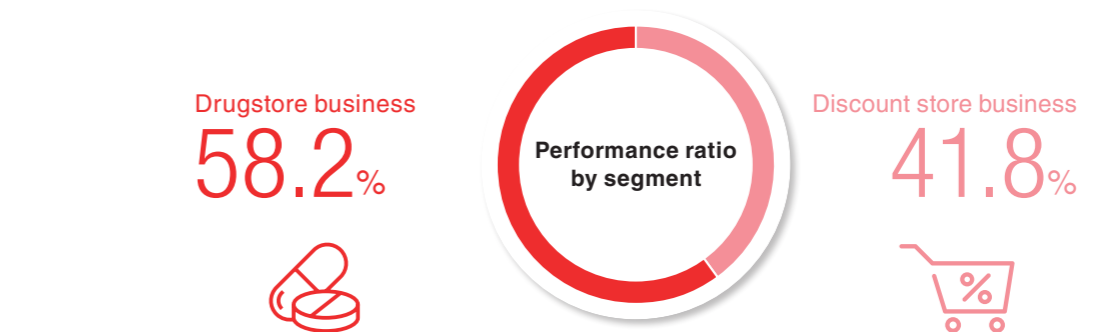


Number of stores



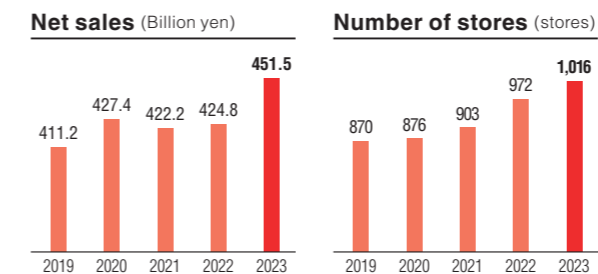
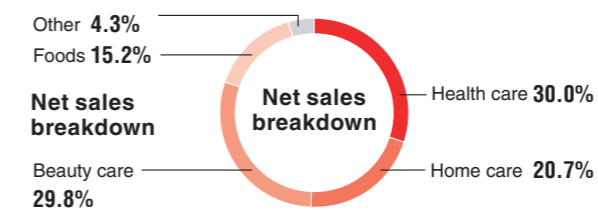
* FY2022 Survey by JAPAN ASSOCIATION OF CHAIN DRUG STORES

Areas of business

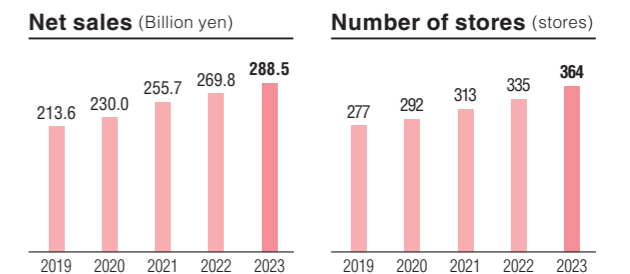


* Calculated with sales of merchandise to the discount store business excluded from the drugstore business

Drugstore business



Discount store business



Drugstore business

Our goal is to develop stores that win the trust of our customers in accordance with our motto of “safety, reliance, and convenience.” In order to attract as many customers as possible to our stores, we are promoting the development of attractive-looking stores that meet the diversified needs of our customers. At the same time, we are also promoting the development of stores where our specially-trained pharmacists proactively provide customers with counseling to provide pharmaceuticals with enhanced added value, enabling customers to undergo consultation with peace of mind. 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 works, we provide greater safety, reliance, and convenience to our customers.

Dispensing pharmacy business

The 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 aging

Discount store business

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

- We are always thinking of the best and most convenient way we can provide our customers with our services. This is why our stores (with some exception) are open 365 days a year, from 9:00 a.m. through 10:00 p.m. such that everybody can enjoy shopping with us without worry and at a time that works for them.
- Our discount store business handles a wide range of products, including 25,000 items of necessities such as food, daily necessities, clothing, cosmetics, home electric 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.

of society advances and interest in health gradually increases, the SUNDRUG Group is dedicated, as a family care drugstore pharmacy, to providing the types of high-quality medical services that are needed by local communities to enable as many people as possible to lead healthy and fulfilling lives.

Materiality

The SUNDRUG Group has identified material issues (materiality) to prioritize in order to fulfill its social role.

Process to identify and determine material issues

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

Topics covered in the analysis

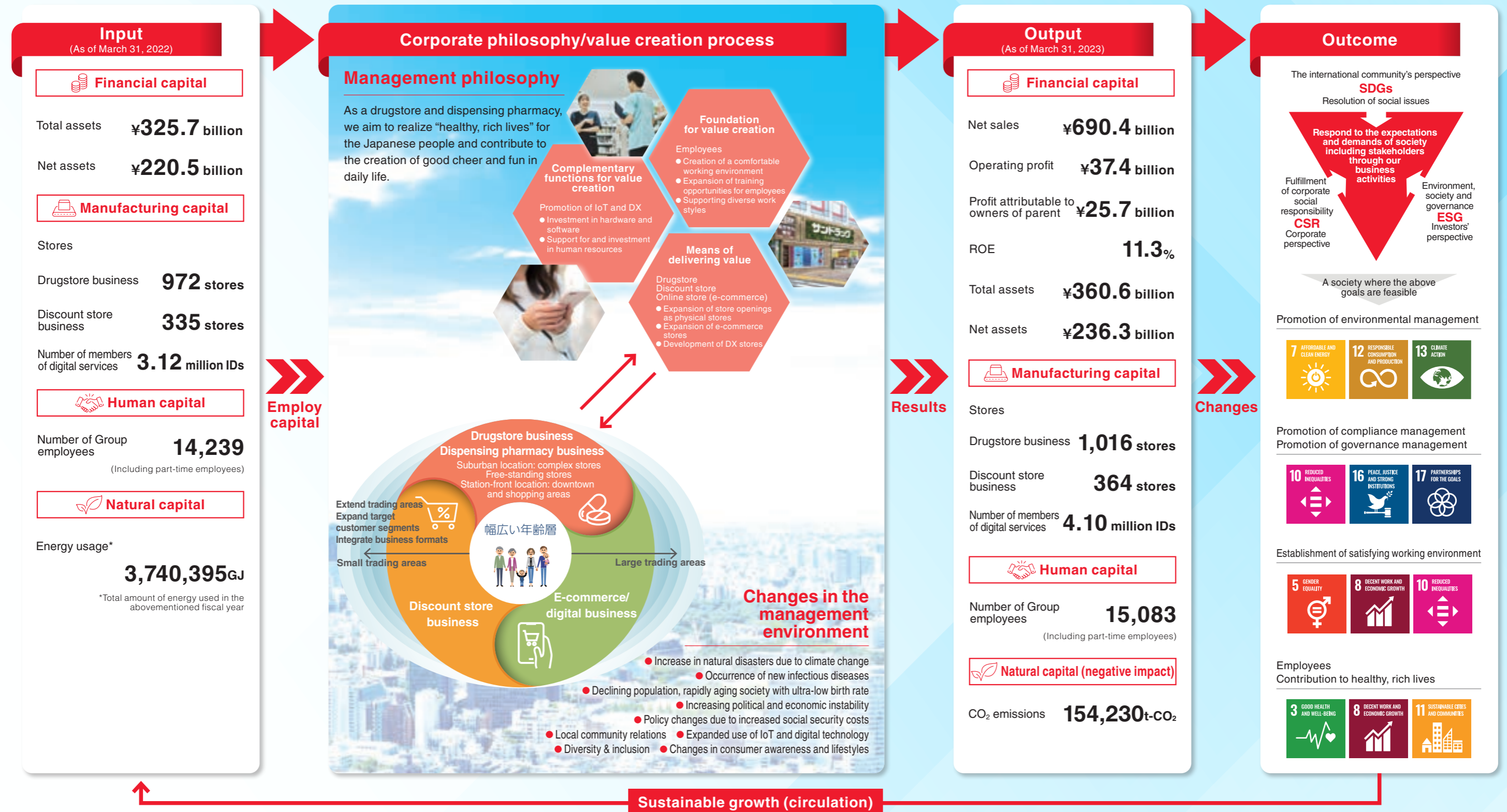
Risk and opportunity factors	Risks	Opportunities
Increase in natural disasters due to climate change	<ul style="list-style-type: none"> Damage to stores and products on display due to major wind and flood damage Implementation of policies and regulations such as introduction of carbon pricing 	<ul style="list-style-type: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

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

Material issues	Direction of initiatives	Examples of major initiatives
<p>E</p> <p>Promotion of environmental management</p> 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Introduction of solar power generation Introduction of energy-saving CFC-free refrigeration and freezing cases Reduction of waste by reviewing procurement and disposal rules Expansion of environmentally-friendly private brand products
<p>S</p> <p>Promotion of compliance management</p> 	<ul style="list-style-type: none"> Take action based on the criteria of what is best for our customers, employees, shareholders, business partners, communities, society, and the global environment 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 	<ul style="list-style-type: none"> Formulation and dissemination of the Corporate Code of Conduct Establishment and dissemination of the Code of Conduct for Business Partners Declaration of Partnership Building White Logistics - Representation of support for the declaration of voluntary actions
<p>S</p> <p>Establishment of satisfying working environment</p> 	<ul style="list-style-type: none"> Develop workplaces in which human resources with diverse values from various backgrounds can be themselves and shine where they are 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 	<ul style="list-style-type: none"> Certified as a Certified Health & Productivity Management Outstanding Organization Promotion of health guidance in cooperation with health insurance associations Expansion of systems and rules for work styles Strengthening training of female manager candidates
<p>S</p> <p>Contribution to healthy, rich lives</p> 	<ul style="list-style-type: none"> 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 Combine digital (ICT), physical (stores), and format (drugstores, discount stores, and new formats) to provide customers with new added value 	<ul style="list-style-type: none"> Improving quality of customer service at all customer contact points Development of products and services that reflect customer feedback and lifestyles Development of business categories and business models that will open up opportunities in the new normal
<p>G</p> <p>Promotion of governance management</p> 	<ul style="list-style-type: none"> 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 Properly manage a wide range of sustainability risks to simultaneously maximize opportunities and minimize threats 	<ul style="list-style-type: none"> Appropriate identification of risks, analysis and evaluation of business opportunities, and appropriate responses by the Board of Directors Disclosure of non-financial information and promotion of dialogue with stakeholders Strengthening IT governance and information security

Value creation process

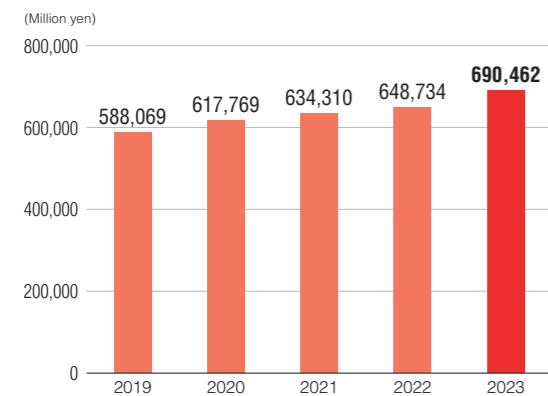
The SUNDRUG Group aims to be a valuable presence in the community by being a retailer that is in daily contact with customers, by having a mission as a drugstore that provides safety and security and a base for community health, and by operating stores in an environmentally friendly manner as a member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



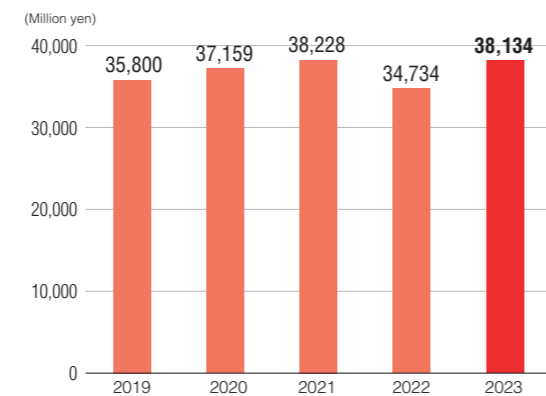
Financial and non-financial highlights

Financial performance

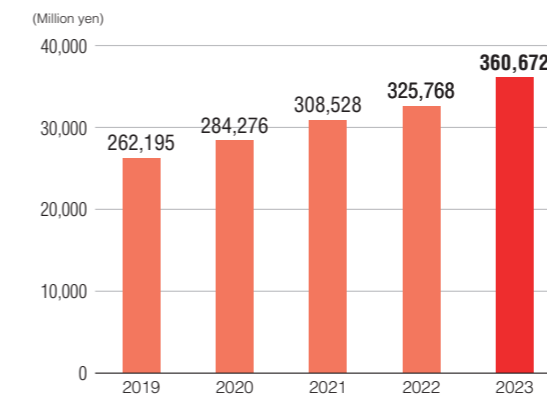
Net sales: **¥690,462 million**



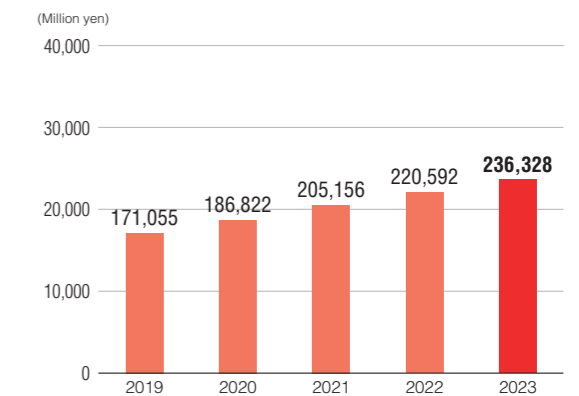
Ordinary profit: **¥38,134 million**



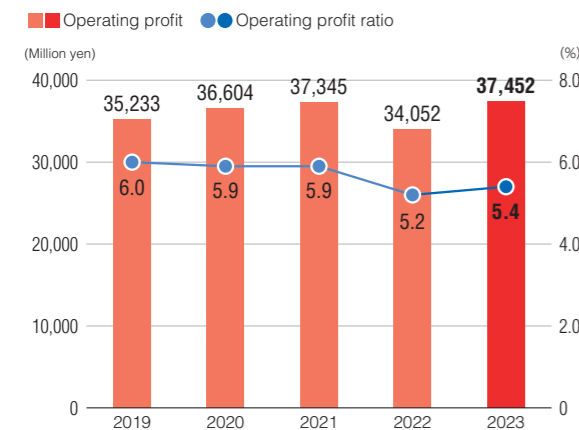
Total assets: **¥360,672 million**



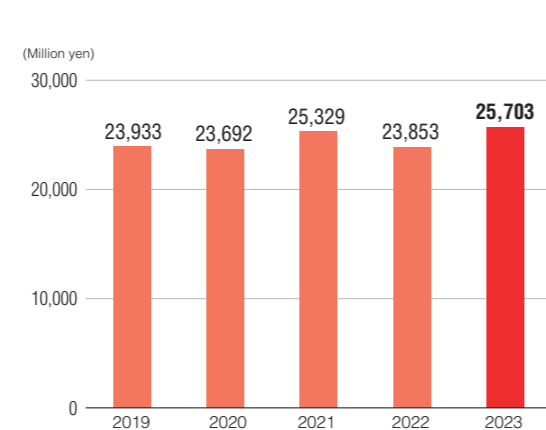
Net assets: **¥236,328 million**



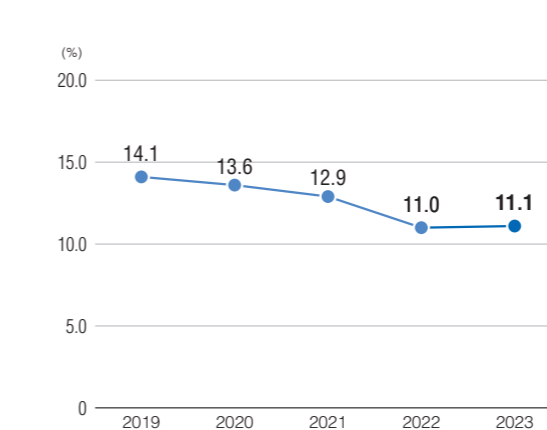
Operating profit: **¥37,452 million** Operating profit ratio: **5.4%**



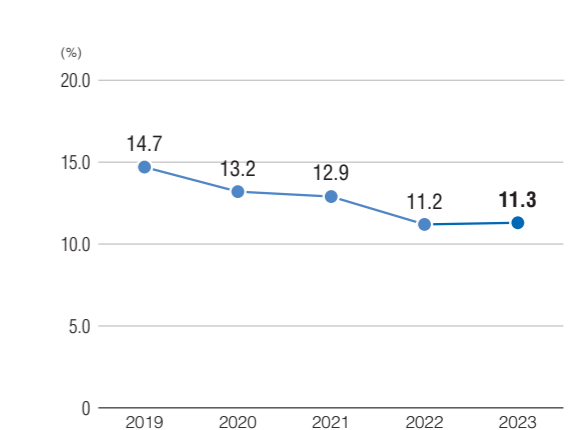
Profit attributable to owners of parent: **¥25,703 million**



ROA **11.1%**

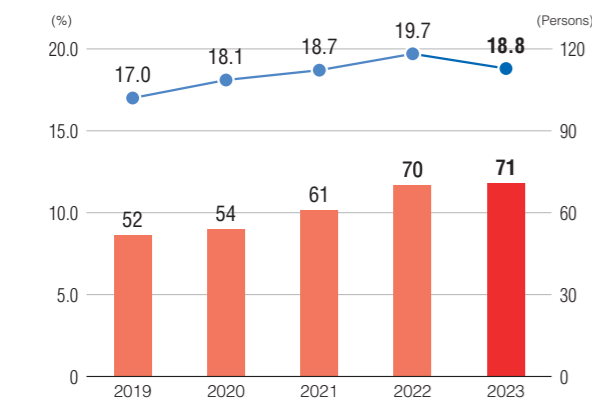


ROE **11.3%**

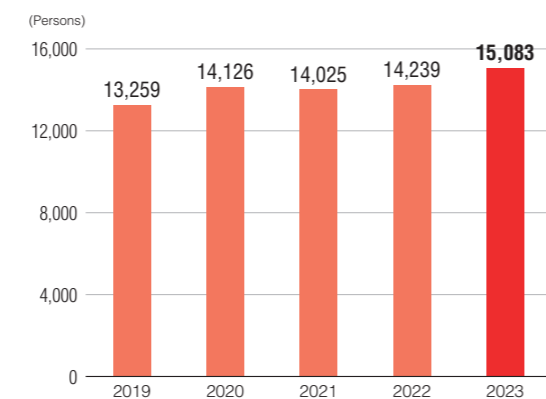


Non-financial performance

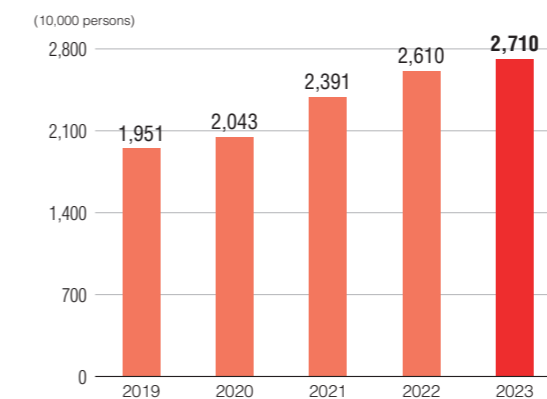
Ratio of female managers (SUNDRUG): **18.8%** Number of female managers: **71**



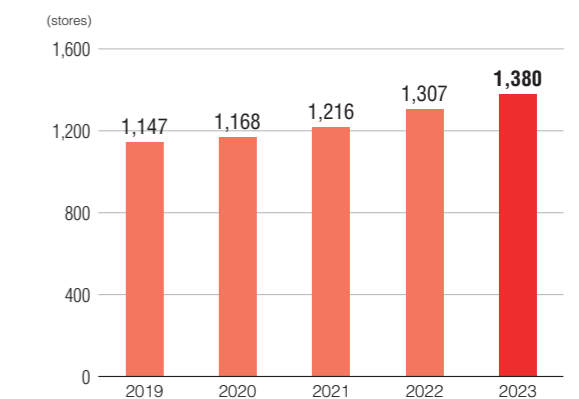
Number of employees: **15,083** (including part-timers)



Number of Group card members: **27.10 million**



Number of stores: **1,380**



* The above figures show the ratio and the number of female employees in managerial positions

*The above figure includes the number of duplicate accounts

Message from the President

The SUNDRUG Group will continue to evolve in order to remain an indispensable presence in the lives of local customers.

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



Overview of the fiscal year ended March 31, 2023

Achieved increases in both sales and profit, and efforts to strengthen the management foundation are steadily bearing fruit

For the fiscal year ended March 31, 2023, net sales were ¥690.4 billion (up 6.4% YoY) and operating profit was ¥37.4 billion (up 10.0% YoY), representing increases in both sales and profit. We improved profitability by controlling expenses and opened a record-high 98 stores during the fiscal year, thus we were able to achieve results almost exactly as we had planned. By business segment, in the drugstore business, sales of pharmaceuticals and cosmetics were robust, and in the discount store business, sales of pet supplies and foodstuffs were strong. Consequently, the demand for electricity increased, and the electricity costs rose sharply in both businesses, which pushed up the SG&A ratio by about 0.3 percentage points. In addition, both sales and profit increased owing to the results of initiatives to improve productivity.

Looking back on the three years of the COVID-19 pandemic, the impact that COVID-19 had on the Group cannot be understated. Due to the impact of the loss of inbound demand, telecommuting, and refraining from going outside associated with the restrictions on movement imposed during the COVID-19 pandemic, sales and profit decreased significantly in the drugstore business, which operates station-front stores mainly in shopping districts and downtown areas. In addition, in standalone free-standing stores, non-food complex stores that are combined with local supermarkets, and the discount store business, which strengthened food sales, consolidated sales increased, and record-high profits were achieved in the fiscal year ended March 31, 2021 owing to strong stay-at-home demand for foodstuffs and daily necessities. However, sales increased, and profit decreased in the fiscal year ended March 31, 2022 due to a reactionary decline in demand.

Despite these difficult circumstances, the SUNDRUG Group steadily promoted its business strategies, strengthened its management foundation, and endeavored to develop human resources which will serve as the foundation for all of its strategies. In 2023, restrictions on movement were eased, and demand began recovering mainly in the tourism industry. However, against the backdrop of factors such as the limited number of tourists from China, inbound demand as of the fiscal year ended March 31, 2023 remained weak at around 30% of the level prior to the COVID-19 pandemic. Under such circumstances, we take pride in the fact that we have achieved increases in sales and profit, which we believe is a result of the initiatives we have implemented thus far.

Progress of the Medium-term Business Plan

Increasing the number of store openings by systematically training and increasing the number of development personnel

At present, the SUNDRUG Group is working to promote business strategies and strengthen its management foundation based on the five-year Medium-term Business Plan, which aims to achieve consolidated net sales of ¥1 trillion in the fiscal year ending March 31, 2026. The strategy of opening more stores is our most foundational business strategy. Over the past three fiscal years since the COVID-19 pandemic began, we continued to steadily increase the number of store openings. In the fiscal year ended March 31, 2023, the Company opened a record-high 98 stores, and the number of stores as of March 31, 2023 reached 1,380 (1,016 drugstores and 364 discount stores) in 44 prefectures across Japan. In the fiscal year ending March 31, 2024, we plan to open another 120 stores (85 drugstores and 35 discount stores). Regarding drugstores, we are promoting the development of suburban stores in response to a decrease in demand for station-front stores due to the COVID-19 pandemic. However, going forward, we plan to restart our efforts to open station-front stores in preparation for an increase in inbound demand. As for discount stores, the Group operates many stores in western Japan and Kyushu, where the headquarters of DIREX are located, and plans to develop new store opening areas in eastern Japan going forward.

In addition, the most important factor in the development of diverse store formats, which is one of the strengths of the SUNDRUG Group, is the training of development personnel and the appropriate allocation of personnel. Since before the COVID-19 pandemic began, we have been systematically training and steadily increasing the number of development personnel. This has led to our current track record of store openings. The number of store development personnel reached 48 in the fiscal year ended March 31, 2023, and we plan to increase this figure to 67 in the fiscal year ending March 31, 2024. Going forward, we will continue to increase the number of these personnel to solidify our growth and management foundations.

Accelerate store openings to create valuable pharmacies that meet the needs of the times

The SUNDRUG Group is working to integrate its business formats in order to encompass the various purchasing channels, commercial areas, and customer segments across Japan. In addition, the Group is promoting a business format strategy that can respond to customer needs, which differ depending on location and the times. As part of this strategy, we are working to strengthen the dispensing pharmacy business and the e-commerce business.

Message from the President

SUNDRUG, our drugstore chain, sells over-the-counter (OTC) drugs, which are non-prescription drugs. It includes both standalone drugstores, and drugstore pharmacies, which are drugstores located alongside dispensing pharmacies. Amid rising dispensing pharmacy demand in an aging society, we have been accelerating the speed of opening drugstore pharmacies in recent years. In the fiscal year ended March 31, 2023, we opened 36 drugstore pharmacies. As a result, as of March 31, 2023, we reached a total of 28 standalone stores and 119 drugstore pharmacies. In the fiscal year ending March 31, 2024, we plan to open one standalone store and 40 drugstore pharmacies. In 2028, five years from now, we plan to increase the percentage of drugstore pharmacies from about 10% to about 20% of all drugstores that we operate.

The key to accelerating the opening of new stores is the training of supervising pharmacists, who are responsible for store operations. In the past, many pharmacists desired positions where they would mainly work at dispensing pharmacies. However, since it is common for drugstores and dispensing pharmacies to be located together these days, we are receiving more applications from pharmacists for positions at such drugstore pharmacies. To become a supervising pharmacist at the SUNDRUG Group, one has to undergo an educational curriculum that lasts for at least 27 months. Nonetheless, many participate in the training as they appear to be attracted to a system that allows them to experience both OTC operations, where they serve customers, and dispensing pharmacy operations. In OTC operations, there is a risk of administering an unfavorable combination



of non-prescription drugs and prescription drugs. Therefore, we have begun initiatives to further improve our OTC operations, such as having trained pharmacists compile information on the combination of drugs administered on tablet devices.

In addition, as part of our DX initiatives in the dispensing pharmacy business, we offer a service for reservation of prescription transmission through the LINE MINI app, the delivery of pharmaceuticals after online drug administration guidance, and electronic prescriptions. As the evolution of DX has made it possible for patients to send prescriptions to dispensing pharmacies through their smartphones, the nature of dispensing pharmacies is also gradually evolving. Furthermore, in the fiscal year ended March 31, 2023, the SUNDRUG Group held 29 events at dispensing pharmacies, in cooperation with local governments and comprehensive community support centers. These included health measurement sessions, nursing care prevention lectures, and medication consultation meetings, and were attended by a total of more than 2,000 people. Recently, there has been a review of basic dispensing fees, which evaluates the results of contributions to community healthcare, for large chain pharmacies. In view of this, we aim to strike a balance between creating valuable pharmacies and maintaining a stable earnings base in the dispensing pharmacy business.

Utilizing DX to improve customer convenience and satisfaction, and to promote greater efficiency

In the e-commerce business, in addition to the SUNDRUG Online Store website, we have set up domestic online stores on major shopping websites such as Rakuten, Yahoo!, and amazon. Also, we sell our products on Lazada, one of the largest e-commerce sites in Southeast Asia. Furthermore, in the fiscal year ended March 31, 2023, we renewed our e-commerce platform, mainly by e-commerce business specialists hired from outside the Company. In addition to renewing the website design and expanding the product lineup, customers can now use "SUNDRUG" points for online purchases and pick up products purchased online at a nearby physical store. Thus, by integrating our e-commerce sites and physical stores and developing the Online-Merge-Offline (OMO) strategy, a new marketing method, we strive to increase customer convenience and satisfaction. We are also cooperating with major delivery companies to improve productivity, including improving logistical efficiency, and controlling delivery costs. Accordingly, we are striving for full-fledged growth in the e-commerce business and aim to achieve sales of ¥100.0 billion in the e-commerce business.

We are also working to further improve the efficiency of store operations through systematization and digitalization. At the end of the fiscal year ended

March 31, 2023, we have introduced electronic shelf labelling at a total of 120 SUNDRUG stores. This eliminates paper-based work that had to be conducted on the day prior to events such as special sales days, and ultimately reduces labor costs by approximately ¥1.8 billion per year. In addition, we expanded the scope of the automatic ordering of products at all SUNDRUG stores. In addition to reducing labor costs by shortening ordering time and sorting operations, this also helps to improve the stockout rate. Regarding our initiatives for SUNDRUG stores in the fiscal year ending March 31, 2024, we will introduce a self-scan system in the first half. This system allows customers to register their purchases with a smartphone app while they shop around the store, and to check out all at once. This will shorten the cash register waiting time, which will also contribute to the reduction of labor costs of the SUNDRUG Group. In the second half of the fiscal year, we will introduce an expiration date management system, which eliminates the need to check all products on shelves by registering the date of manufacture in advance and is expected to improve work efficiency. These

initiatives are intended to improve productivity, but they are also up-front investments that address the issue of labor shortages amid the declining birth rate and aging population.

Regarding sustainable management

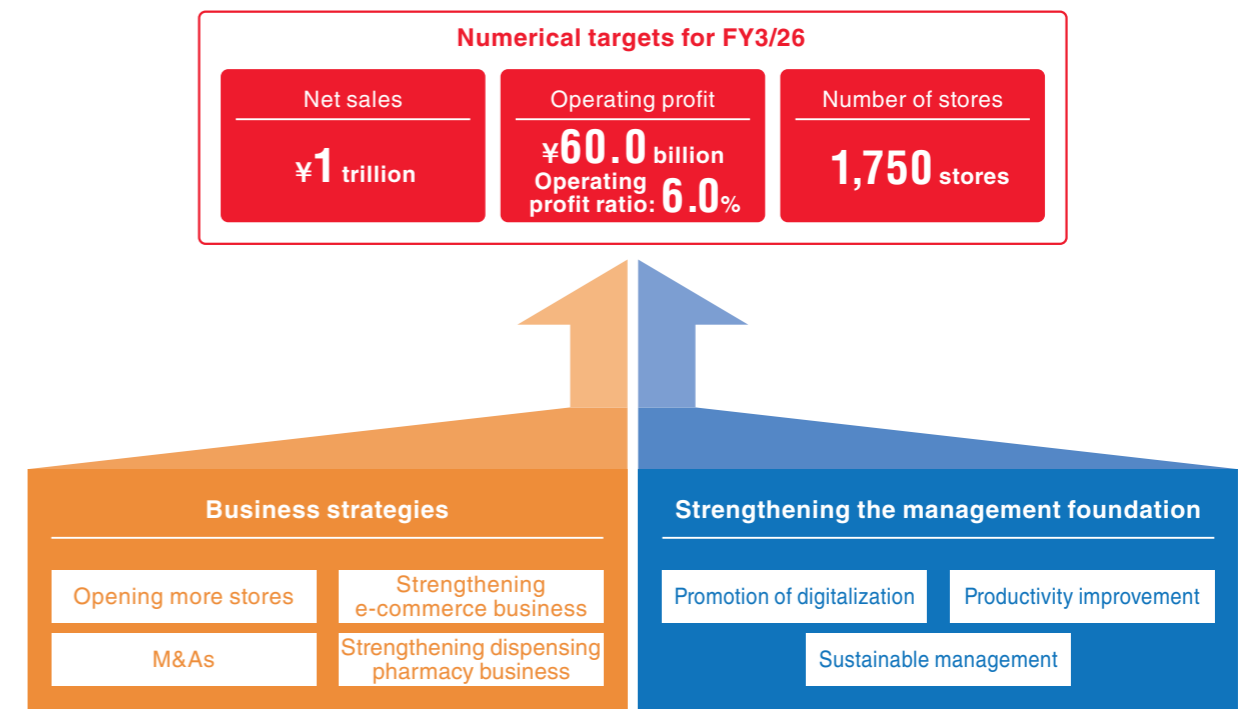
Incorporating materiality into specific activities to work on progress management and information disclosure

The SUNDRUG Group aims to "provide products of value and serve to enrich people's lives." Under the Basic Policy on ESG Activities, we identify material issues (materiality) to be addressed and summarize related goals and themes to be tackled over the medium- to long-term.

As an initiative under the theme of "Promotion of environmental management," in the fiscal year ended March 31, 2023, we introduced solar power generation systems at 32 stores of the SUNDRUG Group, as well as CFC-free refrigeration and freezing cases at about 80 stores. Through these measures, we aim to

● Medium-term Business Plan

Aiming for consolidated net sales of ¥1 trillion



Message from the President

reduce Group-wide CO₂ emissions per unit of floor area by 50% in fiscal 2030 compared to fiscal 2013. For private brand (PB) products handled at stores, we are switching to environmentally-friendly products that use recyclable packaging and vegetable oil ink. As of the end of the fiscal year ended March 31, 2023, the ratio of environmentally-friendly PB products was approximately 31%, and we aim to raise this ratio to 100% in the future. In addition, beginning in the fiscal year ended March 31, 2023, all employees, including part-timers, were asked to self-report their individual environmental efforts, such as bringing their own bottles, and this was incorporated into employee evaluations. The aim is to create a framework in which the Company not only sets forth policies but also encourages employees to put environmental initiatives into practice on a daily basis, which the Company then further spurs on. In a related move, the Group has discontinued the use of vending machines for PET bottled beverages at its headquarters, with the exception of the reception floor. Going forward, we will continue to implement initiatives that take the environment into consideration, starting from areas in our proximity.

To “create a satisfying working environment,” SUNDRUG has been recognized as a “company that offers strong support for parenting” with Platinum Kurumin certification. The childcare leave utilization rate is 100% for women and over 90% for men, and efforts are being made to create a comfortable working environment for both men and women. In addition, the employment rate of persons with disabilities for the entire SUNDRUG Group was 2.97% (for the fiscal year ended March 31, 2023), which is significantly higher than the statutory employment rate, which represents our strong awareness of commitment to diversity. We have always employed a system that takes into consideration employees’ health as well as occupational safety and health, which tracks factors such as overtime hours, the paid leave utilization rate, and consideration for work locations and working hours. In the fiscal year ended March 31, 2023, the Group was designated as a Certified Health & Productivity Management Outstanding Organization, and is currently promoting initiatives that further consider the environment.

With regard to “Contribution to healthy, rich lives,” we at the SUNDRUG Group are doing what we can to help solve social issues around us. This includes participating in demonstration experiments of drone delivery that can help people who have difficulty shopping, which is being promoted by the Tokyo Metropolitan Government in Ome City, as well as collaborating with local governments and comprehensive community support centers through our dispensing pharmacy business.

As for our most recent initiatives related to compliance management and governance

management, in November 2022, we announced our support for the declaration of voluntary actions for the promotion of white logistics. In May 2023, we announced our support for the Declaration of Partnership Building with business partners who share our supply chain.

To our stakeholders

Expanding business through activities aimed at solving social issues, thereby leading to sustainable corporate growth

When I think about how to define a differentiating factor that is “uniquely SUNDRUG,” I think of “being able to change flexibly in line with the times.” Rather than deciding what we want to be, the business strategy currently being promoted by the SUNDRUG Group is to respond appropriately to the needs of each trading area, such as those who want a dispensing pharmacy nearby or those who want to purchase online. Accordingly, we have diversified our business into station-front and suburban drugstores, discount stores, dispensing pharmacies, and e-commerce stores. In the current Medium-term Business Plan, we have made a commitment to our stakeholders to strive for the following targets: net sales of ¥1 trillion, operating profit of ¥60.0 billion, and 1,750 stores for the fiscal year ending March 31, 2026. As a major presumption, these targets include figures generated from M&As on a scale of nearly ¥100.0 billion. I myself served as President at the time of the merger with DIREX, and I am keenly aware of the importance of making swift management decisions to generate a synergistic effect from the merger, and motivating people who work on the front lines in order to achieve such synergies. As the outstanding know-how that DIREX had as a discount store was supported by the SUNDRUG Group, both companies were able to enhance their corporate values through aggressive nationwide expansion. As mentioned above, the SUNDRUG Group operates in a diverse range of business formats. Therefore, we believe that we can demonstrate the synergistic effects of a merger with companies in any business format.

Through the promotion of various measures, we will steadily increase our business performance and continuously enhance our corporate value. Then, we will distribute stable and continuous dividends to our shareholders with a target dividend payout ratio of 50%. Meanwhile, using cash on hand, we will consider taking measures that will benefit shareholders, such as share buybacks, as appropriate, while balancing them with growth investments such as those for new store openings and system facilities.

I strongly feel that going forward, the SUNDRUG Group should continue to evolve according to our customers’ needs, conduct activities while being

Promoting sustainable management

	Material issues (Materiality)	Specific examples of initiatives
E	Promotion of environmental management 7 AFFORDABLE AND CLEAN ENERGY, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION	<ul style="list-style-type: none"> ● Introduction of solar power generation ● Introduction of CFC-free refrigeration and freezing cases ● Promoting development of environmentally-friendly private brand products
S	Promotion of compliance management 10 DECENT WORK AND ECONOMIC GROWTH, 16 FAIR AND ETHICAL MARKETING, 17 PARTNERSHIPS FOR THE GOALS	<ul style="list-style-type: none"> ● Disclosure of the Code of Conduct for Business Partners ● Promoting “white logistics” ⇒ Representation of support for the declaration of voluntary actions in November 2022 ● Declaration of Partnership Building
S	Establishment of satisfying working environment 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 INDUSTRY, INNOVATION AND INFRASTRUCTURE	<ul style="list-style-type: none"> ● Promoting the active participation of women ● Promoting the employment of persons with disabilities ● Initiatives to enhance work-life balance ● Promotion of health management
S	Contribution to healthy, rich lives 3 GOOD HEALTH AND WELL-BEING, 8 DECENT WORK AND ECONOMIC GROWTH, 11 AFFORDABLE AND CLEAN ENERGY	<ul style="list-style-type: none"> ● Training supporters for people who suffer from dementia ● Working closely with local governments/comprehensive community support centers ● Participating in drone delivery experiments that can help people who have difficulty shopping
G	Promotion of governance management 16 FAIR AND ETHICAL MARKETING	<ul style="list-style-type: none"> ● Publishing the Integrated Report ● Promoting dialogue with stakeholders

conscious of what we can do to solve social issues, and have customers recognize us as a company that society needs through our business activities, which will lead to our sustainable growth. As explained at the beginning of this message, the business environment surrounding the SUNDRUG Group has not returned to the level prior to the COVID-19 pandemic yet. Nevertheless, we have made progress in building a foundation for increasing the number of store openings and strengthening the dispensing pharmacy business and the e-commerce business, and we have also improved profitability by further streamlining store operations. If growth accelerates along with the full-fledged revival of inbound demand, stakeholders can expect to witness “even more exciting developments” from the SUNDRUG Group, which has a lot of “room for growth.” I would like to ask our shareholders, investors, employees, business partners, and all other stakeholders for their continued understanding and support.

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

<https://www.sundrug.co.jp/en/ir/news>



Management issues and Medium-term Business Plan

For the fiscal year ending March 31, 2026, we are aiming to achieve net sales of ¥1 trillion and an operating profit of ¥60.0 billion. To achieve these targets, we shall implement the following initiatives related to our business strategies and the strengthening of our management foundation.

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 the achievement of further scale expansion in the future.



Business strategy: Opening more stores

Expansion of the number of store openings

Challenges in store development	Countermeasures		
Drugstore business Initiatives to further increase the number of store openings	Strengthening collection of property information	Promoting suburban store openings	Allocation of personnel to eastern Japan area
Discount store business Store openings in eastern Japan Development of new areas	Increasing store development staff As of March 31, 2022: 41 As of March 31, 2023: 48 As of March 31, 2024: 67 (plan)	Strengthening freestanding stores As of March 31, 2022: 30 As of March 31, 2023: 40 As of March 31, 2024: 52 (plan)	Store openings in eastern Japan area As of March 31, 2022: 7 As of March 31, 2023: 6 As of March 31, 2024: 9 (plan)
	* Cumulative total of 44 stores (expected)		

Business strategy: Strengthening e-commerce business

Improve customer satisfaction and convenience, and increase efficiency via e-commerce renewals, OMO promotion, etc.

E-commerce renewals

- Integrate e-commerce site and customer sites, and convert them into a retail media network
- Improve customer convenience by renewing the website's design
- Strengthen communication with customers by introducing a customer relationship management (CRM) system
- Improve productivity by centralizing information and introducing automation tools
- Further expand product lineup and increase variety

Online-Merge-Offline (OMO) strategy

- Provide a customer experience (CX) that transcends the barrier between online and offline channels
- Respond to different purchasing styles through in-store pickups, online-to-offline marketing, etc.
- Integrate online experience with in-store strengths to provide 1-to-1 marketing
- Increase loyalty of existing customers by utilizing data and strengthening CRM
- Acquire new customers through omni-channel strategy

Transformation through renewal of e-commerce infrastructure

Improvement in CX

- Improving convenience by responding to the different purchasing and product-receiving styles of customers
- Deliveries without long waiting time, same-day deliveries
- Providing a good CX through 1-to-1 marketing

Productivity improvement

- Improving logistical efficiency by adding bases integrated with distribution centers
- Reducing delivery costs through the dispersion of bases (Kansai/Chukyo areas under consideration)
- Optimizing inventory and costs through demand forecasting
- Enabling automatic product registration by adopting global standards

Business strategy: Strengthening dispensing pharmacy business

Initiatives to capture dispensing demand in Japan's local communities

As of March 31, 2023, ▶ Number of standalone pharmacies: 28/
Number of drugstore pharmacies: 119

Dispensing business: Full-year results for FY3/23		
Sales of dispensing business	Number of prescriptions	Unit price of prescriptions
¥11,794 million	1,384,667	¥8,518
YoY: +10.8%	YoY: +10.9%	YoY: -0.1%

Pharmacy openings: Full-year results for FY3/23
36 drugstore pharmacies opened

FY3/24

Planned openings: 1 standalone pharmacy/
40 drugstore pharmacies

Initiatives to open more dispensing pharmacies

- Acceleration of store openings, centering on drugstore pharmacies
 - ➔ Review of store opening criteria

Initiatives to open more dispensing pharmacies

Initiatives to open more dispensing pharmacies

- Service for reservation of prescription transmission
 - ➔ Enabling booking of prescription appointments through LINE MINI app
- Measures regarding online drug administration guidance
 - ➔ Delivery of pharmaceuticals after online drug administration guidance
- Measures regarding electronic prescriptions
 - ➔ Introduction of online insurance verification at all stores

Management issues and Medium-term Business Plan

Strengthening of management foundation

Utilizing and promoting DX

We recognize that digital transformation (DX) is important for the following three reasons and will continue to promote it.

As trends of an ultra-low birth rate and a rapidly aging population continue to progress in Japan, by 2040, a labor shortage of 10 million people can be expected.

Labor shortage is a serious problem in the drugstore industry, which is labor-intensive. We believe that the utilization of DX is key in helping us convert our method of sales to a multi-channel structure, and to improve productivity.

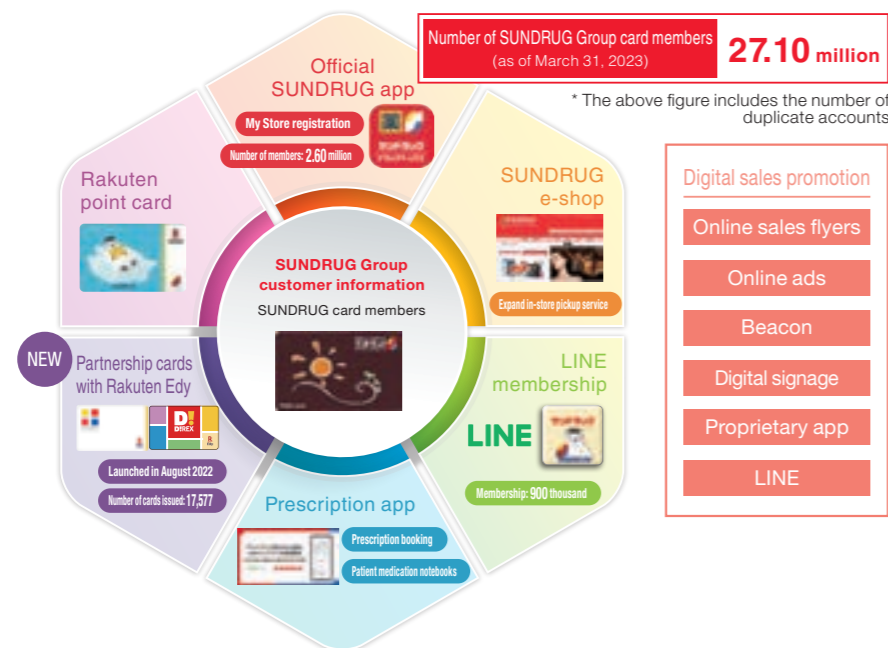
In addition, the role that drugstores play is growing significantly as Japan moves toward becoming a

society with an ultra-low birth rate and an extremely large elderly population. In order to provide new value by building "health care stations" and enabling "self-medication," the utilization of DX is required.

Furthermore, we believe that changes in the social environment will have a major impact on lifestyles and consumer behavior. It is necessary to utilize DX to create a marketing foundation that allows us to provide truly valuable products to customers in a timely manner.

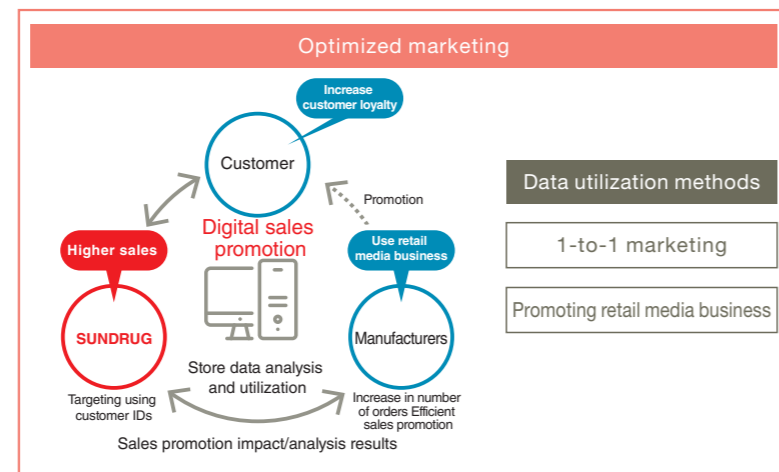
SUNDRUG will promote the consideration and introduction of strategic utilization of DX in anticipation of changes in the business environment in the near future.

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



Digital-related sales
Sales ratio of digital-related sales: **31.7%**
(+6.0 pt. YoY)
* Drugstore business FY3/23 results

Retail media business
[Net sales] +**28%** YoY



Investments aimed at promoting DX utilization

Initiatives to further increase efficiency of operations

Began full-fledged introduction of electronic shelf labelling

- As of March 31, 2023: Introduced at 100 stores in FY3/23 (Cumulative total: 120 stores)
- FY3/24: Planned to be introduced at 150 stores**
- Capital investment: Estimated total of roughly ¥25.0 billion
- STEP 1**
→ Reduce in-store work of placing special sale sign cards, etc.
- STEP 2**
Further increase productivity through the addition of functions
→ Streamlining of store operations through visualization of the quantities of store inventory, etc.

Gross profit +1.0% Labor costs -3.5%



Expanded scope of automatic ordering

- System for automatic ordering of products on sale
- As of August 31, 2022: Launched at 111 SUNDRUG stores
- As of March 31, 2023: Launched at all SUNDRUG stores
- FY3/24: Planned launches at DIREX, Seikodo, and Plus stores**
→ Reduction in time required to place orders
→ Improved accuracy in optimal order quantity; improvement in stockout rate
- Delivery by category and reduced number of deliveries
→ Changing the number of deliveries to fit each store's scale. * Implemented at 176 stores

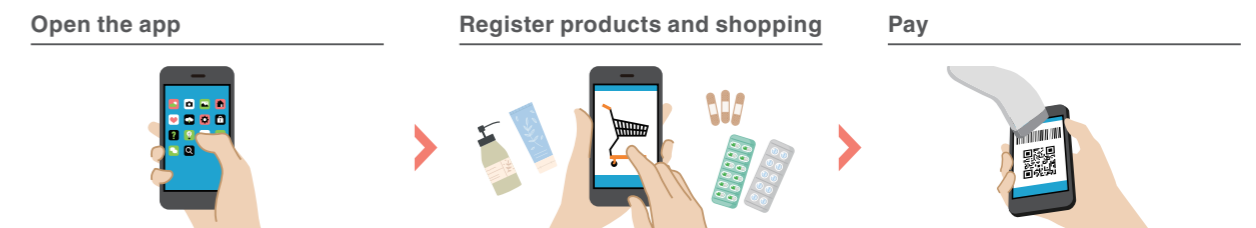
Gross profit +0.1% Labor costs -0.4%

Reduction in order processing time	Hours worked	-45.0%
Improvement in stockout rate	Stockout rate	-33.0% (0.85%→0.57%)
Sorting operations	Hours worked	-10.5%

Self-scan system

- Smartphone apps for both customer convenience and productivity improvement
→ 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

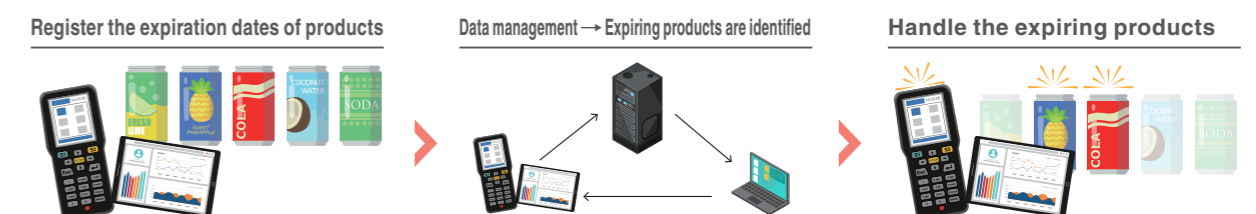
Trial started in FY3/23



Review possibility of introducing an expiration date management system

- Changing expiration date management on paper ⇒ management on tablets or handheld terminals
→ Reduction in time needed for expiration date management and improvement in task accuracy

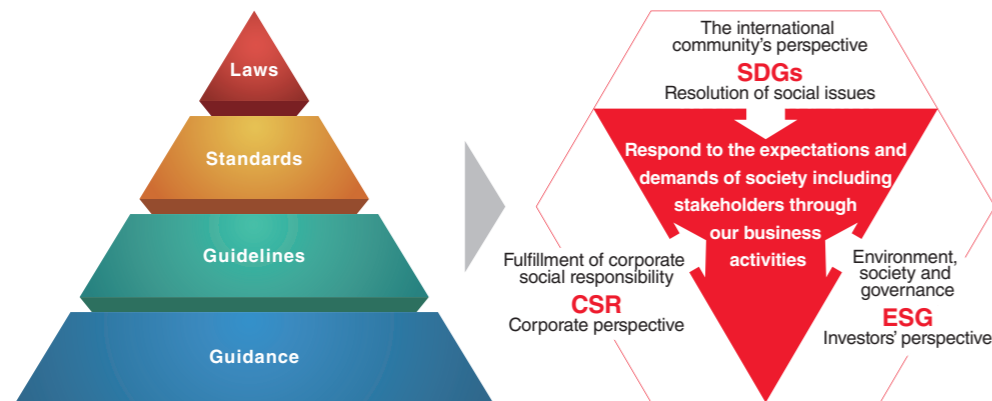
Trial to start in FY3/24



Policy on Promotion of Sustainable Management

Now that the progress of an ultra-low birth rate and a rapidly aging population as well as preservation of the Earth's environment have become much talked about issues, the values of stakeholders and consumers are changing drastically, and the yardsticks by which corporate value is measured are also changing dramatically.

By implementing initiatives related to ESG, SDGs and CSR while ensuring compliance with laws and regulations, SUNDRUG aims to be a sustainable and resilient company that can respond to social changes and risks.



Stakeholder engagement

Recognition of the importance

As a retailer, the Company has stakeholders including customers, shareholders, employees, suppliers, distributors, financial institutions, local communities, and administrative bodies. We believe that creating a forum for communication with our stakeholders will lead to the development of appropriate solutions to the various issues that we currently face, thereby enhancing our social credibility and corporate value. Also, the Company recognizes that engaging with stakeholders helps to generate suggestions in many fields, including the promotion of ESG activities, strengthening of sustainability, development of community activities, formulation of ethical initiatives and norms, and strengthening of information disclosure. Therefore, we will continue to strengthen initiatives in stakeholder engagement.

Current activities

- Meetings with institutional investors and analysts
- Site visits for investors
- Collection of customer feedback via email and telephone

Future activities

- We will continue to consider how to implement and enhance measures for engagement and collaborations with stakeholders.
- Consider conducting investor surveys and dialogue meetings
 - Consider conducting employee satisfaction surveys and customer surveys

Commitment to stakeholders

Declaration on protecting the global environment	The Company recognizes that the global environment is the foundation of all its activities. Therefore, the Company will strive to protect the environment by complying with laws and regulations and cooperating with its stakeholders.
Commitment to customers	We will always strive to provide valuable products in order to gain the trust and satisfaction of our customers, and serve to realize safe, secure, healthy and rich lives.
Commitment to business partners	It is our responsibility to our business partners to ensure "fair trade." In order to earn the trust of our business partners, we will comply with good business practices and strive to build relationships of coexistence and mutual prosperity.
Commitment to shareholders	We will actively engage in dialogue with our shareholders and aim to become a sustainable and resilient company that can respond to social changes and risks. We will endeavor to enhance corporate value through both financial and non-financial measures.
Commitment to employees	By actively engaging in dialogue with our employees, we pledge to create a healthy and comfortable working environment, and to provide an environment that enables sustainable change and continuous growth.
Commitment to local communities	Our goal of realizing safe, secure, healthy and rich lives also represents our commitment to local communities. In addition to providing services at our stores, we will promote events related to medicine and health, as well as tree-planting and fund-raising activities in cooperation with local communities.

Environment

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

SUNDRUG Group Environmental Policy

Basic approach

Recognizing 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.

Environmental Policy

● (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.

● (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.

● (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.

● (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.

● (Disclosures) Promotion of communication

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

Voluntary Environmental Action Plan

Numerical targets

Reduce CO₂ emissions per floor area (total of Scopes 1 and 2) by 50% in the Group (in fiscal 2030, compared to fiscal 2013)

- Reduction of food waste by 50% per sales (compared to fiscal 2020)
- Reduction of non-food waste by 20% per sales (compared to fiscal 2022)
- Food waste recycling rate of 30%

Implementation plan

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

Details of initiatives

Promotion of environmental management Introduction of solar power generation; Introduction of CFC-free refrigeration and freezing cases



▶ KPI - Reduce the CO₂ emissions per floor area in the Group by 50% (in fiscal 2030, compared to fiscal 2013)

We are promoting the installation of solar power generation systems based on the characteristics of individual stores in each region (hours of sunlight, roof area, roof load capacity, etc.) We plan to reduce CO₂ emissions by 30,000 tons* by fiscal 2030.



Equivalent to 34 years' worth of CO₂ absorbed annually by 100 hectares of planted Japanese cedar trees aged 36–40 years



Introduction of solar panels

Introduction of CFC-free refrigeration and freezing cases

Initiatives to prevent food loss



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, we are working to reduce waste by reducing the amount of expired products through "temaedori" activities and by selling products near their sell-by dates based on internal criteria by marking them down with the optimal discount at the right timing. To improve the accuracy of these efforts, we work continuously to improve the operational logic of our IT systems, including automatic ordering systems.



*"Temaedori" = A purchasing behavior in which the customer actively chooses products that are close to their sell-by date, such as those products placed up front on the shelves for immediate consumption after purchase.

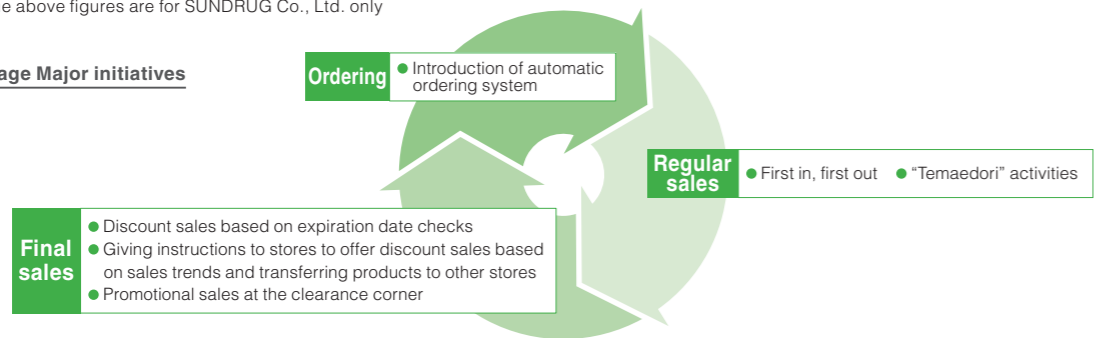
Food Waste Trends on Weight Basis

Year-on-year 15% reduction ▶ 10% reduction ▶ 10% reduction

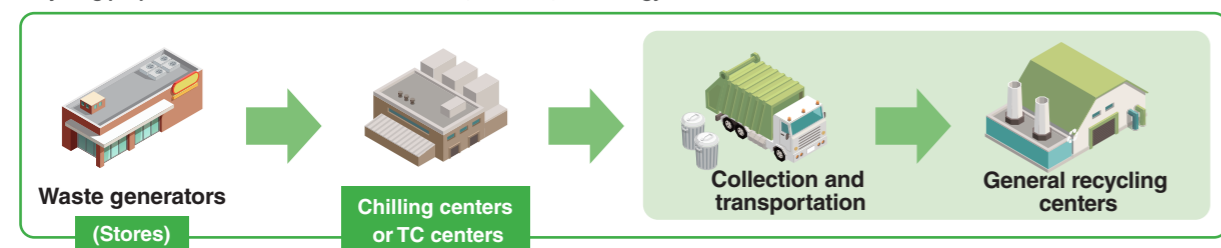
(Stores: All directly-managed stores/Unit: t)	Total Fiscal 2018	Total Fiscal 2019	Total Fiscal 2020	Total Fiscal 2021	Total Fiscal 2022	Total Fiscal 2023 Forecast	Total Fiscal 2024 Forecast	Total Fiscal 2025 Forecast
Total weight deficit (t)	492	361	419	310	338	287	259	233
kg/net sales (million yen)	1.60	1.15	1.41	1.02	1.12	0.95	0.85	0.77
Compared to fiscal 2018	100.0%	72.0%	88.2%	64.0%	69.8%	59.3%	53.4%	48.0%

*The above figures are for SUNDRUG Co., Ltd. only

Image Major initiatives



Despite the above measures, waste will still inevitably be generated. Therefore, further efforts are being made to collect waste for recycling purposes and to reuse it as animal feed, fertilizer, and energy.



Reduction of waste from stores

Drugstores generate a large amount of cardboard boxes and plastic waste including cushioning materials, due to the nature of the products they handle. At present, most of the cardboard boxes are recycled, but some of the plastics are disposed of as industrial waste. In order to further reduce the amount of plastic waste we produce, we will continue to promote optimization in purchasing quantities, reusing and recycling of waste plastics together with our business partners, and to promote environmentally friendly management.

Objectives	Fiscal 2022
Disposal (t)	16,038.6
Recycling (t)	12,852.0
Recycling rate	80.1%

* Excluding discount store business

- Dissemination and education about everything from environmental issues to the Company's initiatives using the in-house training system
- Repeat consultation with recycling companies, and conduct store-specific test operations
- Compile requests to manufacturers and submit regular written requests

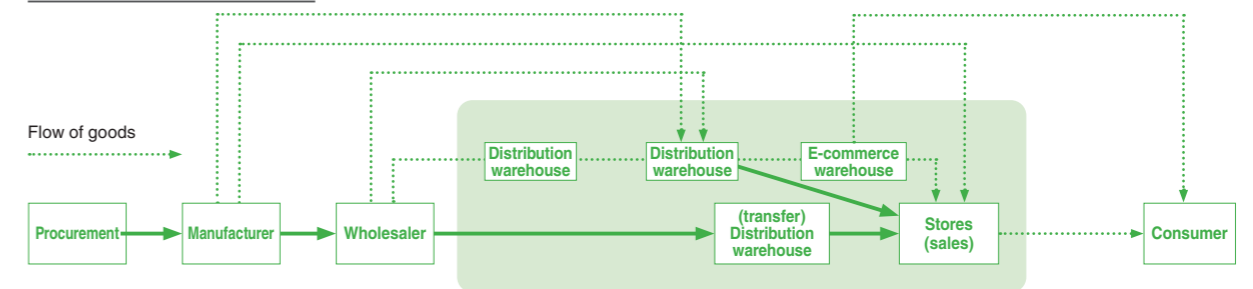
Basic approach to waste reduction (initiatives throughout the supply chain)



Drugstores and discount stores, which handle a large number of purchased products, were a little behind in their efforts to reduce waste. There are a wide range of issues to be solved, including "waste product packaging materials, etc." and "unsold food products." Fortunately, the popularization of IT and DX has made it easier to visualize the amount of goods purchased, sales volumes, volumes of unsold goods,

and CO₂ emissions (Scope 3 Category 1), and, with that, our approach to tackling waste is becoming clearer. In accordance with national policies and guidelines and in cooperation with its business partners, the SUNDRUG Group promotes the 3 "Rs" throughout its entire supply chain and is making every effort to address waste issues.

SUNDRUG Group supply chain



Private brand products

Recognition of the importance

Packaging materials and containers used for products sold by drugstores are often disposed of as waste after use, thereby placing a burden on the environment. The SUNDRUG Group's private brand products are commercialized based on the main themes of "products with low environmental impact" and "capable of contributing to the environment through products." Specifically, these include: 1) selection of environmentally friendly materials and manufacturing processes; 2) use of materials with low environmental impact (environmentally friendly ink and reusable and recyclable materials); 3) implementation of environmentally-conscious sales promotions (emphasizing environmental consciousness); and 4) provision of information relating to environment credentials (marking signifying compliance with environmental initiatives and certification labels).

Although these initiatives have only just begun, we will continue to provide compelling products to customers that meet the demands of our society in this era in which environmental management is demanded.

Current activities

Goals for period: 681 SKUs
Achieved (achieved ratio): 210 SKUs (30.8%)

Future activities

- New products: 100% compliant with sustainable and environmentally friendly materials
- Existing products: Gradually shift to use of sustainable and environmentally friendly materials

Materials used (ink and paper)



Other environmental initiatives

Adoption of business casual dress code

At the headquarters of each SUNDRUG Group company, we implement Cool Biz measures in the summer and Warm Biz measures in the winter to reduce CO₂ 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 CO₂ emissions by calling for proper room temperature control and reasonable means with light clothing according to each employee's time, place, and occasion (TPO).

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.

Initiatives based on TCFD recommendations

TCFD is a framework for disclosing critical information related to the risks and opportunities presented by climate change and we recognize it as a common yardstick for investors. We respond appropriately to the TCFD recommendations in accordance with the requests set out in securities reports and the Japanese Corporate Governance Code with a focus on the completeness, accuracy and consistency of information.

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

Objectives	<ul style="list-style-type: none"> 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.
Scenarios	<ul style="list-style-type: none"> 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 2°C increase: Assumption of a decarbonized society with stricter policies than the status quo 4°C increase: Assumption that current decarbonization policy and CO₂ emission pace will continue
Target businesses	<ul style="list-style-type: none"> Retail business (drugstores and discount stores combined)
Scope of analysis	<ul style="list-style-type: none"> SUNDRUG Group (headquarters and stores) In the future, the entire supply chain, including business partners
Considerations	<ul style="list-style-type: none"> 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 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.
Scope of analysis	<ul style="list-style-type: none"> Weather-related disasters Increase in electricity prices due to introduction of carbon pricing (report scheduled for the next period)
Scenario period	<ul style="list-style-type: none"> "Present to 2050" is recommended, but "up to 2030" will be used CO₂ emissions increase along roughly the same path until around 2030 under both 2°C and 4°C increase scenarios

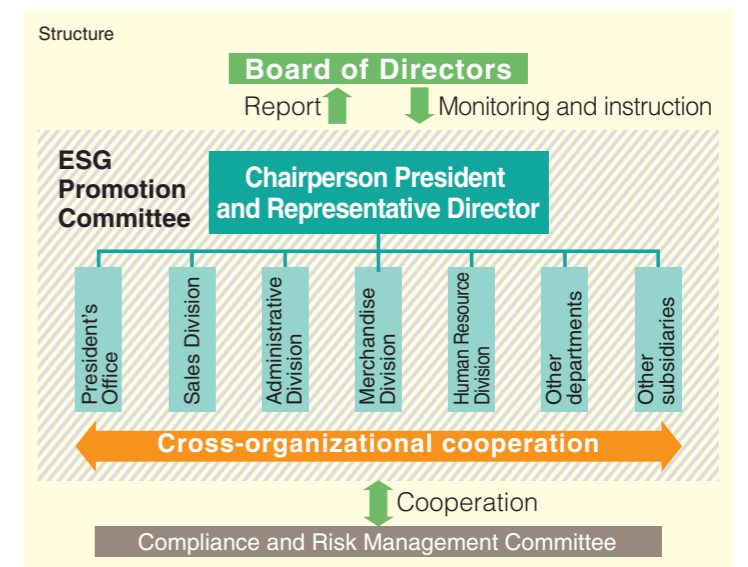
Contents of disclosure

Governance	Strategy	Risk management	Indicators and targets
Oversight by the Board of Directors <ul style="list-style-type: none"> Environmental management promotion and guidelines (Environmental Policy) Governance on climate change (discussions by the Board of Directors, internal structure) Linking ESG indicators to internal Director compensation 	Risks and opportunities <ul style="list-style-type: none"> Identification of opportunities and risks in 2°C and 4°C scenarios 	Risk identification and assessment process <ul style="list-style-type: none"> Roles and activities of the ESG Promotion Committee and the Compliance and Risk Management Committee Stakeholder engagement through industry associations (capturing social demands) 	Indicators used by the organization <ul style="list-style-type: none"> Greenhouse gas (GHG) and CO₂ emissions volume Expanding sales of environmentally friendly products (SKUs and composition of sales) Introduction of EVs, reduction of incinerated waste, etc.
Roles of management <ul style="list-style-type: none"> Company policy and top management commitment on climate change Management of Group risks through operation of the ESG Promotion Committee and the Compliance and Risk Management Committee 	Impact on the organization <ul style="list-style-type: none"> Assessment and estimation of opportunities and risks under 2°C and 4°C scenarios 	Risk management process <ul style="list-style-type: none"> Execution of PDCA cycle through the ESG Promotion Committee and the Compliance and Risk Management Committee Promotion of environmental management (organization building, operation, education, etc.) 	GHG emissions for Scopes 1, 2 and Scope 3 (where appropriate) <ul style="list-style-type: none"> Scopes 1, 2, (3) data disclosure Utilization and rate of recycling Waste management and emissions (third-party assurance report)
	Organizational resilience (toughness, resilience, tolerance) <ul style="list-style-type: none"> Issues and responses necessary to capture opportunities and avoid risks in 2°C and 4°C scenarios 	Integration into comprehensive risk management <ul style="list-style-type: none"> Oversight by the Board of Directors Collaboration among the Board of Directors, ESG Promotion Committee, and Compliance and Risk Management Committee 	Goals and performance as an organization <ul style="list-style-type: none"> Medium-term environmental targets and performance Progress monitoring based on KPIs Efforts to save energy and reduce CO₂ emissions

Governance

Oversight of the Board of Directors and the roles of management

- 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 SUNDRUG 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



World view as a premise for scenario analysis

Worldview and business environment

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

Analysis based on +2.0°C increase scenario * An analysis based on a +4°C increase scenario is scheduled to be included in a report in the next period

RCP 2.6 (under the 2°C increase scenario, the global average temperature in late 21st century (2081 to 2100) is likely to increase by between 0.9°C and 2.3°C above pre-industrial levels)

		Risks and opportunities	Impact	Assessment
Transition risks	Policies and regulations	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
		Stricter GHG emission regulations	Increased delivery costs due to introduction of carbon pricing (contractors)	Small
			Increased investment costs in equipment and machinery to reduce and control GHG emissions	Small
		Tighter CFC regulations	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
		Stricter plastics regulations	Increased delivery costs (contractors) due to capital investment to reduce and control GHG emissions	Small
			Increased investment expenses for CFC-free facilities in stores, etc.	Small
	Market	Litigation (environmental measures, GHG emissions)	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
		Increased electricity prices	Increased energy prices due to higher electricity prices (including renewable energy surcharge)	Large
			Increased commodity procurement costs (higher manufacturer shipping prices) due to higher electricity prices (including a surcharge on renewable energy)	Medium
		Increased renewable energy prices	Increased energy costs due to higher renewable energy prices	Medium
			Increased logistics costs	Increased renewable energy prices and electricity prices, and increased logistics costs due to environmental investments
Reputation	Changes in consumer lifestyles and preferences	Decreased sales due to delayed introduction of environmentally friendly products and services	Medium	
		Deterioration of brand image and a decrease in sales due to delays in environmental considerations	Medium	
	Decline in consumer reputation	Decreased number of recruitment applications and hires due to the deterioration of brand image caused by delays in environmental considerations	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
Physical risks	Acute	Increasingly severe disasters	Loss of sales opportunities due to damage or closure of stores caused by flooding, etc.	Large
			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.	Large	
	Chronic	Rising average temperatures	Increased electricity consumption at stores and distribution facilities	Medium
		Rise in sea level	Increased insurance costs and relocation costs for stores due to increased risk of flooding from high tides and tidal waves	Small
Opportunities	Policies and regulations	Introduction/increase of carbon pricing	Lower procurement costs due to more efficient business processes and equipment at suppliers	Small
			Decreased logistics costs due to more efficient logistics	Small
		Renewable energy technology development	Decreased energy costs due to the introduction of solar power generation with lower costs	Medium
	Market	Changes in consumer lifestyles and preferences	Increased sales due to the development and expansion of environmentally friendly products and services	Medium
			Increased sales through development and expansion of products and services adapted to rising average temperatures	Medium
		Improved consumer appreciation	Improved brand image and increased sales by addressing environmental considerations	Medium
			Improved valuations by investors and rating agencies	Improved corporate reputation among investors and rating agencies and lower financing costs by addressing environmental considerations

Items evaluated as "Large" in terms of impact


Transition risks	Policies and regulations	Introduction/increase of carbon pricing	Increased electricity costs for stores and logistics facilities due to introduction of carbon pricing
	Market	Increased electricity prices	Increased energy prices due to higher electricity prices (including renewable energy surcharge)
Physical risks	Acute	Increasingly severe disasters	Loss of sales opportunities due to damage or closure of stores caused by flooding, etc.
			Inventory disposal/shortages and loss of sales opportunities due to flooding, etc. of factories, wholesalers, distribution facilities, etc.

Predictions of damage caused by physical risks

Of the 931 stores subject to analysis, it is predicted that 351 (37.7%) will be flooded below floor level or incur flood damage at a depth of at least 50 cm.

Inundation depth (assumed maximum scale; cm)	Number of stores targeted for analysis	Description to the left	STEP 01
Less than 50 cm	4	A report scheduled for the next period	Check the current inundation depth at the stores subject to evaluation
50 ~ 99	122		Calculate the current amount of damage and loss (using the damage ratio by inundation depth, etc.)
100 ~ 199	37		Confirm the future flood frequency multiple and estimate the future amount of damage and loss at the respective scale of flooding
200 ~ 299	31		Assessment of increase in future risk for the respective scale of flooding
300 cm or more	157		
Target stores	351		
Number of stores	931		
Ratio (%)	37.7		

* Refer to Inundation Navigator (Shinsui Navi), Flood Management Economics Manual (Chisui Keizai Manual), etc. (provided by Water and Disaster Management Bureau; Ministry of Land, Infrastructure, Transport and Tourism)
<https://disaportal.gsi.go.jp/hazardmap/faq/faq.html>



Indicators for assessing climate change-related risks and opportunities

Assessment indicators	Initiatives and results
<ul style="list-style-type: none"> Greenhouse gas/CO₂ emissions (Scopes 1 & 2; Scope 3 in the future) Greenhouse gas/CO₂ emissions per floor area Waste generation (food: per sales, non-food: absolute amount) Composition ratio of environmentally friendly products (Reduction effect of greenhouse gas/CO₂ emissions through sales of environmentally friendly products) 	<ul style="list-style-type: none"> The SUNDRUG Group recognizes the importance of proactively addressing the risks and opportunities associated with climate change Set a reduction target for greenhouse gas/CO₂ emissions by 2030 to contribute to the realization of a scenario that limits the global temperature increase to less than 2°C Risk reduction initiatives <ul style="list-style-type: none"> ①Reduction of greenhouse gas/CO₂ emissions through transition to renewable energy by installing solar power generation systems and switching to non-fluorocarbon freezing and refrigeration equipment ②Promotion of energy conservation through the introduction of highly efficient equipment and switching to LED lighting ③Achieving resilient supply chains by addressing physical risks associated with climate change Capturing opportunities <ul style="list-style-type: none"> 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

Long-term goals in the environmental field

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

CO₂ emissions

Item	Unit	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022
CO ₂ emissions* ¹	t-CO ₂	161,432	149,472	149,880	163,968	154,230
CO ₂ emissions (per gross floor area)* ²	t-CO ₂ /m ²	0.145	0.129	0.123	0.124	0.109

*1 CO₂ 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.

* Figures include Daiya Inc., which was included in the scope of consolidation in fiscal 2022.

Human resources

We believe that the development of human resources with diverse values and ideas and the creation of an environment in which those people are able to play an active role are both important elements when it comes to corporate growth. Toward this end, the Group is committed to the development of a workplace environment and an educational system in which employees can demonstrate their abilities.

Two lines per store system

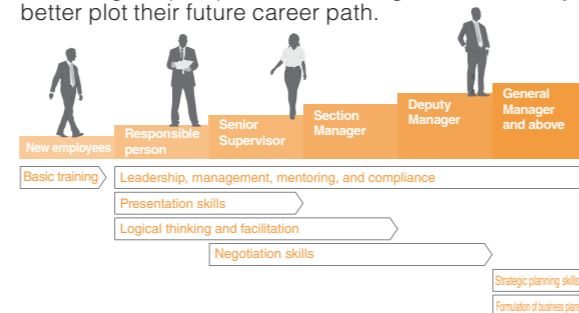
Pharmaceutical specialty businesses and store operations businesses both require highly specialized personnel, and each requires a different set of skills. Therefore, SUNDRUG has adopted a two lines per store system in which specialized duties and store staff are divided into two groups: "dispensing and OTC counseling staff" and "store operations staff."

This system enables our staff to focus on their specific duties and fully demonstrate their capabilities. This means that our pharmacists can concentrate on ensuring customer delight through OTC counseling and health-related consultations without having to also make time for operational duties.

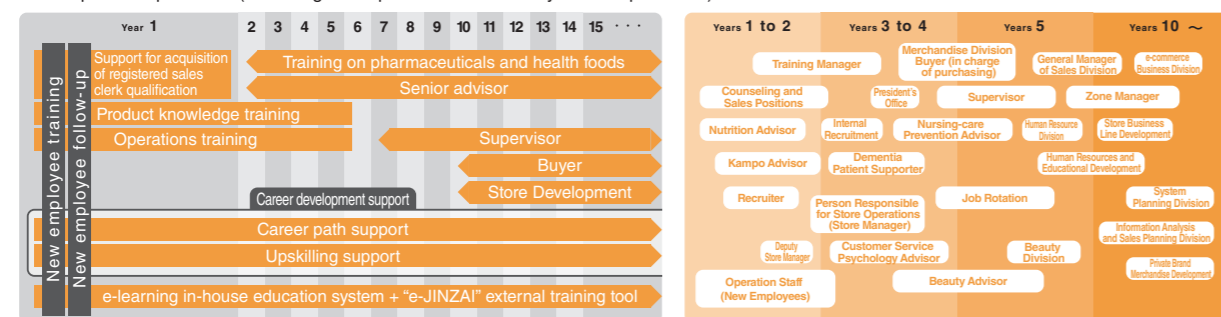
15-Year Training Curriculum

We believe that the development of human resources is the key to ensuring corporate competitiveness. To this end, we provide an in-depth education designed to help our employees grow according to their stages by our "15-year training curriculum," which is said to be the best in the industry. After gaining experience at stores and being assigned as headquarters staff at store management departments, product purchasing departments, store development departments, etc., training programs are provided to employees in order to further refine business skills as professionals in each field. Furthermore, we link group training (Off-JT), in which knowledge is learned in a classroom setting with on-the-job training (OJT), in which knowledge is learned through work in the store. Employees thus acquire "live skills" using both their minds and bodies. As true professionals, each employee is able to contribute to the operating of the company and help our customers lead fruitful lives. We have also set up a job rotation system whereby employees are assigned

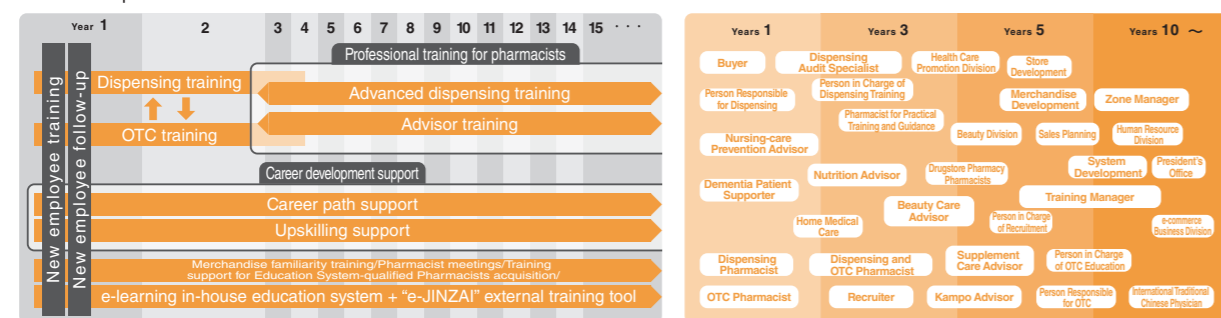
to various departments at the Group headquarters for a certain period of time in order to help them find their future career path at the SUNDRUG. By being given the opportunity to experience a variety of roles for a limited time span during the early stages of their career, employees acquire skills in communication, customer service, and in-store management from a wide range of perspectives, allowing them to thereby better plot their future career path.



Store operation positions (including sales positions and beauty advisor positions)

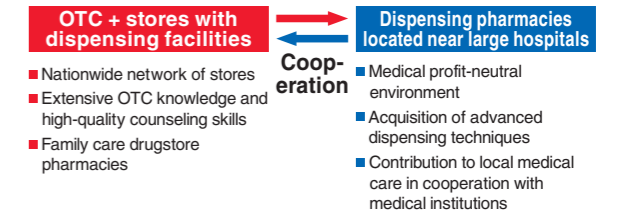


Pharmacist positions



Pharmacist Training (Career Select System)

In parallel with our 15-year training curriculum, we have also divided our pharmacist training into two courses: the "dispensing course" and the "OTC course" as part of our curricula for helping train "family care pharmacists." The dispensing course is held at training type dispensing pharmacies that specialize in dispensing training and teaches advanced dispensing techniques and how to analyze prescriptions. The OTC course provides education to develop counseling skills based on a two-line at one-store system at drugstores. Upon completion of either of the specialized training courses, we allow employees to take the other course, creating an environment in which employees are able to receive a deep level of knowledge and develop a strong skillset in terms of both dispensing and OTC.



Advisor Qualification System

The Company has established an advisor qualification system to help foster specialists who can exceed our customers' expectations. The qualifications available include those to become qualified as a Kampo Advisor, Nutrition Advisor, Supplement Care Advisor, Nursing-care Prevention Advisor, and Beauty Care Advisors, and can be taken by any employee who has completed the in-house basic training.



Proposal Meeting

In order to make store operations and headquarters operations more efficient, SUNDRUG regularly holds Operational Improvement Proposal Meetings. A distinguished feature of the meeting is that employees who actually work at the Company participate, and share areas for improvement related to issues that employees experience on a daily basis and propose ideas for improvement. Some of these ideas are reflected in the manuals and systems for the entire company, meaning the opinions of each employee are linked directly to the actions of the Company as a whole. This initiative reflects our commitment to valuing the opinions raised by each and every employee.



Diversity & inclusion

The ultimate aim of diversity & inclusion* is to actively incorporate human resources with diverse values into our business operations free from restrictions of gender, age, or nationality, so as to allow the building of an organization that is able to respond flexibly and with speed to a variety of management issues.

We believe that this is an important theme for the SUNDRUG Group as well, with the Group as a whole working toward the promotion of diversity and inclusion. We are also 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.

Promotion of women's active engagement in the workplace and helping achieve a balance in terms of childcare

As awareness of self-medication increases, more and more women are choosing drugstores as places of employment. As a result, the ratio of full-time female employees at the Company has increased by nearly 20 percentage points over the past five to six years, with female employees now accounting for approximately 40% of our full-time staff.

In order that our employees can work together as one to deliver on the vision of "realizing healthy, rich lives" for our customers, it is important that we build an environment in which employees are able to get to know the unique characteristics and gender differences of each other, and demonstrate their individual abilities to the maximum extent, regardless of gender.

We have built an environment that makes it easier for female employees who are pregnant or who have given birth or taken childcare leave to continue working after the fact, including a childcare leave system and child-care shorter working hours system that allow employees to extend for a period longer than that required by law, a system for distributing maternity marks that have incorporated the views of employees working during their pregnancy, a returnee follow-up system in which their supervisors provide support to help women in roles of responsibility to return to work after taking childcare leave, an environment that makes it easier to take paid leave, reductions in overtime work, allowing the hiring of employees with fixed working hours and employees working only at one specific store, and a system in which employees are able to choose locations and regions in which they want to work.

At meetings of the Compliance and Risk Management Committee, management meetings and meetings of the Board of Directors, opportunities are

provided to report on the utilization rate for childcare leave, the average length of service, trends in terms of the number of persons in roles of responsibility and trends in terms of the number of employees, all with respect to both genders. At these meetings, issues are also identified and proposals are put forward as necessary on how to tackle these issues.

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. We have also been awarded the Platinum Kurumin certification by the Ministry of Health, Labour and Welfare, which is only awarded 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.



Promotion of work-life balance

As mentioned above, diverse values and diverse human resources are necessary for the growth of a company.

However, lifestyles can vary significantly depending on factors such as changes in a person's life stage, life events, gender, age, and the presence or absence of disabilities. Therefore, in order for diverse human resources to be able to work together, it is necessary to create a workplace environment that allows for flexible working styles that can accommodate a wide variety of lifestyles.

The current manuals and mechanisms in place are inadequate when it comes to working styles for accommodating a wide variety of lifestyles. It is therefore

necessary that we remain committed to updating such manuals and mechanisms as and when necessary.

The establishment of mechanisms such as manuals and systems built to address various issues, as well as working hours and work locations, are important conditions for employees to work in a diverse range of lifestyles. "Reduction of overtime work," "Initiatives to promote the use of paid leave," "Securing adequate intervals between work shifts to optimize working hours," "Introduction of employees with fixed working hours and employees working only at one specific store," and a "System for allowing employees to choose locations and regions in which they work" are just some of the initiatives that we are focusing on.

Employment of persons with disabilities

We believe that SUNDRUG's vision of "realizing healthy, rich lives" should apply not just to our customers and business partners, but also to our employees.

All employees, regardless of disability status, should be given the opportunity to fully demonstrate their abilities in their professional lives. If we can ensure that all employees are able to work lively, only then can we achieve the goal of "realizing healthy, rich lives."

There may be many situations where a person's disability serves as an obstacle in his or her working life. However, by implementing a system in which those without disabilities are able to follow-up with those with disabilities, it should be possible for us as a company to grow together toward the same goals.

The Company is committed to the employment of persons with disabilities and to helping them settle into the Company such that they can be employed across a range of business divisions, including the Store Support Division and the Support Center Operations Division, and make full use of their abilities.

Headed by SUNDRUG Dream Works, a special-purpose subsidiary under the Act to Facilitate the Employment of Persons with Disabilities, the Group is engaged in initiatives to employ persons with disabilities in a variety of locations, including stores, support centers, and logistics centers. In the past, the Company has promoted the employment of persons with disabilities to work in fixed locations, such as the Group headquarters; however, the Company is now proactively engaged in the employment of persons with disabilities to work primarily in stores.

The reason for this is that our stores are located across Japan, which thereby greatly expands employment opportunities for persons with disabilities.

As part of this hiring process, we make sure to conduct in-store training in advance for several days and take measures to minimize mismatches between persons with disabilities and the stores as much as possible. In addition, as one of the measures to help strengthen our follow-up system, we have provided all employees with disabilities who work at our stores with smartphones that allow us to keep track of their working status and to make daily reports, thereby helping ensure that changes to their working status are more easily noticed.

Our efforts to develop an environment that empowers persons 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 to create a comfortable working environment to promote the employment of persons with disabilities and the creation of opportunities for their vocational autonomy and social participation.

At monthly meetings, the persons in charge of promoting the employment of persons with disabilities at SUNDRUG and SUNDRUG Dream Works gather to report on changes in the employment rate and the status of new hires, as well as to share issues and consider measures to support the retention in the workplace of persons with disabilities.

As a result of the above activities to promote the employment of persons with disabilities, the employment rate for persons with disabilities stands at 2.97% for the Group as a whole, far exceeding the statutory employment rate.

Promotion of mid-career hires and employment of senior citizens

If everyone is from the same backgrounds and holds the same values, the ideas that will emerge from that will inevitably lack diversity, and companies will reach a hard limit in how they can adapt and change.

When a company employs a diverse range of human resources with diverse values, and each employee respects and recognizes each other's individuality and makes the most of each other's strong points, they are able to grow, and the company is better able to adapt and develop. We employ diverse human resources so that employees of a variety of backgrounds can fully demonstrate their capabilities regardless of skills or age.

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.

In addition, in order to promote the employment of senior citizens, the Company performs reviews of store work assignments to hire senior citizens primarily in roles such as stocking shelves early in the morning before store openings.

Mid-career recruitment ratio

Company name	Fiscal 2020	Fiscal 2021	Fiscal 2022
SUNDRUG CO., LTD.	31.2%	16.7%	27.5%
Seikodo Pharmacy Corporation	25.0%	15.6%	28.6%
Sundrug Plus Co., Ltd.	51.0%	15.4%	66.6%
DIREX CORPORATION	74.0%	61.3%	46.2%

*In accordance with the Act on Comprehensively Advancing Labor Measures, and Stabilizing the Employment of Workers, and Enriching Workers' Vocational Lives

Health and safety of employees

The Company promotes health management activities to help maintain a workplace environment in which employees can work in good physical and mental health.

Declaration on 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.

One of the most important ingredients for a rich life is “good health.”

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.

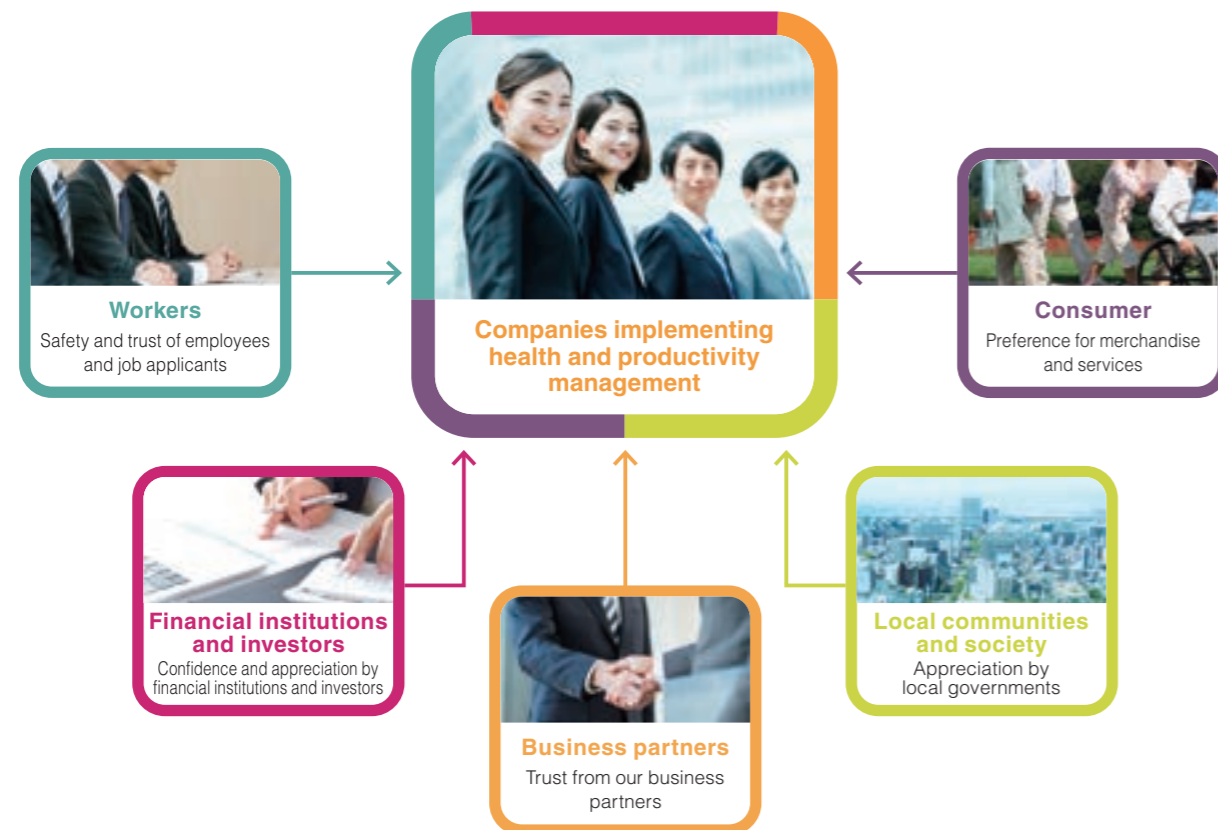
We are raising health consciousness and vigorously advancing health management initiatives in order to promote better mental and physical health among our employees.

Material issues

● **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.

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

● **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 analyses of employee motivation.



Health initiatives for employees

Workplace 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 SUNDRUG Group employees, ultimately contributing to the achievement of sustainable growth. As stated in the Declaration on Health, SUNDRUG considers it important that, in order to promote health and productivity management, we implement measures to prevent severe illness, improve employee health literacy, and reform working styles and will implement these measures in a planned and strategic manner. Specifically...

- Measures to prevent severe illness and mental health issues in collaboration with professionals
- Analysis of issues highlighted in the results of health examinations and measures to improve on these
- Education to improve health literacy necessary for employees to maintain good health
- Work style reform to improve work-life balance

Based on these four measures, we are aiming to be a vibrant company where employees can work in good health over the long-term by ensuring that they are physically and mentally healthy. Recently, we participated in the Certified Health & Productivity Management Outstanding Organizations Recognition Program, and were recognized as a Certified Health & Productivity Management Outstanding Organization 2023 (large enterprise category)."



Other detailed initiatives

- Measures to prevent severe illness
- Improvement in rate of employees undergoing health examinations
- Cancer screening subsidization system
- Subsidization system for influenza vaccination
- External counseling service for healthcare
- Mental health education
- Improvement of implementation rate of specific health guidance
- Follow-up measures for after undergoing health examinations
- Initiatives to support a better balance between work and illness
- Reduction of work-related accidents

Execution systems

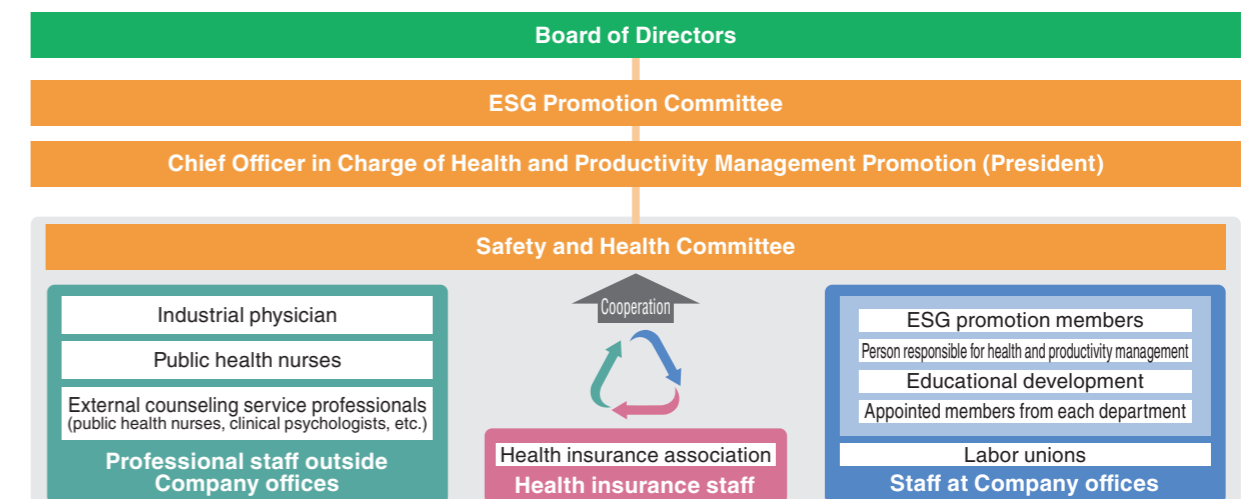
Within our offices, specially appointed members from each department, led by the Human Resource Division and other occupational healthcare staff, work together to resolve issues related to the prevention of severe illnesses and to implement work style reforms.

With regard to education to improve health literacy, the Company is engaged in initiatives to enhance opportunities for employees to receive training on improving their health in collaboration with educational development division.

Outside our offices, the Company has developed an occupational healthcare system in cooperation with health insurance associations and industrial healthcare staff, including public health nurses and industrial physicians, and regularly holds meetings to get a better understanding of current healthcare issues, to consider measures for improvement, to verify the effects of measures, and to improve

existing measures. Through such initiatives, the Company is working to promote health and productivity management.

At monthly meetings of the Safety and Health Committee and the Compliance and Risk Management Committee, etc., the President and Director, who is the chief officer in charge of health and productivity management promotion, as well as members of top management, including officers, and appointed union members, confirm the progress of such initiatives through regular reporting, including on the optimization of working hours, ensuring intervals between work shifts, measures toward mental health, reports of work-related accidents, consideration of measures to prevent their recurrence, and measures for medical leave. In addition, measures to help make further improvements are discussed at each meeting.



Roundtable discussion between employees

Through the promotion of diversity, we aim to develop an environment in which a diverse range of personnel can fully demonstrate their capabilities.

The SUNDRUG Group has identified the establishment of a satisfying working environment as a material management issue (materiality). Through a roundtable discussion between Toshihiko Asami, General Manager of the Human Resource Division, and three female managers, we will report on the status of efforts to promote diversity and the active participation of women on the front lines.

Creation of an environment where taking childcare leave is commonplace for both men and women

Asami With stores all across the nation, the Company regularly generates a certain amount of net sales and has a considerable number of employees. Therefore, the Company is committed to diversity as a social responsibility. We work to secure human resources with diverse attributes, sensitivities, abilities, values, and experiences, and strive to promote the maximum utilization of each individual's capabilities. We believe that providing a place where a diverse range of people can play an active role will lead to our acquisition of superior human resources, as well as changes in employees' behavior and awareness, which in turn will lead to work style reform.

One of our initiatives in diversity is to promote the active participation of women. The majority of the Company's customers are women. Therefore, we expect that an increase in the number of female executives and management-level employees will lead to sales promotion planning and the provision of services that reflect the unique perspectives and ideas of women.



Maki Yasuike
Section Manager, Training
Section, Beauty Division

Toshihiko Asami
General Manager, Human
Resource Division

Hitomi Miyazawa
Senior Supervisor, Planning
Section, Beauty Division

Ai Shoji
Supervisor,
Sales Division

One of the features of the system that supports flexible work styles at the Company is that childcare benefits are longer than the periods set by the Act on Childcare and Caregiver Leave in Japan. Employees can take childcare leave up until their child turns the age of three, and the shorter working hours system for childcare can be utilized up until the time of their child's graduation from elementary school.

Yasuike When I gave birth in 2007, the Company's system still followed the periods stipulated by the law, and when I returned from the one-year childcare leave, I could only utilize the shorter working hours system until the day before my child entered elementary school. After-school daycare services are available for children up to the age of 10, but at that age, it was still difficult for my child to stay at home alone, and I was always very worried. Thankfully, the Human Resource Division was quick to implement system reforms, and I was extremely relieved when the periods for utilizing childcare leave and the shorter working hours system were extended.

Asami Currently, 100% of female employees who are eligible for childcare leave take it, and almost all of them utilize the shorter working hours system after returning to work. Furthermore, in line with the promotion of self-medication in recent years, the number of women who wish to work in the self-medication field has increased, resulting in an increase in the number of female employees we recruit. The childcare leave and shorter working hours system of the Company have been praised as one of the mechanisms that make it easier for women to continue working at the Company.

Yasuike After having served in various positions including as a sales manager at a store, I joined the Sales Training Section. After my maternity leave, I returned to the same department. Many of my seniors working in the department were also mothers who had experienced childbirth and childcare, so it felt like taking childcare leave and returning to work afterward were just ordinary occurrences. Since I

returned to the same department, I did not have much difficulty in catching up with the duties. Nonetheless, for those who return to work, there is a return-to-work follow-up system that includes re-learning. Therefore, I think that the follow-up prior to an employee's return is solid so that employees can return to work with a peace of mind.

Miyazawa In my case, I worked as a lecturer at the Educational Development Division until I took childcare leave in 2012. When I consulted with my superior about my concerns over how to balance my working hours and childcare, I took the advice of the Human Resource Division and returned to work at the Beauty Division. Beauty Division is responsible for counseling about cosmetics and for sales floor management at the stores as Beauty Advisors (BA). After I joined the Company, I was in charge of store operations, so I knew about a BA's work. Nonetheless, when I returned to work, I worked in the stores again, as a BA this time, in order to gain knowledge about cosmetics, before I returned to the headquarters as the person in charge of the Beauty Division. By acquiring detailed know-how regarding cosmetics, I believe that I was not merely transferred to another department to facilitate my childcare efforts but was also given the opportunity to advance my future career.

In addition, I have reduced my commuting to less than an hour as I now work closer to my house. Even among women who utilize the shorter working hours system, I think there are many who feel that there is not enough working time for things like research. By working at a place close to my house, I can experience less of such feelings of frustration.

Asami Regarding commuting time, from the perspective of making it easier for all employees, including women, to work, we try to ensure all commuting time from home is within an hour in principle, which is feasible since our stores have now expanded nationwide. For employees who utilize the shorter working hours system, we try to



assign them to stores that are closer to their homes. Even for employees like Ms. Miyazawa who work at the headquarters, an assignment is made after considering the length of their commuting time. This is possible as we have offices in major cities across Japan that have headquarters functions and also serve as training centers.

Miyazawa The Human Resource Division even asked me about what time I would pick up my child from kindergarten, and I was surprised that they were taking so many factors into consideration when deciding which store to assign me to. Soon after I got back to work, my child was down with a fever, and I had to take about ten days off. I was really grateful that my coworkers at the store, whom I was causing trouble to, did not blame me but instead gave me words of concern.

Shoji I am a supervisor, which is a managerial position at a store, and I plan to take maternity leave from July 2023. There are many men in my department, and in the Company, there are many male store managers who take childcare leave, and it is normal for supervisors to ask each other for help and arrange for personnel to cover their duties. It feels natural for both men and women to take leave for childbirth.

Asami As a reference, the percentage of male employees who take childcare leave is approximately 90%. We have been promoting the utilization of paternity leave for a long time. After we received Platinum Kurumin certification for being a "company that offers strong support for parenting," in-house awareness-raising activities progressed further, and the paternity leave utilization rate has increased.

Shoji Although it is still some time away, I am going to be the first female employee to return to her current position in the Sales Division after taking childcare leave. In this unprecedented situation, my superiors have kindly worked for the benefit of my career, which makes it so easy for me to work. Going forward, I will continue to give my best in the Sales Division.

In addition, there have been some revisions to the regulations which makes it easier for employees to seek their career paths. In the past, there was a regulation that only those in the National category, which comes with the possibility of a job transfer



nationwide, could become a section manager or higher, and I had trouble making a career plan that could match my life stages. The regulations were revised three years ago, making it possible even for those in the Local Employees category, which does not involve transfers, to aim for section manager or higher positions. Upon getting married, I switched to the Local Employees category. I believe that this revision has created a system that makes it easier for women who want to advance their careers to do so. As a result, the number of female store managers has, in fact, increased.

Asami The Company's ratio of female managers, as defined by the Ministry of Health, Labour and Welfare, was 18.8% (as of March 31, 2023), which is higher than the retail industry average of 7.0%. Managers of the Company are defined as those in the positions of section managers and above, supervisors who oversee multiple stores, and training leaders. The three employees participating in this discussion are all managers. The high ratio of female managers is partly due to the fact that a large proportion of pharmacists are women. However, recently, there has indeed been an increase in the number of women who have moved to the position of a supervisor or a higher store operation position, such as Ms. Shoji.

Diversity means creating a working environment that is easy for anyone to work in

Yasuike I think that the Company has established a system that makes it easy for employees to continue working for a long time while raising children. However, I myself have simply returned to work in a division where there are many women. In my opinion, we can only truly say that a culture of women's active participation has been established when there are more people like Ms. Shoji, who is trying to advance her career in the Sales Division while raising a child. On the other hand, some people prefer to work in their neighborhood and focus on providing good customer service. A job-hunting student once asked me, "Do you have to be a woman who aggressively works to advance her career?" However, embracing diversity

means allowing for a variety of work styles, whether people want to put their families first, or wish to climb the career ladder. Personally, I have a daughter who is currently a high school student, and after leaving the shorter working hours system four years ago, I am now working full-time. From now on, I would like to help create a working environment that can provide even more diverse options to my juniors at the Company.

Asami There are people who want to continue working at stores and people who want to work in various jobs at the headquarters, regardless of whether they are men or women. Once a year, all employees have a feedback interview with their superiors, and the Human Resource Division reviews each employee's aspiration, evaluates their suitability to a job, and considers the possibility of a transfer. For example, pharmacists have options beyond working at a drugstore that sell over-the-counter drugs or working at a dispensing pharmacy. Some pharmacists belong to the Beauty Division or the Product Development Division. In fact, I am also a pharmacist, but I am currently working in the Human Resource Division. In this way, the Company actively conducts job rotation while assessing the individual's wishes and their suitability for the job.

Yasuike In addition to full-time employees, there are, for instance, people who work part-time in the Beauty Division all over the country, but there are also people who become full-time employees to work only at a certain store. Some have become full-time employees only at stores close to their homes, while others have taken the opportunity to become supervisors responsible for the management of multiple stores after they became full-time employees.

Asami The Company employs a system in which there are promotion tests for part-time employees as well, with the three levels of elementary, intermediate, and advanced. When a part-timer passes a test, the contents of their work and their hourly wage will change. Furthermore, there is a system for appointing outstanding personnel as full-time employees, through a letter of recommendation from the stores. Also, as Ms. Yasuike mentioned, it is possible to become a full-time employee of just one particular store.

Miyazawa Of course, we do not force people to be appointed as full-time employees just because they are capable, but I believe that there are many opportunities at the Company for each stage of life, such as when one is trying to work in a different way after their childcare responsibilities are no longer that heavy.

Asami Also, as an initiative to create a better working environment, the Company is also focusing on health and productivity management. In 2022, the Group was named a Certified Health & Productivity Management Outstanding Organization. Most recently, the Company set up an external consultation service to provide advice regarding the health of employees and their families, and childcare.

Yasuike I feel that mental health is very important for health management. I often get asked by store administrators for advice on how to resolve interpersonal conflicts. There are some things that are hard to bring up to other people in the Company. However, it might be easier to say those things to an external consultant, and to ask for advice. In the future, I hope the system can be developed further, so that there will be easier ways to ask for advice besides asking it over the phone.

Shoji I can answer the work-related concerns of my subordinates, but it is difficult to get involved when they are facing a mental issue. I think it is very reassuring to have an external consultation service.

Miyazawa I, too, recently asked my immediate superior for advice about a family issue. In my case, I feel safe as I believe that my boss will always be kind and supportive. But, to be honest, I have heard of cases where people quit due to problems with their boss, so I think that the consultation service can be useful for such cases too.

Asami As I concurrently serve as the General Manager of the Human Resource Division and the Chairperson of the Anti-harassment Committee, I receive many requests for consultations and reports regarding harassment. When I examine the details of these reports, I find that most of the cases are usually due to a simple miscommunication, and the situation could be resolved by the superior and the subordinate calmly talking it out trying to understand each other. As the number of female employees increases, and as a foundation for the future increase of women not only in managerial positions but also in senior management positions, we are working with the Personnel Development Office to prepare a communication skills training course for managers, which includes an understanding of physical conditions unique to women.

Meanwhile, the Company's store operations are characterized by a two lines per store system. Each store always has a supervisor who assumes the store operation position, and a training leader who provides training on dispensing operations, counseling and sales. There are many cases where staff who assume store operation positions consult with training leaders on matters that are difficult to bring up to their immediate supervisors, and cases where pharmacists consult with the supervisors. I think that the two lines per store system is one of the foundations for maintaining a culture of openness in the organization, where the relationship between superiors and subordinates does not become too inflexible.

Yasuike It has been more than 25 years since I started working for the Company, and I believe that I owe this long tenure to the people around me. There should not be hit or miss in workplace environment. Depending on the characteristics of a department, it may be relatively easy or difficult for that department to accommodate female employees. However, as the number of female employees increases, I believe we should make efforts to ensure that both men and

women can work on equal terms, and I will start by endeavoring to improve the working environment in my own department.

Miyazawa I, too, could not have worked for more than 20 years without the help of those around me. I think that the Company has a system in place that enables those who want to work for a long time to do so. At the same time, it has a corporate culture that encourages those who want to work hard to take on challenges. On the other hand, I do not think that the topic of diverse work styles has to be an issue limited to women. I believe there are also men who need shorter working hours due to the nursing care needs or health problems of their family members. I expect the Company to continue developing systems that respond to the diverse needs of all employees.

Shoji I will soon be taking maternity leave and childcare leave, and I would like to take advantage of the systems that the Company has in place to take a good rest when I need to. Also, I will continue to do my job to the best of my ability in the Sales Division, and I hope that this will lead to new work styles and more career options for my juniors in the future.

Asami One of the features of the Company is its culture of "openness." Going forward, I hope that we can continue to engage in a frank exchange of opinions, and that the Company's working environment will continue to evolve, in line with the times, into more comfortable one for a diverse range of personnel.

* Please refer to page 33 for details on the systems promoting diverse work styles, implemented in line with the promotion of diversity.



Quality of customer service

The Company is working to improve the quality of its service to each customer by putting in place systems, education, and frameworks that will enable us to provide products that stakeholders can trust and use safely.

Basic policy

Under our management philosophy of realizing “healthy, rich lives,” in order to contribute to the creation of “good cheer and fun in daily life,” we believe that it is important to always be listening to our customers and to operate stores rooted in local communities. Accordingly, the Company is working to develop systems, to provide education and training, and to enhance support systems, focusing on the following three important themes:

- 1 Improvement of customer service quality at stores** **2 Utilization of customer feedback** **3 Safety of medication**

As a retailer, we provide clean and organized store environment in which it is easy for customers to find and purchase products. Our aim is to continually enrich the content of our stores in line with the expectations of our customers.

Improvement of customer service quality at stores



ESG Committee: Education and systems for the safe use of pharmaceuticals

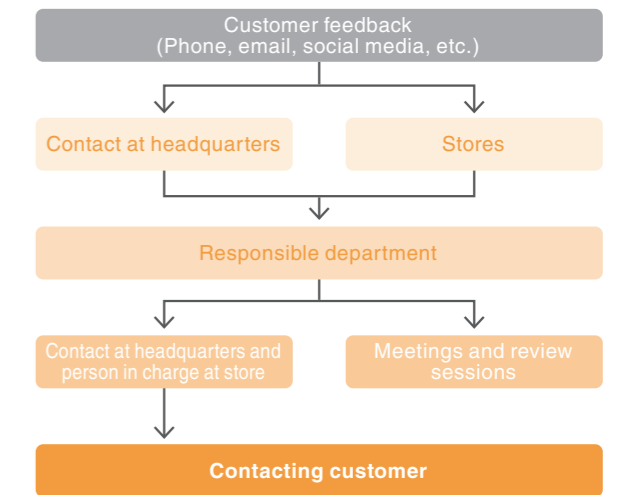
Education/System	Item	Objectives
Education system	Basic and Intermediate Seminar Curricula	Acquisition of knowledge and counseling skills relating to pathology and the selecting of therapeutic drugs
	Professional Development Seminar	Development of experts in the fields of Kampo medicine, nutrition, nursing care, and beauty care
	Basic Customer Service Training	Acquisition of basic behavior (greetings, manners) and knowledge of customer service
	Customer Service Training	Learning how to talk with customers and take appropriate action (referrals, recommendations to consult with a doctor, giving advice).
	Qualified Personnel Training	Learning how to respond to customers who need information; how to respond in accordance with laws and regulations; and how to prevent customers from purchasing excessive amounts of specific components of medications
	Pharmaceutical Response Confirmation Test	Retaining and reviewing knowledge base, and sharing case studies
	Administrative Operations Manual	Understanding and implementing procedures relating to the sales system in accordance with laws and regulations
Support System	Medication Consultation Hotline	Responding to consultations and inquiries that are difficult for store staff to answer. Pharmacists at the Company headquarters respond to inquiries from stores across Japan
	Customer Service Support Tools	Tools, information, and search tools to be used when answering customer inquiries are stored on dedicated tablets so that responses can be made in a timely fashion.
	Sales Promotion and New Product Information	Share the latest health information, medical knowledge, and product knowledge
	Health-related TV Program Information	Collecting information related to programs provided on TV (regarding health, law or products) in a timely manner and then utilizing that knowledge when deciding what products to put on the shelves and in conversations with customers at the store.
Reliable support system	Pharmaceutical register alert system	Identifying customers who need information, assisting in counseling, and preventing purchase of excessive amounts of specific components of medications
	Pharmaceutical sales control system	Control of pharmaceutical sales in the absence of qualified personnel
Search system	Medication Consultation System (CSS)	A system to enable the customer to choose the most appropriate medicine by themselves; Used for consultations in which the customer desires some privacy
	Kampo-based body constitution checkup; by symptoms	Checking body constitution based on Kampo theory and proposing medications in accordance with the symptoms. Also providing advice relating to daily life
	Back-order	Customers choose products by themselves. Ordering items that are not in stock at the store.

Utilization of customer feedback

The Company has established a Customer Service Office to offer safety, reliance, and convenience for customers. In addition, we collect customer feedback through inquiries made to stores and through social media, including Twitter and Instagram, and are striving to improve store operations and systems to ensure customer satisfaction.



Customer Feedback Flowchart



Medication safety

We are working to prevent dispensing errors based on the fact that such errors have a serious impact on patients' health and the premise that they are caused by inadequate explanations by pharmacists and errors in terms of guidance.

As part of initiatives to prevent dispensing errors, we have introduced a unique “Barcode Dispensing Error Prevention System,” 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 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 mistakenly taking the wrong medication due to false assumptions. We have also made our own customizations to further increase safety when providing patients with their medication.



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 in-depth 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.



Camera monitoring (at the store) Camera monitoring (at the headquarters)

Education

After joining the Company, pharmacists undergo monthly basic training through classroom-based lectures whereby they can then further deepen the knowledge and skills they have learned in the classroom at stores and acquire basic dispensing skills. Pharmacists build up their skills in stages as they acquire ever more advanced dispensing skills.



Business Partners

The Group is working to realize a sustainable society through the strengthening of fair, transparent, and appropriate transactions and partnerships with business partners that work in cooperation with the SUNDRUG Group's businesses.

Basic policy

At SUNDRUG, where "Benefits for all" forms a key part of our management stance, we recognize those parties we do business with as important business partners of the Group.

In this era of rapid change, there are a variety of issues facing our society that no one company can resolve on their own. For this reason, the Group recognizes the importance of fair transactions with its

business partners and in response has, in conjunction with its business partners, established the "Code of Conduct for Business Partners" (see page 61) and issued the "Declaration of Partnership Building."

In order to contribute to the realization of a sustainable society across the entire supply chain, we are committed to building relationships based on co-existence and co-prosperity.

Declaration of Partnership Building

The SUNDRUG Group has endorsed the aims of the "Declaration of Partnership Building."

The "Declaration of Partnership Building" aims to strengthen partnerships with business partners who share the supply chain and declares to build, in the name of the company representative, new relationships of co-existence and co-prosperity with the aim of achieving a "virtuous cycle between growth and distribution."

Through the "Declaration of Partnership Building," we aim to respect each other's values, resolve common issues, and realize a better society.

The Company's declaration specifies the following items:

Individual Items

We will engage in sincere efforts to tackle a range of issues, including those related to the environment, energy, and logistics.

We respect each other's existence and values and believe that aiming for coexistence and co-prosperity will ultimately help lead to the realization of a sustainable society.

(Other) optional entries

We endorsed the aims of the "white logistics" campaign and have announced a "declaration of voluntary actions."

We continue to address a variety of logistics issues, share our expertise with our business partners, and strive to optimize supply chains.



Details of the Declaration of Partnership Building



"Declaration of Partnership Building" Portal Site

<https://www.biz-partnership.jp/>



Reporting Desk for Business Partners



The Company has established a reporting desk for its business partners to address the following issues:

Violation of compliance regulations, coercion of money, goods, wining and dining, etc.
Abuse of dominant bargaining position, violation of the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, harassment, violation of human rights, etc.



helpline@sundrug.co.jp



White logistics

Basic policy

The issue of the working environment (long working hours) has been highlighted as a contributing cause to the situation of the aging population of truck drivers and the decrease in new drivers. The time required for performing tasks other than driving, such as unloading cargo and long standby periods on site, have been cited as factors in this.

If progress is not made in improving the working environment for truck drivers, the shortage of drivers will further accelerate, and we may be forced into

a situation in which goods do not arrive and stores cannot be opened.

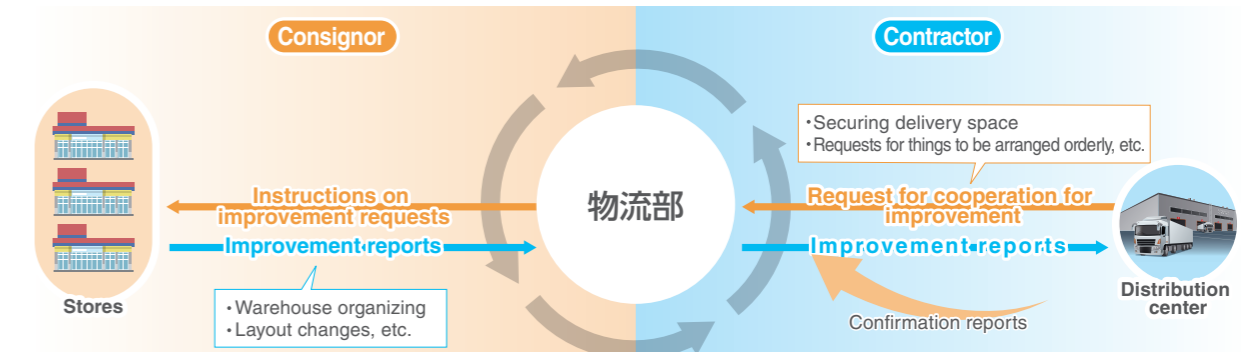
As part of efforts to improve this situation, a revision of the laws related to overtime work is scheduled to be implemented in 2024, with white logistics being one of the initiatives to improve overtime work.

The Group does not consider these initiatives for white logistics to end with the revision of the laws in 2024, and our policy is to continue to promote a range of improvements toward improving the efficiency of logistics throughout the entire supply chain going forward.

SUNDRUG Group's white logistics initiatives

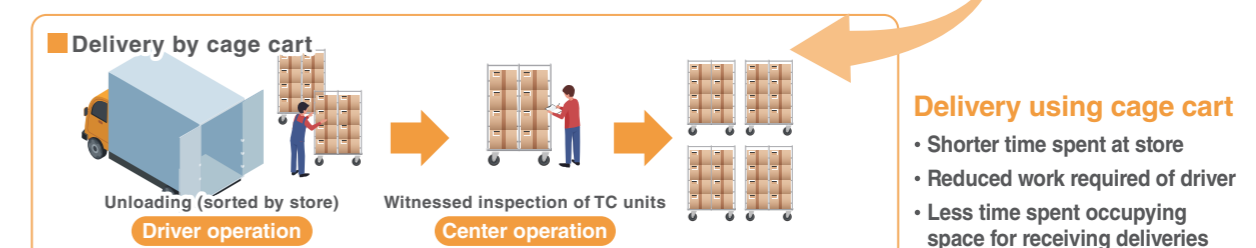
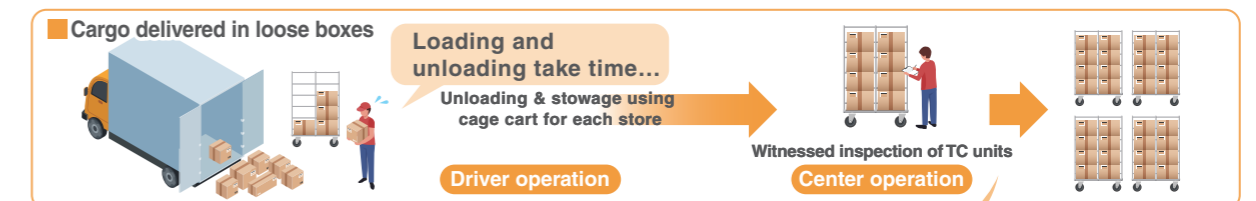
We will implement initiatives in 16 areas recommended by the Ministry of Land, Infrastructure, Transport and Tourism.

We will continue to implement these initiatives in the areas in which the goals have already been achieved, and plan to pursue further improvements on our own.



By taking part in the white logistics initiative promoted by the Ministry of Land, Infrastructure, Transport and Tourism to help address the shortage of truck drivers, we will help ensure stability in terms of logistics functions necessary for the lives of Japanese citizens and industrial activities and contribute to the further growth of the Japanese economy.

Progress in store delivery warehouse improvement | Improvement achievement rate: **100%** | Goals achieved in 81 out of 81 *as of July 2022



Human rights

The Group is working to strengthen and promote initiatives relating to, among other things, education on respecting the human rights of all stakeholders, including employees.

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. SUNDRUG Group has 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

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.

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.

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.

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.

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.

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.

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.

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 SUNDRUG Group's 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.

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 persons with disabilities, and labor accidents resulting from long working hours, just to name a few. In addition, as the SUNDRUG 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.

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.

Respecting customers' human rights

As the SUNDRUG 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 SUNDRUG 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.

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.

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.

Contributing to society

In order to help create a better society, the SUNDRUG Group is working together with its stakeholders on a variety of initiatives, including the holding of seminars at child welfare facilities and providing support to disaster-affected areas.

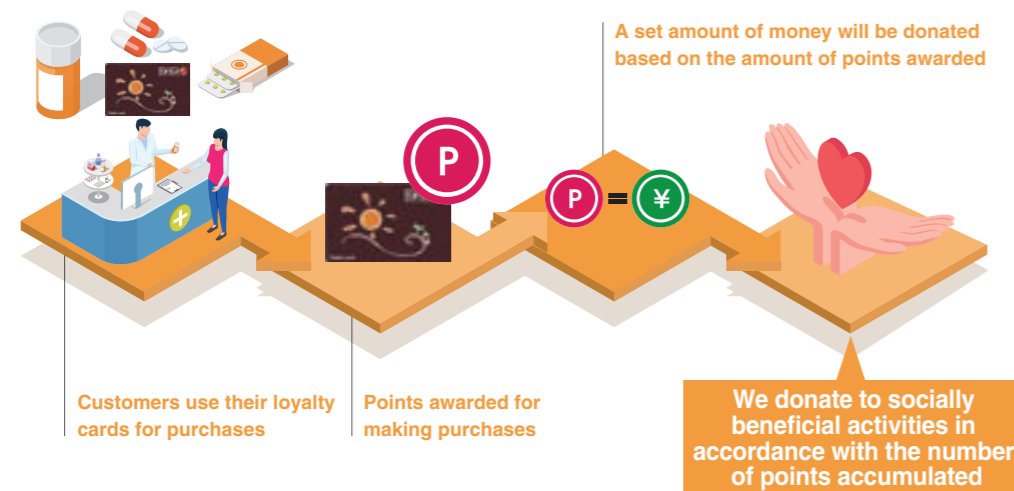
Support for child welfare facilities and disaster-affected areas

We issue points based on the value of customers' purchases and make donations to socially beneficial activities in accordance with the number of points accumulated. This enables customers to contribute to the community simply by shopping.

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.

Customers can participate in social contribution activities by accumulating points!



Recent initiatives

Fund-raising in response to the humanitarian crisis in Ukraine

The Group has contributed funds at the Embassy of Ukraine in Japan toward relief efforts in response to the humanitarian crisis in Ukraine.

Emergency funding for the Turkey-Syria Earthquake

The Group has made a donation to the Embassy of Turkey in Japan to provide emergency funding in response to the earthquake in Turkey and Syria.

Support for children's vaccinations

With the help of Shineikasei corporation, we sold PET bottle caps and disused collapsible containers used by the Group for use as recyclable materials, and donated the proceeds to the Japan Committee, Vaccines for the World's Children, an approved specified nonprofit corporation.

We are also engaged in cooperative efforts to help deliver vaccines to children in developing countries.

Hosting of seminars at child welfare facilities to help foster self-reliance

We hosted seminars for children residing in child welfare facilities on how to apply self-medication when they are not feeling well, such as actions to be taken and how to take medicine properly.

Coexistence with local communities

Based on a desire to prioritize the health of local residents, the Group regularly runs health-related events and other such events. We also committed to communicating with our stakeholders through initiatives closely tied to local communities.

Health-related events (results of external activities in local communities during fiscal 2022)

The Group 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. In cooperation with municipalities and community general support centers, etc., we host Health Measurement and Consultation Sessions as well as Health Promotion Workshops. We utilize the advanced counseling skills and specialized knowledge that we have developed through our operations at our stores and pharmacies toward efforts to help improve the health of local residents and to help create a good cheer and fun in daily life.

Pre-Disease Awareness Booth at Nenrinpick Kanagawa 2022 (through registration with Kanagawa Prefecture Health Support Program)

At this event, we provided stress checks, brain age measurements, medication consultations, and body constitution checks.



Events (from April 2022 to March 2023)	Number of participants
Health measurement sessions	1,908
Health-related lectures (with some health measurements)	120
Number of sessions: 29	Total 2,028

Initiatives for people who have difficulty shopping

Participation in drone delivery experiments

The increase in the number of people with shopping difficulties (i.e. those who struggle to perform daily shopping for everyday necessities, pharmaceuticals, food, etc.) is becoming more serious, and the Group recognizes it as one of the social issues that it should help address.

We have participated in the Tokyo Metropolitan Government's pilot test of using drones for making individual deliveries. Through our participation in this pilot test, we are contributing to the core SDG theme of "leave no one behind," and working to promote sustainable management.

As part of our corporate philosophy, we continue to work toward the realization of "healthy, rich lives" and engage in activities that meet the expectations of local communities.



Outline of pilot test

- Area: Mitake region, Ome, Tokyo
Products shipped from 153 Ome-Shinmachi Store
- Transported goods: 80 items; Due to weight restrictions, maximum of 2 items per order
- Order method: Online or by telephone

Tree planting activities

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 conserving forests in Japan, promoting CO₂ reduction, and raising social contribution and environmental awareness of employees through participation in volunteer activities.



Camellia planting event

We have been holding a camellia planting event for the "TSUBAKI Beautify Camellia Island Campaign" in Goto City, Nagasaki Prefecture since 2011. In 2022, we planted camellia seedlings with the mayor of Goto City and volunteers from Goto City.



Dialogue between officers



Tomoko Tsuji
External Director

Naoki Tada
Chairman and Director

Amid a rapidly changing market environment, we will enhance governance functions and continue to evolve.

The SUNDRUG Group is working to strengthen corporate governance as part of its efforts to promote sustainability management. Chairman and Director Naoki Tada and External Director Tomoko Tsuji will discuss recent initiatives and future issues.

Initiatives in diversity to maintain “on-site capabilities”

Tada One of my responsibilities as Chairman and Director is to strengthen corporate governance. In the highly uncertain environment of recent years, demands and expectations from stakeholders are getting higher and higher. In particular, from an ESG perspective, we recognize the need for us to respond to truly integrating the formulation of medium- to long-term management strategies with defensive governance, risk management, and compliance. In the case of the SUNDRUG Group, in terms of the so-called “offensive” aspect, we take pride in how we have achieved a certain level of results in our development of systems and value chains. We are also working to develop strategies and systems in the sustainability field. Above all, we recognize the reduction of CO₂ emissions toward the realization of



decarbonized society as our most important initiative. We have steadily promoted measures such as the introduction of solar power generation, the installation of high-efficiency, fluorocarbon-free refrigeration and freezing cases, and utilization of LED lighting at our stores. Consequently, we have decided to raise our previous numerical target of a 30% reduction from 2013 level in 2030, to a 50% reduction.

Tsuji When I first assumed the position of External Director in June 2020, I had the impression that this was a company with a family-like atmosphere, where the former Chairman was the head of the family, and all the officers and employees would swiftly implement decisions made by top management. Since the retirement of the former Chairman, SUNDRUG has evolved significantly, driven by President Sadakata's drive for reform, along with social trends such as the revision of the Corporate Governance Code and management focusing on ESG perspectives.

In particular, in recent years, I have been impressed by management's strong emphasis on ensuring the creation of a comfortable working environment. Based on my personal experience of concurrently serving at a restaurant company, I believe that in order to increase customer satisfaction and enhance corporate value, it is essential to maintain “on-site capabilities”—that is, to have employees continue to work comfortably.

Tada That is exactly right. The second key initiative in the sustainability field that I mentioned earlier is the realization of consideration for employees' health and the working environment, as well as fair and appropriate treatment. Drugstores are a labor-intensive industry, and in view of the decline in the working population of society as a whole, it is certainly an important theme to have store employees work healthily and comfortably. In the fiscal year

ended March 31, 2023, the Group was designated as a Certified Health & Productivity Management Outstanding Organization. Using this as our starting line, we are currently preparing for the implementation of the PDCA cycle. We also began considering the establishment of a personnel evaluation system aimed at realizing fair and appropriate treatment.

Tsuji I believe that a personnel system should be satisfactory not only to those who take maternity leave and childcare leave, but also to all employees who devote themselves to their work. That should be a major prerequisite. In terms of diversity, at SUNDRUG, the ratio of female managers is 18.8% (as of March 31, 2023), which is higher than the retail industry average of 7.0%. Does this mean that the ratio is relatively high in the front line like stores?

Tada The SUNDRUG Group defines managerial positions as those at the level of section manager and above.*1 The employees at our stores are either in operation positions or sales positions, and pharmacists account for 90 percent of sales positions. At universities, the pharmaceuticals faculty generally has a high proportion of women, and as interest in self-medication has increased, the number of female applicants to the Company has increased significantly. At present, women account for more than 60% of new employees. In addition, the Company has widely introduced systems that make it easier for women to work after they join the Company,*2 such as allowing changes in employee classifications after marriage, including whether job relocations are possible or not, and I believe that these factors contribute to the high ratio of female managers. On the other hand, we cannot deny the fact that many of our store managers and supervisors are still male employees. While we educate these store managers and supervisors to improve their ability to communicate with female employees, and to deepen their understanding of women's health issues, we also aim to increase the ratio of store administrators, who are one step away from a managerial position, to 30%. When the ESG Committee was established, Ms. Tsuji pointed out the necessity of having female committee members, and I thank her for always checking the initiatives of the Company from the perspective of diversity and pointing out potential issues.

*1: Level of section manager and above: Section managers and above, as well as supervisors who oversee multiple stores, and training leaders

*2: For details of the systems, please refer to “Diversity & inclusion” on pages 33–34.

Tsuji Work style reforms for men are essential to the promotion of women's active participation in society. At SUNDRUG, the percentage of male employees who took childcare leave was 90% (in the fiscal year ended March 31, 2023), far exceeding the national average of 14.0%. What was your secret in achieving this high percentage?

Tada The SUNDRUG Group has been encouraging male employees to take paternity leave since long before the establishment of post-childbirth paternity leave (childcare leave at birth) in October 2020 in Japan. At first, store administrators and the like in the Group were hesitant about taking paternity leave, but as a result of steady efforts to increase awareness of the system among those eligible to take paternity leave and their superiors, it seems that the mindset of “it is normal for men to take paternity leave” has successfully taken hold. Also, we have displayed on our business cards the “Platinum Kurumin” mark, which represents the Ministry of Health, Labour and Welfare's recognition of us as a company that offers strong support for parenting. In addition, we conducted educational activities for department heads at management meetings and other opportunities. These efforts have also led to an increase in the paternity leave utilization rate.



Deepening discussions as we look to the future of SUNDRUG

Tsuji In order to further develop the functions of the Board of Directors, in addition to making decisions on proposals related to management issues at hand, I feel that discussions on medium- to long-term management issues will also lead to the evolution of SUNDRUG. For instance, I feel that SUNDRUG's unique research and analysis capabilities in relation to store openings are an excellent form of know-how. It is also true that scale expansion is a basic strategy in the retail industry, but at some point, I believe that there may be an inflection point where the correlation between the number of store openings and profit margin changes. Going forward, I believe we should deepen discussions on long-term store strategies, and on the points of differentiation of SUNDRUG in the future.

Tada As you have rightly pointed out, the promotion of digitalization is one of the measures we will need to take in order to survive amidst the saturation of stores across the drugstore industry. Accordingly, we have developed a system that enables customers to purchase SUNDRUG products both at stores and via e-commerce sites. Another measure is to work closely with local governments and comprehensive community support centers. Currently, health measurement sessions and consultation meetings are being held in various regions, and we are making efforts to turn SUNDRUG stores into a regional base for health in an aging society.

Tsuji I also feel that the possibilities for drugstores have broadened following the COVID-19 pandemic. I believe that drugstores can reduce the burden on local medical institutions, as well as take on the challenge of developing new devices and services by accumulating big data on health and collaborating with healthcare manufacturers.

Going forward, I would also like to see SUNDRUG engage in projects that envision the future, such as the commercialization of services that meet future social needs developed through open innovation and in cooperation with external parties. I am also hopeful that SUNDRUG will go beyond the provision of goods and services and evolve into a form of social infrastructure. Finally, I would be fulfilling my duties as an External Director with a high level of awareness of my responsibilities.

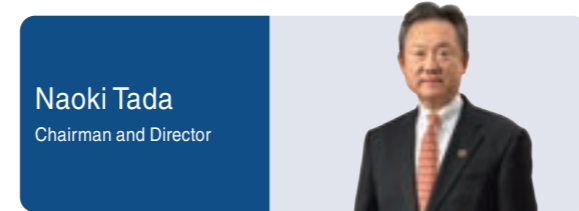
Tada Including the points that you have raised, we recognize that we will need to make various risk assessments from a strategic perspective going forward. In addition to the business format strategy, we recognize that climate change-related risks, human capital, the DX strategy, and system risks are all important governance issues that should be monitored by the Board of Directors. In order to receive precise advice from External Directors based on their expertise and to deepen our discussions, we will narrow down several key topics and share information on them and continue to ponder on the ideal state of the Board of Directors.

List of officers



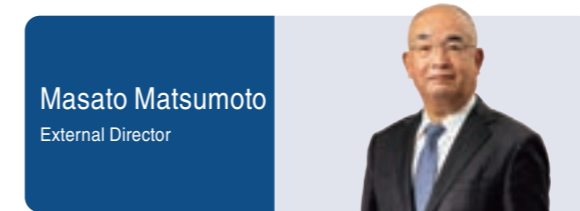
Hiroshi Sadakata
President and Representative Director

- 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)



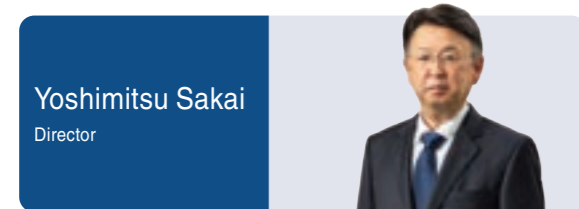
Masato Matsumoto
External Director

- 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)



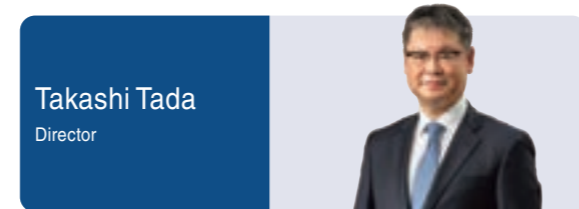
Tomoko Tsuji
External Director

- 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
- April 2004 Executive Officer, Director of Central Research Institute, 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 HOLDINGS INC. (to present)



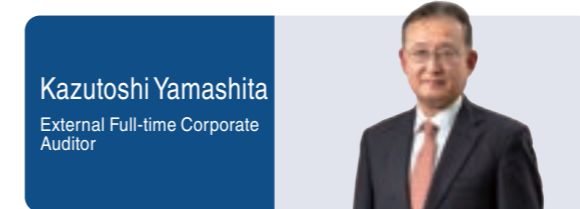
Yoshimitsu Sakai
Director

- 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)



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)



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)



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)

Corporate governance

The SUNDRUG Group aims to improve its corporate value by striving to facilitate prompt decision-making and more efficient management operations, while also making efforts to strengthen and enrich corporate governance, which serves as the foundation for sustainable growth.

Basic approach

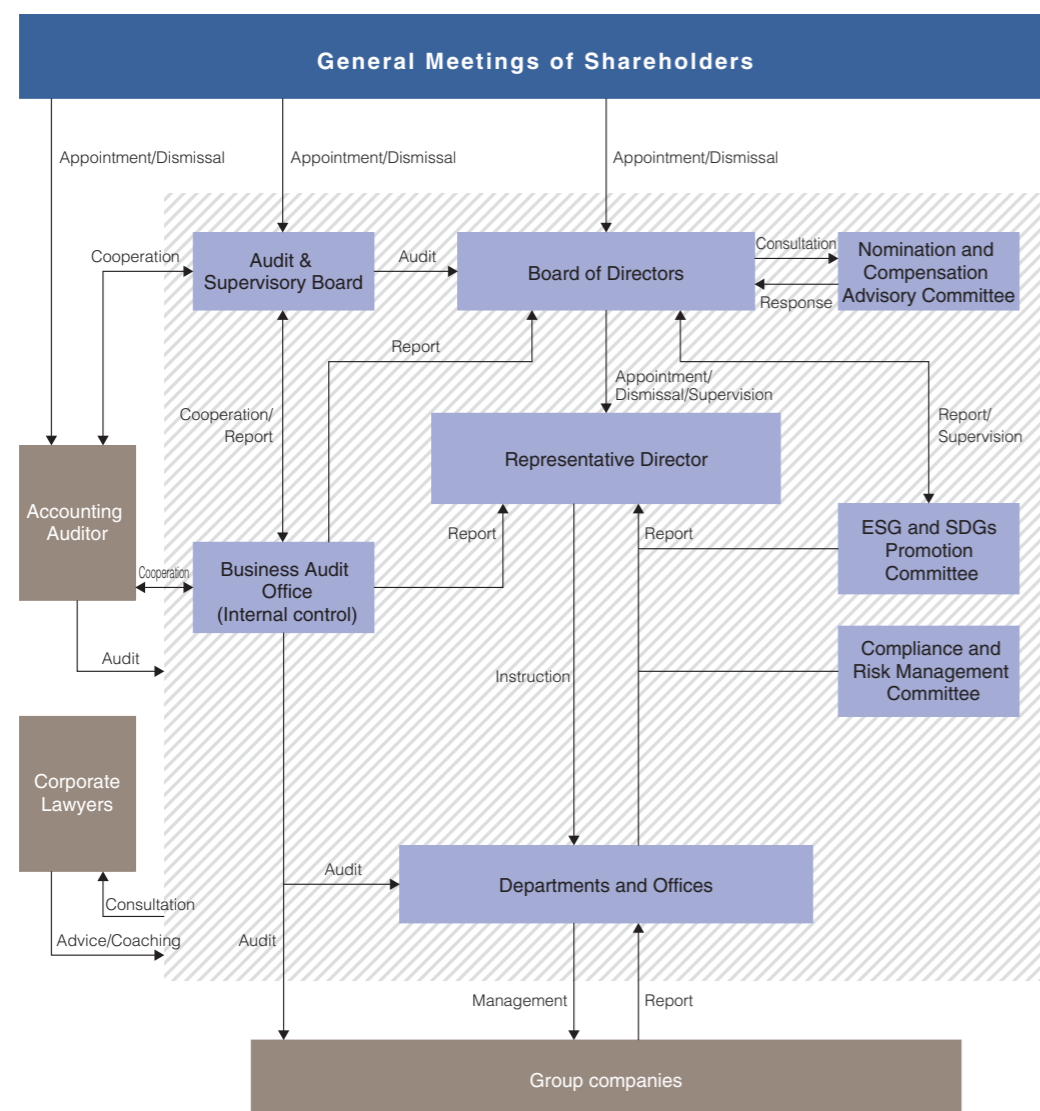
The SUNDRUG Group has a corporate philosophy, such as "Provide safety, reliance and convenience," and "Start immediately from what we can do right at the moment, try to illuminate even just one corner of the world, make best decisions for all customers, employees, shareholders, business partners, communities, 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 SUNDRUG 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.

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.

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.

Summary of the results of the analysis and evaluation of the effectiveness of the Board of Directors

Meetings of the Board of Directors were deemed to include free, vigorous, and constructive discussion and exchanges of opinion, with the overall effectiveness of the Board of Directors generally evaluated as satisfactory.

However, with regard to the following points, we recognized that there are issues and a room for improvement.

Future response

- We will further enhance materials for meetings of the Board of Directors and promote the sharing of corporate information.
- The Board of Directors will conduct deeper discussions on management issues and strategies that will contribute to the improvement of the Group's corporate value over the medium- to long-term.

Based on the issues raised through this current evaluation of the Board's effectiveness and recommendations, we will continue to make efforts for further enhancement of the effectiveness of the Board of Directors and its invigoration.

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.

About the skills matrix

The SUNDRUG Group has established items that it deems important for the Board of Directors to demonstrate appropriate supervisory functions toward the Group's aim of realizing "healthy, rich lives" for the people of Japan. ("corporate management," "industrial experience," "global," "ESG," "finance/accounting/M&A," "risk management/legal affairs"). Also, the Group appoints personnel who are able to utilize their capabilities

for the management policies in the Group's medium-term management strategy and the reforms that the Group is implementing toward this, based on the expertise, knowledge, experience, and diversity that the Directors have developed in their respective fields. The basic approach on nominations and the composition of the Board of Directors are discussed in relation to the external environment and the status of the Group.

Skills matrix

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

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 academican, 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% (14/14)
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.	92% (13/14)
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% (14/14)
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% (14/14)
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% (14/14)
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% (14/14)
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.	100% (10/10)

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 as an incentive linked to business performance and achievement rates of individual goals as well as restrictive stock compensation aimed toward improvement of 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 twice 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 (73.6–27.8) : (21.0–68.6) :

(3.7–7.6), although the ratio of each type varies depending on performance and achievement of evaluation items.

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 has introduced a restricted stock compensation plan to Directors in order to enhance their value sharing with shareholders through shareholdings, thereby continuously improving the Company's corporate value.

The maximum amount of annual compensation under this plan shall be no more than 100 million yen and no more than 25,000 shares.

The allocation to each eligible Director shall be determined upon a resolution of the Board of Directors within the scope approved at the General Meeting of Shareholders.

References

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	156	30	120	6	4
External Director	18	18	—	—	3
Internal Corporate Auditors	—	—	—	—	—
External Corporate Auditor	15	15	—	—	3

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

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	134

Bribery

Basic policy on bribery

In order to comply with laws and regulations for the prevention of bribery, the SUNDRUG Group has established regulations applicable to the Group companies and enforces them strictly.

● Prohibition of acts deemed to be bribes to public officers, etc.

The Group shall not provide or receive any money, goods, or any other unfair advantage, or promise, demand, or propose the same, or approve the same to a public officer or any other person equivalent thereto (hereinafter referred to as a "Public Officer") for the purpose of influencing the execution or determination of matters related to public affairs in order to obtain an undue advantage.

● Prohibition of bribery to persons other than Public Officers

The Group shall not provide or receive any money, goods, or any other unfair advantage, or promise, demand, or propose the same, or approve the same for the purpose of influencing the execution or determination of matters related to the recipient's duties in order to obtain an undue advantage.

● Prevention of bribery

The Group shall not provide or receive any money, goods, or any other unfair advantage, or promise, demand, or propose the same, or approve the same for the purpose of improperly influencing the management and business decisions, or the carrying out of duties of the SUNDRUG Group.

● Definition of terms

"Bribery" refers to the provision or receipt of money, goods, or any other unfair advantage, or the promise, demand, or proposal therefor, or the approval therefor, for the purpose of influencing the execution or determination of recipient's duties in order to obtain an undue advantage, or for eliciting any other unjust actions.

"Public Officer" refers to any Japan-based public officer, foreign public officer, international public organization, political party, or employee thereof, a candidate for public office, or any other person who may be deemed to be a public officer. This shall also include their family members (spouses, children, dependents, etc.)

Tax affairs

Basic policy on tax affairs

The SUNDRUG Group has formulated a policy on tax affairs that applies to the Company and its Group companies.

In accordance with the "Group Code of Conduct," which has been established to ensure compliance management based on a high level of corporate ethics, the SUNDRUG Group shall comply with all related laws and regulations, etc., regarding tax affairs. It is the Group's social responsibility to ensure the proper payment of all taxes due, which the Group recognizes will result in earning the support and trust of all its stakeholders. In accordance with this policy, we shall ensure the development and management of business processes and procedures related to the tax affairs and realize proper governance relating to taxation laws.

● Compliance with laws and regulations

Through the filing of tax returns and paying of taxes in an appropriate and timely manner in accordance with international tax rules and tax-related laws and regulations, the SUNDRUG Group fulfills its corporate social responsibility. The Group's basic policy is to contribute to the development of local communities through the appropriate payment of taxes. The Group does not conduct tax planning for the purpose of tax avoidance.

● Ensuring governance for tax affairs

The SUNDRUG Group is working to improve its employees' knowledge regarding tax affairs through

training and education. Through appropriate and lawful tax processing based on internal rules, we strive to raise employees' awareness of matters pertaining to tax compliance and to maintain our governance system for tax affairs.

● Management of taxation risk

The SUNDRUG Group views taxation risk as an important risk and is working to minimize its taxation risk on an ongoing basis by taking appropriate measures in response to tax reforms, etc. In accordance with the SUNDRUG Group's basic policies and guidelines, each Group company properly executes its tax-related practices, including the filing, payment and investigation of its taxes. The Group fully examines taxation risks in its business activities in advance, and works to mitigate any such risks by, if necessary, obtaining prior confirmation from the administrative authorities and by seeking advice and guidance from experts.

● Building a relationship of trust with tax authorities

The SUNDRUG Group strives to maintain a fair relationship with tax authorities, to provide timely and appropriate information in response to inquiries from them, and to cooperate with them in good faith as part of efforts to ensure transparency regarding tax affairs and to build a relationship of trust. In the event that a difference of opinion arises between the Group and the tax authorities, the Group works in cooperation with the tax authorities to come to an agreement and resolution.

Risk management

In order to address the various risks facing the Group in a timely and appropriate manner, we have formulated a range of risk management systems and have put them into operation.


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



For details, please refer to the Annual Securities Report.



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

Recognition of the importance of BCPs

After its experience of the Great East Japan Earthquake—a disaster unexpected in its scale—the SUNDRUG Group recognized the necessity of establishing a Business Continuity Plan, an important plan that must be prepared during normal times in order to prepare for times of emergency, which can often occur without warning. The Kumamoto Earthquake refreshed in our mind the seriousness of these issues, and we have continued to review and revise the content of our BCP measures ever

since. In order to fulfill its role as part of the social infrastructure, the SUNDRUG Group makes maximum efforts to predict and prepare for disaster risk, thereby minimizing damage. In addition, given that the content of the SUNDRUG Group's BCP may differ from that in the BCPs of our logistics contractors, the Group regularly holds meetings concerning BCP measures in order to formulate effective BCPs based around a common understanding.

Formulation of BCPs

Objectives of formulation

To formulate emergency response plans and actions during normal times such that Group operations may be restored and resumed within the necessary time.

Approach

- Identify the types of disaster that may be predictable and look back on past cases of such (examples of responses).
- Consider methods of "prevention," "countermeasure," and "response" for different scales* of disaster.
- Identify what needs to be done "before," "during," and "after a disaster."

Formulation and updating

- Confirm whether "prevention" and "countermeasures" have been implemented at each Group site
- After a disaster ended, a disaster response meeting must be held to share information across all Group sites.

Implementing and reporting

- Implement regular drills in line with the Disaster Response Manual
- Hold regular meetings concerning disaster response with the participation of management and managers

Planning for initiatives

Hold disaster response meetings six times per year

* Scale of disasters = (Large) earthquakes, pandemics; (Medium) typhoons, snow accumulation; (Small) traffic accidents, system failures

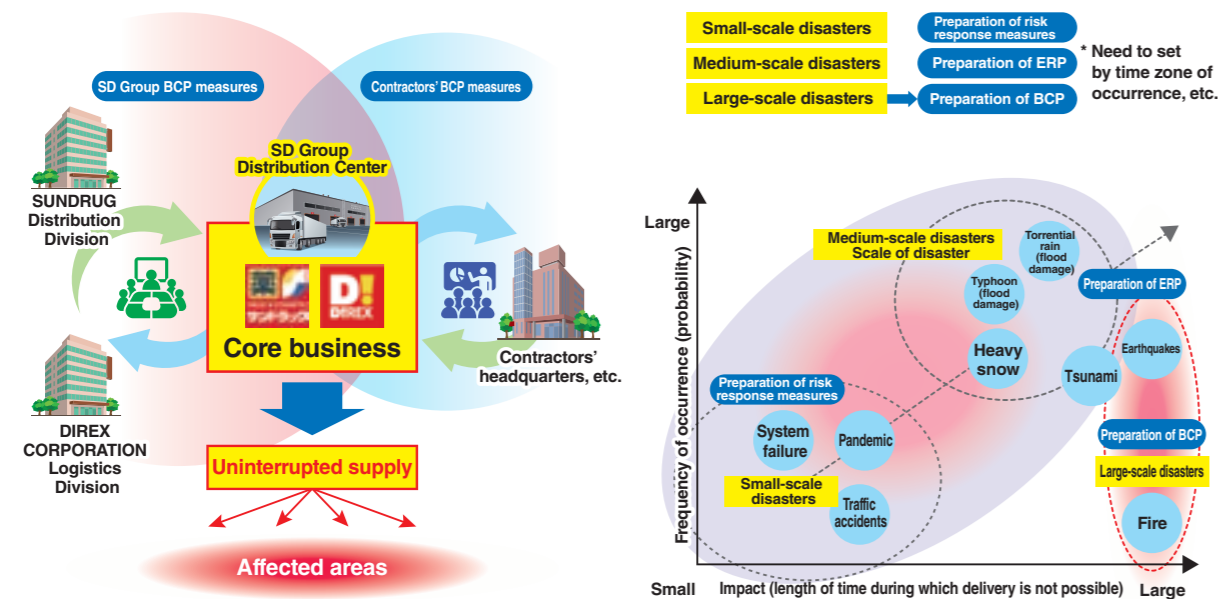
Improvements

- Complete revision of the disaster response manual following the Kumamoto Earthquake in 2016
- Recognized the necessity of measures to respond to medium-scale disasters during the torrential rains that hit western Japan in 2018, and reformulated measures in response
- Verified the effectiveness of measures to respond to medium-scale disasters in response to the torrential rains that hit southern Kyushu in 2020
- Benefits of measures seen in response to the torrential rains that hit northern Kyushu in 2021
- Recognized the inadequacies of measures and necessity of categorizing measures by type when the heavy snow hit all over Japan in 2022

In this way, the SUNDRUG Group continuously reviews its Business Continuity Plan and seeks to strengthen its resilience and ability to adapt to climate-related disasters and natural disasters. In addition, as part of our corporate philosophy, we aim for corporate management that can contribute to the realization of "healthy, rich lives" and activities that meet the expectations of local communities.

BCP-measure based initiatives

The Company formulates and updates its BCP with the aim of establishing a framework that will prevent a disruption of its logistics operations throughout the supply chain as we move into a world in which climate change increases the frequency of natural disasters.



Compliance

The SUNDRUG Group believes that compliance acts as a support for the foundations underlying its corporate activities and that it is essential in order to help avoid certain risks. Therefore, the Group is strengthening its legal compliance system and implementing various measures relating to such.

Basic approach

In accordance with the SUNDRUG Group Code of Conduct, the Group takes action toward realizing its corporate philosophy, with compliance with laws and regulations, social ethics, and internal regulations serving as the basis of all corporate activities.

Establishment and operation of an internal reporting desk

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.

Compliance promotion system

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.

Compliance structure



Education (quantitative data on initiatives, employees and officers, frequency, number of participants, etc.)

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.

Initiatives	Description	Target	Frequency
Creation and dissemination of Compliance Guidebook	Allows all Group employees to always check the laws and regulations that are essential for those engaged in the retail business, such as Act on Pharmaceuticals and Medical Devices, Act on the Protection of Personal Information, and the Antimonopoly Act. The guidebook comprises "Purposes of the Laws and Regulations," "Outline of Laws and Regulations," "Initiatives," and "Framework for the Company."	All employees	—
Implementation of continual education	Continual education on one law or regulation per month is provided using the Compliance Guidebook and e-learning content.	Responsible persons or above	Monthly
Preparation of various manuals incorporating laws and regulations at a practical level	The Group has prepared manuals in which legal compliance is incorporated into store operations, pharmaceutical sales procedures, cash register procedures, and other procedures, which are then used as part of the education given in accordance with the curriculum for employees who have joined the Company.	All employees	—
Implementation of compliance check tests	The Group conducts tests that ask questions related to knowledge of laws and regulations, SDGs, past cases, etc.	All employees	Twice a year
General knowledge test	Tests are given to check employee's knowledge of matters relating to their jobs using e-learning content.	Responsible persons or above	Twice a year

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 trust 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

- 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.
- 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.
- We ask our business partners to cooperate with sharing information on adherence to the Code with the SUNDRUG Group as necessary.
- 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.

Information security and privacy

We are strengthening measures to ensure appropriate management of information and are promoting initiatives such as education for all employees involved in business operations.

Recognition of the importance

Information systems for helping realize more efficient management operations have become indispensable. However, the risks related to information security, such as loss due to the suspension of information systems, leakage of customer information, and ransomware, may have an impact not only on the SUNDRUG Group but also on our customers, business partners, and shareholders.

Risk management relating to information security is one of the important management issues for the SUNDRUG Group. In particular, we believe that it is the social responsibility of the SUNDRUG Group to protect the information assets held by the Group, including important information such as customers' personal data, from various threats, such as unauthorized access and cyber attacks.

Future activities

- Sharing information on the latest threats
- Implementation of inventories of the current status of security measures, and request for assistance from security vendors depending on the status
- Regular vulnerability assessments
- We will promote various measures as needed, including the provision of security education for employees.

Consolidated financial statement

Consolidated Balance Sheets

(Million yen)

	For the fiscal year As of March 31, 2022	For the fiscal year As of March 31, 2023	For the fiscal year As of March 31, 2022	For the fiscal year As of March 31, 2023
Assets				
Current assets				
Cash and deposits	89,330	80,872		
Accounts receivable - trade	19,108	22,224		
Merchandise	72,415	82,700		
Supplies	126	327		
Accounts receivable - other	14,352	15,284		
Other	4,209	4,503		
Allowance for doubtful accounts	(4)	(5)		
Total current assets	199,537	205,907		
Non-current assets				
Property, plant and equipment				
Buildings and structures	94,904	117,370		
Accumulated depreciation	(39,947)	(46,028)		
Buildings and structures, net	54,957	71,341		
Land	7,639	7,757		
Other	51,304	62,235		
Accumulated depreciation	(36,046)	(41,085)		
Other, net	15,257	21,149		
Total property, plant and equipment	77,855	100,248		
Intangible assets				
Goodwill	2	1,671		
Other	5,951	7,433		
Total intangible assets	5,954	9,104		
Investments and other assets				
Investment securities	296	334		
Long-term loans receivable	6,904	7,060		
Long-term loans receivable from subsidiaries and associates	800	945		
Deferred tax assets	6,435	7,182		
Deferred tax assets for land revaluation	856	796		
Leasehold and guarantee deposits	25,207	26,825		
Other	1,926	2,342		
Allowance for doubtful accounts	(4)	(75)		
Total investments and other assets	42,420	45,411		
Total non-current assets	126,230	154,764		
Total assets	325,768	360,672		
Liabilities				
Current liabilities				
Accounts payable - trade	67,029	74,006		
Income taxes payable	5,199	8,249		
Contract liabilities	4,301	5,024		
Other	19,514	25,968		
Total current liabilities	96,045	113,249		
Non-current liabilities				
Provision for retirement benefits for directors (and other officers)	—	303		
Retirement benefit liability	1,696	1,993		
Asset retirement obligations	5,300	6,156		
Other	2,133	2,641		
Total non-current liabilities	9,130	11,095		
Total liabilities	105,175	124,344		
Net assets				
Shareholders' equity				
Capital	3,931	3,931		
Capital surplus	7,430	7,430		
Retained earnings	215,145	230,658		
Treasury shares	(3,939)	(3,940)		
Total shareholders' equity	222,567	238,080		
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	56	82		
Revaluation reserve for land	(1,940)	(1,805)		
Remeasurements of defined benefit plans	(120)	(58)		
Total accumulated other comprehensive income	(2,003)	(1,781)		
Share acquisition rights	28	29		
Total net assets	220,592	236,328		
Total liabilities and net assets	325,768	360,672		

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Net sales	648,734	690,462
Cost of sales	492,228	518,516
Gross profit	156,506	171,946
Selling, general and administrative expenses		
Provision of allowance for doubtful accounts	—	1
Provision for retirement benefits for directors (and other officers)	—	7
Salaries, allowances and bonuses	46,514	49,681
Retirement benefit expenses	600	638
Rent expenses	27,578	29,590
Other	47,762	54,574
Total selling, general and administrative expenses	122,454	134,493
Operating profit	34,052	37,452
Non-operating income		
Interest income	122	119
Dividend income	6	6
Commission income	70	74
Gain on receipt of donated non-current assets	301	254
Other	192	270
Total non-operating income	693	725
Non-operating expenses		
Interest expenses	9	36
Provision of allowance for doubtful accounts	—	2
Other	0	4
Total non-operating expenses	10	43
Ordinary profit	34,734	38,134
Extraordinary income		
Gain on sale of non-current assets	290	157
Compensation income	51	25
State subsidy	114	451
Other	3	26
Total extraordinary income	459	660
Extraordinary losses		
Cancellation penalty	—	123
Loss on sale of non-current assets	58	13
Loss on retirement of non-current assets	143	108
Loss on cancellation of rental contracts	147	47
Impairment losses	110	542
Loss on tax purpose reduction entry of non-current assets	29	214
Other	28	35
Total extraordinary losses	519	1,084
Profit before income taxes	34,675	37,710
Income taxes - current	10,738	12,988
Income taxes - deferred	83	(980)
Total income taxes	10,821	12,007
Profit	23,853	25,703
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	23,853	25,703

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Profit	23,853	25,703
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	25
Revaluation reserve for land	308	134
Remeasurements of defined benefit plans, net of tax	(13)	61
Total other comprehensive income	292	221
Comprehensive income	24,145	25,924
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,145	25,924
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statements of Cash Flows

(Million yen)

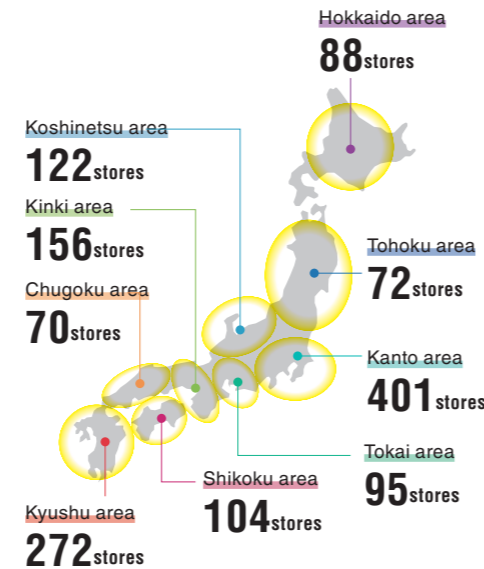
	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	34,675	37,710
Depreciation	10,209	12,068
Impairment losses	110	542
Loss on tax purpose reduction entry of non-current assets	29	214
Increase (decrease) in retirement benefit liability	214	173
Increase (decrease) in allowance for doubtful accounts	(0)	3
Increase (decrease) in provision for point card certificates	(3,914)	—
Increase (decrease) in contract liability	4,301	722
Interest and dividend income	(129)	(126)
Interest expenses	9	36
State subsidy	(114)	(451)
Penalty income	—	(5)
Loss on retirement of non-current assets	143	121
Decrease (increase) in trade receivables	(693)	(2,679)
Decrease (increase) in inventories	(34)	(7,199)
Decrease (increase) in accounts receivable - other	(1,256)	(541)
Increase (decrease) in trade payables	1,731	3,860
Increase (decrease) in accrued expenses	34	697
Increase (decrease) in long-term deposits received	10	66
Increase (decrease) in accrued consumption taxes	(1,659)	95
Other, net	972	1,732
Subtotal	44,640	47,042
Interest and dividends received	10	10
Interest paid	(0)	(6)
Income taxes paid	(13,083)	(10,123)
Subsidies received	114	451
Other, net	—	5
Net cash provided by (used in) operating activities	31,682	37,380
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,825)	(24,789)
Purchase of intangible assets	(964)	(1,324)
Loan advances	(1,248)	(920)
Proceeds from collection of loans receivable	60	93
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,004)
Payments of leasehold and guarantee deposits	(1,177)	(1,765)
Proceeds from refund of leasehold and guarantee deposits	803	859
Other, net	694	338
Net cash provided by (used in) investing activities	(20,659)	(28,512)
Cash flows from financing activities		
Repayments of short-term borrowings	—	(80)
Repayments of long-term borrowings	—	(7,191)
Dividends paid	(8,187)	(10,053)
Purchase of treasury shares	(0)	(0)
Proceeds from exercise of employee share options	0	—
Net cash provided by (used in) financing activities	(8,187)	(17,326)
Net increase (decrease) in cash and cash equivalents	2,835	(8,458)
Cash and cash equivalents at beginning of period	86,495	89,330
Cash and cash equivalents at end of period	89,330	80,872

Company information (as of March 31, 2023)

Company name	SUNDRUG CO., LTD.
Headquarters	1-38-1 Wakamatsucho, Fuchu, Tokyo 183-0005, Japan
Established	April 1965
Capital	¥3,931.20 million
Representative	Hiroshi Sadakata, President and Representative Director
Number of employees	Non-consolidated: 7,233 persons/Consolidated: 15,083 persons (including part-timers, as of March 31, 2023)
Business sites	783 directly-managed stores/560 subsidiary stores/37 franchise and other stores/49 distribution centers nationwide
Number of Group stores	Total 1,380 stores
Major Subsidiaries	Seikodo Pharmacy Corporation, Sundrug Plus Co., Ltd., DIREX CORPORATION, Daiya Inc., SUNDRUG Dream Works Co., Ltd.
Description of business	Drugstore chain operation Dispensing pharmacy operation Product provision and business guidance to franchise and voluntary chain stores, etc.

Main business sites (as of March 31, 2023)

<p>●Hokkaido area Hokkaido 88 stores</p> <p>●Tohoku area Aomori prefecture 12 stores Akita prefecture 8 stores Iwate prefecture 8 stores Miyagi prefecture 18 stores Yamagata prefecture 9 stores Fukushima prefecture 17 stores</p> <p>●Kanto area Gunma prefecture 10 stores Tochigi prefecture 12 stores Ibaraki prefecture 14 stores Saitama prefecture 71 stores Chiba prefecture 43 stores Tokyo 182 stores Kanagawa prefecture 69 stores</p>	<p>●Koshinetsu area Niigata prefecture 79 stores Nagano prefecture 11 stores Yamanashi prefecture 32 stores</p> <p>●Tokai area Shizuoka prefecture 15 stores Gifu prefecture 1 store Aichi prefecture 71 stores Mie prefecture 8 stores</p> <p>●Kinki area Shiga prefecture 7 stores Kyoto prefecture 16 stores Osaka prefecture 73 stores Hyogo prefecture 41 stores Nara prefecture 12 stores Wakayama prefecture 7 stores Tottori prefecture 7 stores</p>	<p>Shimane prefecture 5 stores Okayama prefecture 18 stores Hiroshima prefecture 20 stores Yamaguchi prefecture 20 stores</p> <p>●Shikoku area Tokushima prefecture 15 stores Kagawa prefecture 19 stores Ehime prefecture 46 stores Kochi prefecture 24 stores</p> <p>●Kyushu area Fukuoka prefecture 86 stores Saga prefecture 25 stores Nagasaki prefecture 34 stores Kumamoto prefecture 40 stores Oita prefecture 20 stores Miyazaki prefecture 25 stores Kagoshima prefecture 28 stores Okinawa prefecture 14 stores</p>
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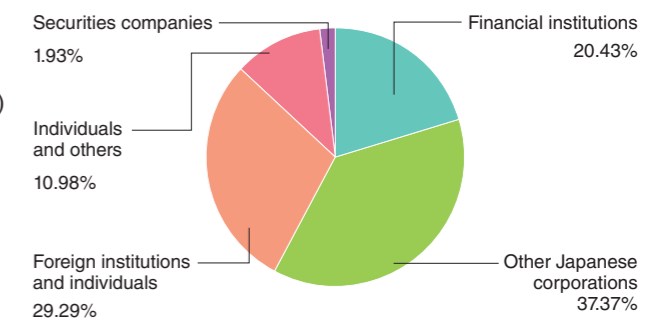


Stock information

Status of stock (as of March 31, 2023)

Number of shares authorized	536,000,000 shares
Number of shares issued	119,331,184 shares (including treasury shares)
Number of shareholders	20,370

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)	14,040	12.01
Custody Bank of Japan, Ltd. (Trust Account)	5,546	4.74
Naoki Tada	3,112	2.66
Takashi Tada	2,200	1.88
JPMorgan Chase Bank 385632	2,153	1.84
JPMorgan Chase Bank 385047	1,926	1.65
CEP LUX-ORBIS SICAV	1,683	1.44
OM02 State Street 808424 Client Omni	1,517	1.30
National Mutual Insurance Federation of Agricultural Cooperatives	1,508	1.29

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>



Annual Dividend per Share

