

SUGI Holdings

SUGI Holdings Integrated Report 2022

Integrated Report
2022

SUGI Holdings Co., Ltd.

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The SUGI Pharmacy Group strives to contribute to local communities by underpinning customers' healthy, rich lifestyles and community healthcare.

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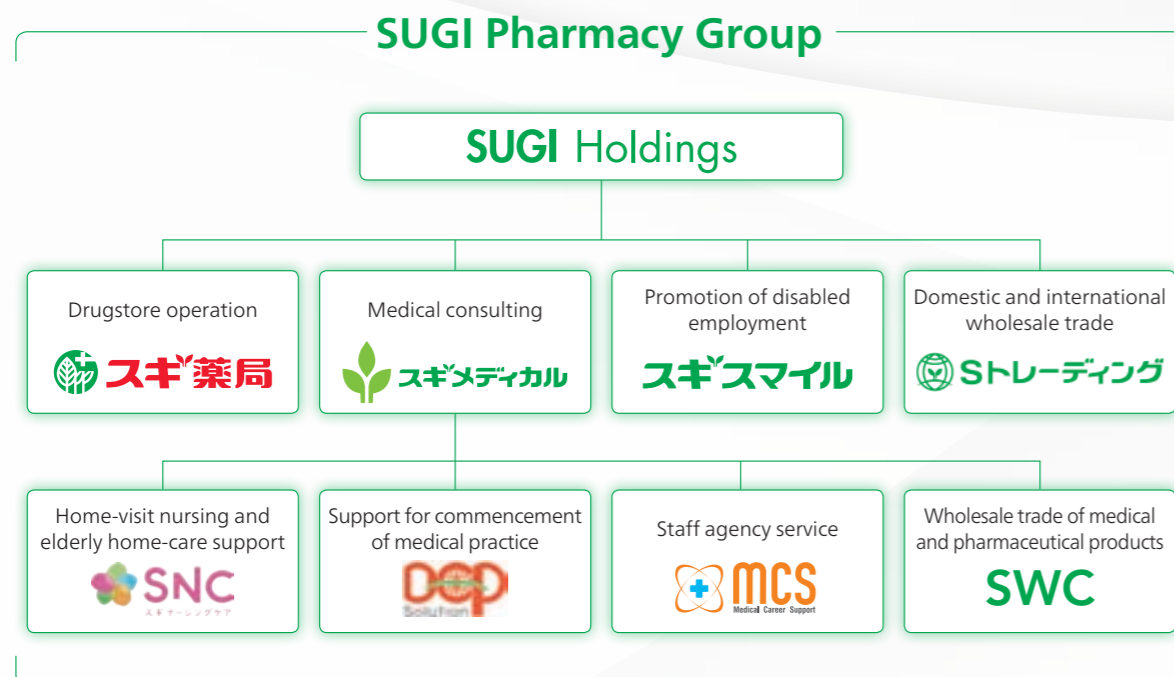
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Who is the SUGI Pharmacy Group?

Growth Foundation

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Editorial Policy

The Integrated Report 2022 has been edited for the purpose of presenting the SUGI Pharmacy Group's business philosophy and attitude toward sustainability, and providing stakeholders with easy-to-understand explanations of our activities carried out based on these activities and their results. The report contains data and articles regarding the corporate activities that we deem especially important.

Reporting Coverage

The report has been designed to cover the companies in the consolidated financial statement of the SUGI Pharmacy Group to the extent possible, although the reporting coverage varies according to the item.

Coverage Period

March 1, 2021 – February 28, 2022

For some activities, more recent events have also been reported.

Notes on Our Outlook

The Integrated Report 2022 presents forecasts and outlooks regarding future plans, strategies and business results of the SUGI Pharmacy Group and its subsidiaries. They are based on assumptions and views judged from the information currently available to the SUGI Pharmacy Group. Please note that actual business results might differ from expectations due to risks and uncertainties concerning future economic trends, consumer spending, market demand, taxation, various systems, etc.

Management Philosophy

We contribute to local communities through our sincere, kind services.

**We help many more people smile,
Hoping for the happiness of each employee,
Hoping for the happiness of each customer, and
Hoping for the happiness of everybody.**



Corporate Watchwords and Management Philosophy at the Time of Establishment of the Company

Corporate Watchwords

Kindness
Serve customers with sincerity and kindness.

Honesty
Work with business partners with humility and honesty.

Trust
Be trusted by both customers and business partners.

Management Philosophy

<For Society>
Strive to create a corporate framework enabling us to contribute to local communities by selling medical and pharmaceutical products, health foods, cosmetics and daily items and by dispensing prescriptions.

<For Employees>
Strive to create a corporate framework enabling the company to grow together with employees with the aim of ensuring their happiness.

**In the SUGI Pharmacy Group,
We will remain a “pharmacy.”
This is the pride of the corporate group.
This is the pride of all employees.**

Since our founding, we have aimed to contribute to local communities by selling medical and pharmaceutical products, health foods, cosmetics and daily items, and by dispensing prescriptions. Today, even though we have developed into an operator of a chain of approximately 1,500 drugstores with approximately 35,000 employees, we are proud to remain a “pharmacy.” We are working to further enhance our corporate value and accomplish the sustainable growth of local communities.

Highly acclaimed for its sincere and kind treatment of customers, each of whom was served attentively through its counseling service, our first store thrived as a kind “family pharmacy.” Since then, we have adopted the corporate watchwords of “kindness,” “honesty” and “trust” as the principles guiding us to growth. Layers of “kindness” form “honesty” and lead to the establishment of “trust.” These tenets presented in our corporate watchwords, together with an altruistic spirit, or “sincerity,” are reflected in our management philosophy, showing our fundamental values. They have been anchored among all members of our corporate group and put into practice.

Action with “sincerity” based on the tenets of our corporate watchwords and management philosophy with their focal point on “kindness,” which has been the unchanging focus since our establishment, reinforces our business and HR foundation, helps customers smile, and pleases and moves them. This leads to the happiness of employees and the growth of the SUGI Pharmacy Group, loved by local communities.



Eiichi Sakakibara
Representative Director & Chairman
SUGI Holdings Co., Ltd.

Katsunori Sugiura
Representative Director & President
SUGI Holdings Co., Ltd.

New Era under New Management

Sakakibara: In FY 2021, which marked the 45th anniversary of our establishment, our cofounder Hirokazu Sugiura retired from the management frontline and new management was inaugurated, under which I assumed the chairmanship and Katsunori Sugiura was promoted from Senior Vice President to President. In this era of living with COVID-19, with society and the economy greatly impacted by fluctuations in COVID-19 cases, there are calls for new reforms to break down conventional stereotypes and notions, as well as for speed in implementing such reforms. This is applicable to the SUGI Pharmacy Group, which boasts strength in in-store communication with its customers, and there is an urgent need for us to reform ourselves. We find ourselves in a period of upheaval, and all the more for this reason, in FY 2021, we became even more aware of our contribution to local communities as the Group's raison d'être. In addition, guided by the Management Philosophy, we always returned to the basics when making decisions and taking action. In 1976, we established Sugi Pharmacy in Nishio City, Aichi Prefecture, in the hope that we could support local citizens' healthy lives and contribute to the local community. "Kindness," "honesty," and "trust" are our watchwords, which have

been handed down as our founding principles over 45 years since the establishment of the Group. With the focal point being "kindness," customers, employees and all other stakeholders are connected with smiles, and the chain of smiles expands the circle of these connections. By ensuring this process, we strive to contribute to realizing the sustainable growth of local communities from our perspective as a kind and community-oriented family pharmacy.

Immutability and Fluidity – All Reforms Are Intended to Serve Local Communities, Customers and Patients, and to Maximize the Immutable Strength of Our Human Assets

Sakakibara: Derived from Japanese *haikai* poetry, "immutability and fluidity" are adopted as a universal concept in the field of business, and actually form the cornerstone of our Management Philosophy. At each of the many turning points we have encountered in the course of the 45 years since our establishment, we have made management decisions from the aspects of "eternal invariability" and "change in pace with the times."

The Group's greatest strength lies in its human re-

Respect for each individual customer — this philosophy represents the intrinsic value of the SUGI Pharmacy Group. We pursue the qualities of kindness and contribution to local communities in every aspect, and strive to enhance our raison d'être and create sustainable value.

sources who can embody kindness to accommodate each individual customer's needs at the stores, and also in the management framework that underpins such human resources. The spread of COVID-19 is accelerating digital transformation (DX) in society and the need for non-contact services. In the SUGI Pharmacy Group, we are working speedily on various forms of "fluidity" (constant change) such as DX and new projects. We can never accomplish further growth without continuous reform, or constant change, and it is equally important to maintain "immutability" (eternal invariability). A typical example of immutability is our respect for our customers, which we infuse into our direct customer services, and this philosophy will remain unchanged forever.

While following a new policy in step with changes of the times, we will never change the underlying management principles. No matter how much IT and DX progress is made in the fields of merchandizing, prescription dispensing, nursing and new projects, the ultimate key lies in our human assets, namely, our customers and employees. By ensuring that kindness lies at the forefront of our operations, we strive to earn credibility and trust from our customers and patients, and remain indispensable to local communities. To this end, "immutability and fluidity" serves as our unwavering management belief.

Now That We Have Celebrated the 45th Anniversary of Our Establishment, We Will Create a Future That Will Ably Guide Us through the Next Five Decades

Sakakibara: To make a sustainable contribution to local communities and society, it is necessary to identify management risks from a super-long-term perspective, reinforce our governance framework, and consolidate the foundation for our long-term growth. We have appointed external directors for monitoring purposes and ensured flexibility backed by respect for diversity, thereby striving to address a wide variety of priority issues set by the Group, including climate change, through the cooperation of all members of the Group, and establish a framework whereby we can respond to any type of change.

In accordance with the Group's Management Philosophy, we will continue to explore how to constantly present value to customers and society and take on challenges so that we can create a future toward the 50th anniversary that we will celebrate shortly, and toward the milestone of the next half-century.

We will fully prepare ourselves and thus would like to sincerely ask for your support.



Katsunori Sugiura
Representative Director & President
SUGI Holdings Co., Ltd.

By integrating the real and the digital with “health” as the keyword, we will strive to support your healthy and rich lives and enhance our corporate value and social value.

Tell us about the SUGI Pharmacy Group’s future vision and strategy.

Sugiura: Last year, when we celebrated the 45th anniversary of our establishment, I assumed the presidency of SUGI Holdings Co., Ltd., which spurred me to further contribute to the good health of our customers and patients through the management of the SUGI Pharmacy Group. Our management foundation resides in the Total Healthcare Strategy, formulated by the SUGI Pharmacy Group. Setting “health and medical care” as the key phrase, this core strategy guides us to provide support for customers and patients regardless of their health conditions.

From birth until the end of life, human life is accom-

panied by medical care and medicine, with which people strive to treat disease and injury, address changes caused by aging, and maintain their good health. Under the Total Healthcare Strategy, we divide human life into the following three phases: the “self-care” period with a focus on primary prevention and secondary prevention to maintain a healthy life; the “medical care and medication” period when people develop diseases and receive treatment for their symptoms in the acute phase or the chronic phase; and the “elderly nursing support and daily life support” period. This strategy shows our commitment to local residents’ lifetime efforts for disease prevention and health management, thereby striving to contribute to their good health through a full lineup of care.

With our prescription dispensing drugstores serving as the hub, we will strive to establish a healthcare network by forming partnerships with physical facilities, such as health checkup centers, nursing facilities for senior citizens, and fitness centers, and ensuring cooperation with local governments, while making full use of digital transformation (DX). Such a network will enable us to ensure points of contact with customers regardless of their health condition, and provide each customer with the most appropriate product or service well-tuned to his/her condition through the integration of the real and the digital with a focus on the local community.

If you have any health problems, you will most likely head straight to a medical institution; however, this approach will no longer work if you wish to live a rich life in the upcoming age of a super-aging society. It is necessary to ensure cooperation with local governments, health insurance associations, medical care and elderly nursing care workers, and players in many other fields. To realize the Total Healthcare Strategy, satisfy customers, and continue to increase their lifetime value, we urgently need to proceed with alliances with players in the medical field and also other industries toward establishing a network for supporting communities, senior citizens, and their families. We would like to take various opportunities to actively cooperate with entities sharing the same ambitions as us, and accelerate the speed of our efforts.

Tell us about the SUGI Pharmacy Group’s efforts to create value by leveraging its features and advantages.

Sugiura: In the SUGI Pharmacy Group, we have approximately 3,400 pharmacists. Today, not only prescription dispensing pharmacies and drugstores, but also supermarkets and convenience stores, are making inroads into the field of prescription dispensing, leading to a continuous shortage of pharmacists in Japan and making it extremely difficult to secure pharmacists. Despite this trend, we have a sufficient number of pharmacists, and this is one of our great advantages. The Group was founded by Hirokazu Sugiura and Akiko Sugiura, both pharmacists, and they have spurred our growth by continuing to take on challenges in developing a chain of prescription dispensing drugstores since the dawn of the drugstore industry. Our unwavering dedication to prescription dispensing that we have continued since our

foundation helps pharmacy students create their future visions, and stirs empathy from among pharmacists who are concerned about the ideal vision of the profession. This will give us a great advantage in terms of recruitment.

Another advantage is our speed in establishing new stores. By pushing forward with our strategic dominance of setting up new stores in specific areas, we are expanding our operating scale in the metropolitan areas of Kanto, Chubu and Kansai, while reinforcing our efforts to open new stores in the Hokuriku region. Last year, despite the COVID-19 pandemic, we newly set up 112 stores, which is one of the highest numbers of annual store openings in the industry. As of the end of February 2022, the number of stores of the entire SUGI Pharmacy Group reached 1,483, with the percentage of prescription dispensing stores increasing to 85.5%, one of the highest figures among major drugstore operators. This serves as a source for creating value when we implement the Total Healthcare Strategy. For store locations, we operate many stores in the suburbs, which is one of our striking features. As a “family pharmacy,” we would like to commit ourselves to improving all the health stages of our customers by providing support, ranging from daily health management to terminal care, through in-store experts, and contribute to the realization of sustainable comprehensive community care centering on medical institutions.

While developing our physical stores, we are also increasingly introducing digital technology in various fields. The SUGI point membership of more than 19.41 million customers serves as the foundation underpinning our stable management and growth. By offering services through our apps to help customers live an even more comfortable and healthier life, we can further satisfy customers, and this in turn encourages such customers to use the SUGI Pharmacy Group's services even more, generating a virtu-

ous cycle. Moreover, we can also enhance customer satisfaction by helping employees improve their working styles, establishing an environment in which they can fully demonstrate their capabilities vigorously, and ensuring that they can concentrate easily on communication with customers. While bearing in mind the creation of value through rediscovery, support and enhancement of our ties with customers and external and internal business partners in the real world, we are actively proceeding with DX.

Based on these sources for creating value, we will handle the priority issues that we set last fiscal year toward realizing sustainability management, including contribution to the global environment, thereby striving to accomplish a society where everyone is happy with smiles.

Tell us how you recognize challenges in the recent external environment surrounding the SUGI Pharmacy Group's business environment. Also, tell us how you would respond to such challenges.

Sugiura: The world is witnessing a serious humanitarian crisis in Ukraine, where the precious lives of many citizens, including even children, are being threatened (as of the end of April). We would like to express our heartfelt condolences to those affected by the tragedy. While paying close attention to Ukraine's affairs, we sincerely hope that the current situation will come to an end and a peaceful, safe daily life will be restored as soon as possible. Amid the globalization of the economy and the advancement of the supply chain, the Ukraine crisis is greatly affecting the SUGI Pharmacy Group in terms of, for example, the appreciation of resource prices. The prices of not only petroleum and natural gas, but also wheat and other foodstuffs, are rising considerably, affecting the procurement costs of products sold by the SUGI Pharmacy Group. In addition, the supply shortage of rare metals is resulting in a shortage of semiconductors, leading to delays in the introduction of a wide variety of equipment and increasing our costs. Our operations have so far been based on the scenario that we can maintain a supply chain that helps us realize more reasonable costs and ensure the safety and reliability of raw materials. From now on, however, we will diversify our procurement channels to secure a continuous, stable supply and take measures to disperse risks. We will use all items even more carefully, generating less waste and recycling items for as long as possible. We will continue to implement the 3Rs of reduction, reuse and recycling, while involving all our suppliers in increasing the efficiency of the entire supply chain toward reducing waste disposal and logistics costs, as well as curtailing energy consumption to respond to an increase in electricity costs. Furthermore, we will raise the awareness of peace and human rights protection. We feel the need to manage the SUGI Pharmacy Group while reaffirming our mission of contributing to the realization of a sustainable society.

It has already been two years since the breakout of the COVID-19 pandemic. Despite considerable growth in the vaccination rate in Japan, a trial-and-error process toward the transition to a “society with COVID-19” is still ongoing, with consumption and the economy greatly affected each

time a variant emerges. It is said that consumption levels will not exceed those of the pre-COVID-19 period until the first half of 2023, showing little hope for a recovery of consumer spending in Japan for the time being. Taking account of a further delay in the recovery of inbound demand, we will accelerate our partnership with a wide variety of companies to ensure many more points of contact with overseas consumers.

Meanwhile, the COVID-19 pandemic has led to the rise of a new form of consumer behavior, as indicated by the rapid growth of non-contact and non-face-to-face fields, such as EC, online videos, electronic payment, and online events. While digital technology offers convenience and enables cost reduction, real experience needs to offer something special in order to present its own value. Customers who actually go to physical stores anticipate that they will not only be able to purchase what they need after checking and touching items, but will also encounter exciting items, make unexpected findings, experience excellent service, or enjoy something that supplements what they cannot obtain in the digital world. In the SUGI Pharmacy Group, we are reinforcing face-to-face counseling from certified staff members using digital tools, including, not only counseling from pharmacists, but also health counseling from nationally certified dietitians using lifestyle-related disease risk reports, specific health guidance, and skin analysis and counseling using a skin analyzer in the field of beauty items. In addition, we are proceeding with our efforts to accommodate needs for non-contact service by, for example, introducing digital signage into our stores, by launching Buy Online Pick up In Store (BOPIS), enabling customers to pay at smartphone-linked registration terminals or pick up their items at stores after ordering them online, and by participating in a demonstration experiment of pick-up lockers for medicine. With demand for home-visit prescription dispensing growing amid COVID-19, we will make our service even safer and securer, thereby turning the pandemic into a growth opportunity to expand our operations.

FY 2022 sees the revision of dispensing fees and drug prices. Tell us about how you will respond to the changes in the field of prescription dispensing.

Sugiura: Led by the national government, institutional reform is in steady progress in the field of prescription dispensing, which is the main business domain of the SUGI Pharmacy Group, in accordance with the Pharmacy Vision for Patients, presented in 2015. The drug price revision, performed this April, has had not an insignificant impact on our sales from prescription dispensing. Meanwhile, the revision of the technical fee is clearly spurring a shift toward pharmacists' communication with customers. In the SUGI Pharmacy Group, we are strengthening such communication by ensuring that pharmacists make confirmation with patients when presenting drugs regarding the medication schedule they should follow until the next time they come to the pharmacy, and whether they have experienced any side effects. We also provide information to medical institutions to improve therapeutic effects, and take measures to

prevent polypharmacy toward ensuring further safety. To provide strong support for these efforts, we are building a framework for app-based chat communication and online counseling, while reestablishing an environment for training pharmacists.

In this year's revision, a prescription refill system has been introduced, allowing a prescription to be filled repeatedly for a certain period of time, for the purpose of increasing the efficiency of revisiting by patients with stable symptoms in cooperation between their doctors and physicians. For the SUGI Pharmacy Group, which operates many stores in the suburbs, the introduction of the system means that we are further required to fulfill our responsibility of serving patients appropriately based on our communication skills without overlooking changes in their physical conditions. In addition, we forecast that we will experience data health reform, which will help establish a win-win relationship between national budgets and patients by ensuring safety for patients and offering them convenience through, for example, online qualification confirmation, online medication instruction, electronic prescription, and information sharing. The direction of these policies aligns precisely with the direction of the SUGI Pharmacy Group's Total Healthcare Strategy. With interest in health growing throughout society, great business opportunities lie ahead for the SUGI Pharmacy Group, which has set a management strategy and priority issues to underpin a sustainable society.

Tell us about your views on sustainability management.

Sugiura: The SDGs, ESG and climate change have now become much-talked-about issues throughout the world, with public interest growing incomparably higher than a year ago. A familiar example is the growth of popularity of ethical consumption, as indicated by many consumers selecting items produced with greater consciousness of the environment or human rights. This trend is evident in particular among young Millennial consumers and Generation Z. The world is also witnessing the emergence of problems that need to be handled throughout the entire supply chain, such as CO₂ emissions in the supply chain (Scope 3) and suppliers' commitment to human rights. In the SUGI Pharmacy Group, we will continue to ask our suppliers to use raw materials procured in due consideration of human rights, while changing wrapping materials for our private brand items to environmentally friendly materials and reinforcing our efforts to develop and promote ethical products. By doing so, we will turn risks into opportunities.

It is crucial not only to obtain growth opportunities, but also to identify business risk factors. Having specified five themes and 16 priority issues under the Sustainability Basic Policy, we are working toward solving them. In particular, in FY 2021, we identified risks posed by climate change on the SUGI Pharmacy Group, in line with the disclosures recommended by the Task Force on Climate-related Financial Disclosures (TCFD). Using certain parameters, such as a carbon tax, climate change and corresponding electricity payment, we analyzed their impact on our financial conditions from the long-term perspective from 2030 to 2050. As a re-



sult, we believe that carbon-free management will help us mitigate our business risks.

Tell us about carbon-free management in particular. What are your views on this and what progress have you made in your commitments?

Sugiura: Emissions of greenhouse gases, especially CO₂, are making global warming a severe issue. We are aware that climate change caused by temperature rise is a critical problem negatively affecting the lives of all citizens. In the SUGI Pharmacy Group, we have set the realization of a carbon-free society as one of our priority issues, accelerating our commitment. With the world feeling a sense of crisis even more keenly concerning global warming and climate change, governments and companies are intensifying their efforts under the challenging targets they have set toward establishing a carbon-free society. In the autumn of 2021, the 26th UN Climate Change Conference of the Parties (COP26) was held, making it a de facto global target to “pursue efforts to limit the average global temperature increase to 1.5°C above pre-industrial levels.” Some foreign countries have already established a framework where a high tax is imposed according to CO₂ emissions. I feel that Japan will shortly have a similar framework, such as the GX League. For those in our generation and also future generations, such as our children and grandchildren, the SUGI Pharmacy Group needs to contribute to the control of the rise in average temperature by, for example, introducing renewable energy.

To involve the entire corporate group in proceeding with carbon-free management under specific numerical targets, we have first set a 2030 target for Scope 1 and Scope 2, both of which cover in-house emissions. In line with the disclosures recommended by the Task Force on

Climate-related Financial Disclosures (TCFD), we have proceeded with appropriate efforts through the Sustainability Committee and the Board of Directors, such as identifying our risks and opportunities and examining a roadmap toward the reduction of CO₂ emissions. In December 2021, we announced our endorsement of the TCFD recommendations. In FY 2021, we opened our first store equipped with solar power panels, and in FY 2022, we will make further efforts toward the use of renewable energy. In addition, we will, of course, not only strengthen the reduction of our daily energy consumption at our stores, but also explore the introduction or replacement of energy-saving equipment and the adoption of an energy management system for the central control of in-house power use.

Tell us about your views on the Mid-term Management Plan.

Sugiura: Public anxiety about COVID-19 has led to the establishment of a “new normal.” In addition, the environment surrounding prescription dispensing is changing greatly. In light of these points, we have formulated the Mid-term Management Plan with FY 2022 set as its first year. Under the plan, we strive to increase our sales to 1 trillion yen over the five years to FY 2026. To this end, we will deepen our operations in the field of health care, change customer experience through DX, and expand our cooperation and co-creation efforts. At the same time, we will proceed with data-based management, cost structure reform, HR development to acquire and foster those underpinning our future, and institutional development. We will aim not only to accomplish sustainable growth, but also to contribute to local communities, which represents the philosophy we have invariably honored since our establishment.

New Mid-term Management Plan

	FY 2020 – FY 2021 Enhancement of our corporate value by maximizing customers' lifetime value	FY 2022 – FY 2026 Growth toward a corporate group with sales of 1 trillion yen
Growth strategy	Deepen operations in the field of health care	<ul style="list-style-type: none"> ● Set up stores with a focus on health care (store areas, store types, alliance with medical institutions) ● Maximize synergy between merchandising and prescription dispensing ● Establish a SUGI Pharmacy-version of comprehensive community care model
	Change customer experience through DX	<ul style="list-style-type: none"> ● Evolve customer experience through digital technology ● Develop one-to-one marketing ● Enhance digital membership and increase the percentage of use of prescription dispensing services
	Expand cooperation and co-creation efforts	<ul style="list-style-type: none"> ● Optimize SCM* and develop products and categories by establishing information linkage between the manufacturing, distribution and sales sectors ● Establish healthcare networks both at home and abroad
Reinforcement of the management foundation	Data-based management	<ul style="list-style-type: none"> ● Make the organizations and operations even more effective
	Cost structure reform	<ul style="list-style-type: none"> ● Set up stores with high investment efficiency, and renovate existing stores
	HR and institutional development	<ul style="list-style-type: none"> ● Develop organizations and human resources toward the next generation

*SCM: Supply chain management



Who is the SUGI Pharmacy Group?

In May 2021, you assumed the presidency of SUGI Holdings. Now, it has been a year since the transition from the founding generation to the new management. Do you have anything in mind regarding what you'd like to change and what you feel should be changed?

Sugiura: We will keep our basic philosophy unchanged, of our dedication to our customers, contribution to communities, and support for employees in demonstrating their capabilities. I feel, however, that we can flexibly change the means of realizing this philosophy. Excluding the basic philosophy, fixed ideas forcing us to perform in a particular way might generate negative effects. For example, we place great value on communication with customers at the time of their payment, but we have to consider the ongoing cashless trend. Likewise, point programs are also changing and evolving. For store types, many of our stores have an area of 200 to 300 *tsubo* (1 *tsubo* = 3.3 m²) with a focus on high visit frequency. In light of future customer needs, however, we might want to enable customers to visit our stores and have physical experience before shopping online. It is possible that our store and sales styles will change greatly due to the needs of the times. Our philos-

ophy will remain unchanged, but we will never hesitate to make a change as long as it is beneficial to our customers and employees.

Can you conclude by giving a message to the stakeholders?

Sugiura: Toward realizing our philosophy, “contribute to local communities,” we will make further efforts to expand our alliance to push further forward with the Total Healthcare Strategy. Last fiscal year again, we concluded business alliances with a few companies to take on the challenge of creating new value for local communities. The scope of cooperation and co-creation is expanding through alliances with local governments and companies sharing the same ambition of contributing to citizens' health. We intend to form partnerships with various players not only through capital and business alliances but also in other forms, so that we can increase our corporate value and return it to our shareholders. We believe that if we can do so, it will lead us to generate great value for society. Together with our stakeholders, we will continue to commit to the realization of a sustainable society in which everybody can smile.

Figures relating to the SUGI Pharmacy Group

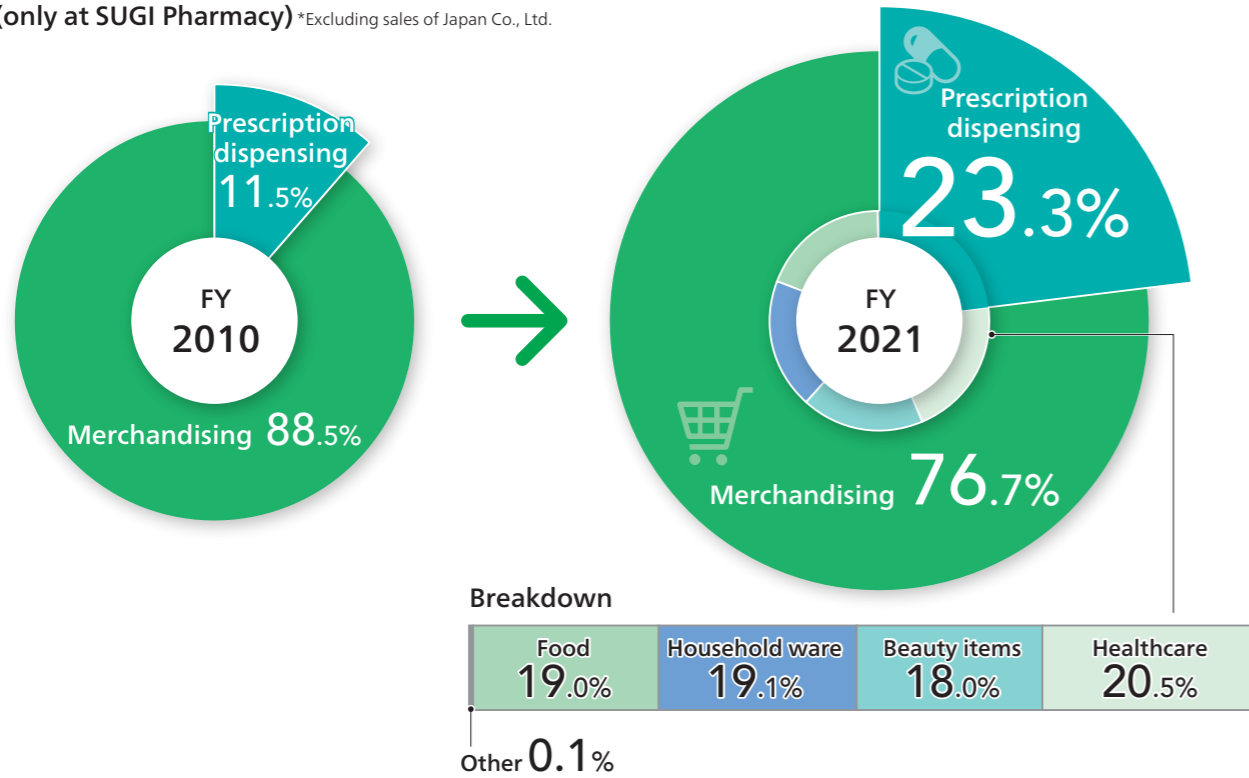
Net sales on a consolidated basis

625.4 billion yen

Operating income on a consolidated basis

32.1 billion yen

Changes in the percentages of sales from merchandising and prescription dispensing (only at SUGI Pharmacy) *Excluding sales of Japan Co., Ltd.



Stores

No. of stores
* As of the end of February 2022

1,483 stores

Newly established
112 stores

SUGI Pharmacy:
1,363 stores
(Including 1,166 prescription dispensing stores)

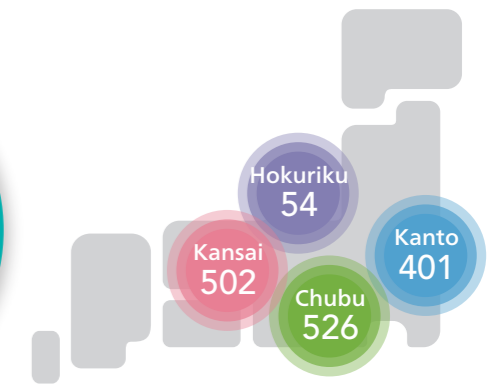
Japan Co., Ltd.: **107** stores

Home-visit nursing stations: **13** stations

Percentage of prescription dispensing stores

85.5%

No. of stores by area



Customers

No. of annual visitors

340 million visitors

SUGI Point membership

19.41 million members

Digital membership

11.04 million members

* Total no. of downloads of SUGI Pharmacy app and SUGIsapo app, as well as registrations of SUGI Pharmacy as a "family pharmacy" through the Family Pharmacy app developed by MedPeer

Prescription dispensing

Sales of prescription dispensing

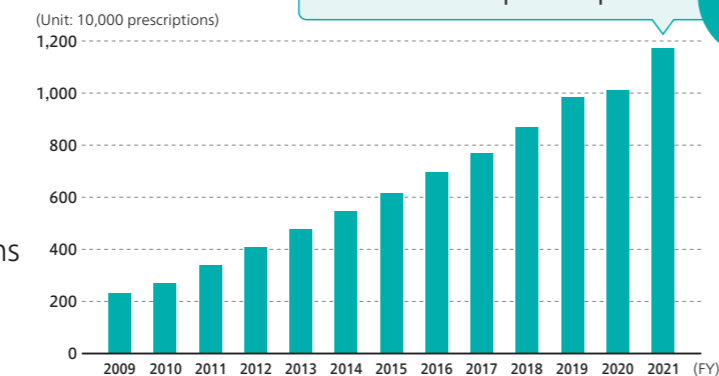
132.7 billion yen
Up 12.9% from the previous year

No. of medical institutions whose prescriptions are filled by us

57,071 institutions

No. of prescriptions filled by us

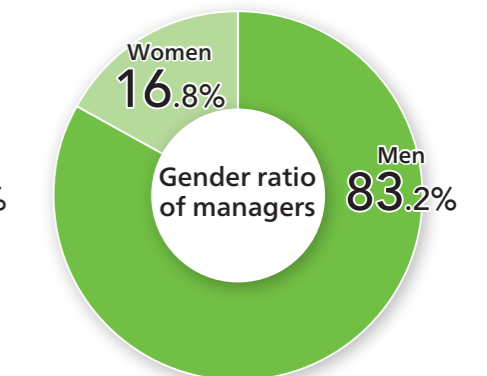
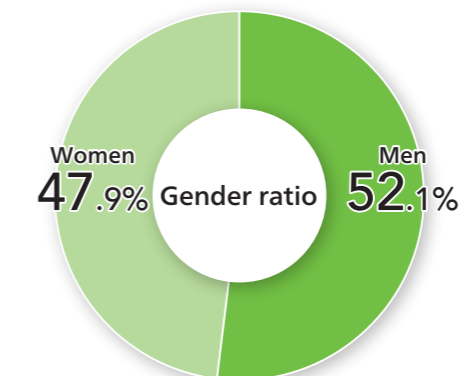
11.73 million prescriptions
Up 16.1% from the previous year



Employees

No. of employees

7,308 (No. of full-time employees)



No. of experts *Including partner employees

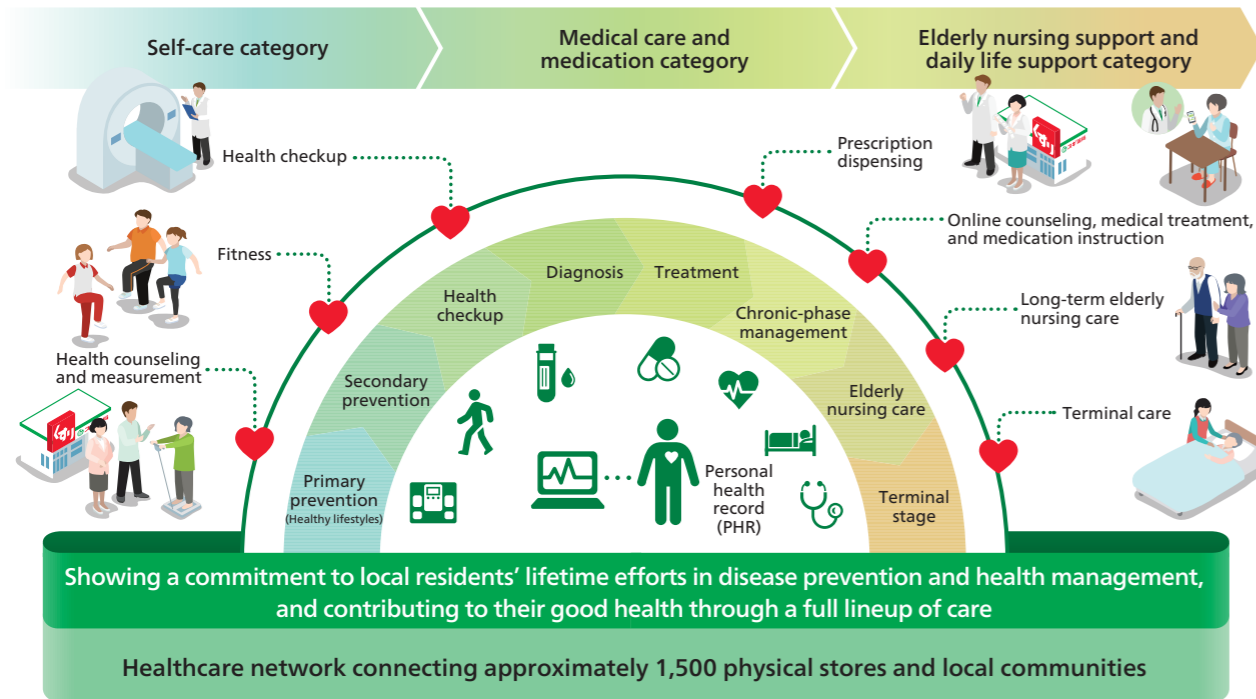
Pharmacists	Beauty advisers	Nationally certified dietitians	Nurses	Registered pharmaceutical distributors
3,390	1,214	498	87	9,704

Ideal Vision

Contribute to Local Communities through Total Health Support, Ranging from Self-Care to Medical Care, Medication, Elderly Nursing Support, and Daily Life Support

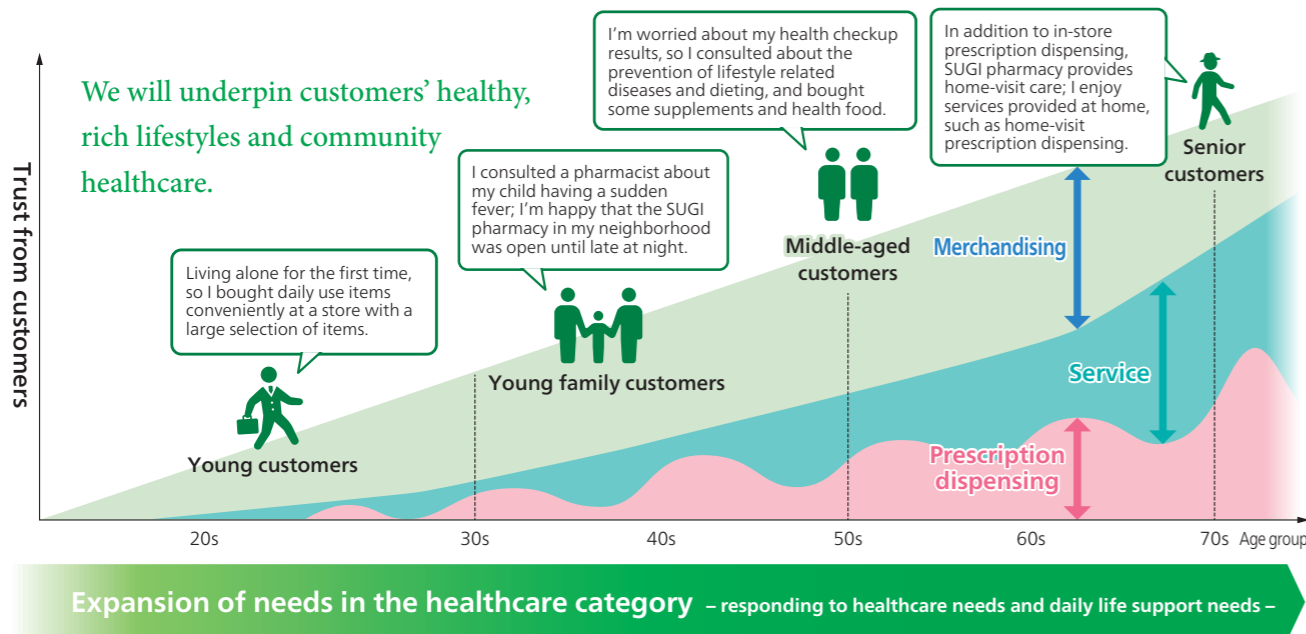
Total Healthcare Strategy through Integration of the Real and the Digital

In the Total Healthcare Strategy, people's lives, from birth until the end of their life, are divided roughly into three stages, covered by the self-care category, the medical care and medication category, and the elderly nursing support and daily life support category. The strategy is intended to ensure contact points with customers, regardless of their health condition, and provide optimum products and services appropriate for the conditions of customers in different stages by integrating our physical advantages with digital technology.



Increasing Lifetime Value

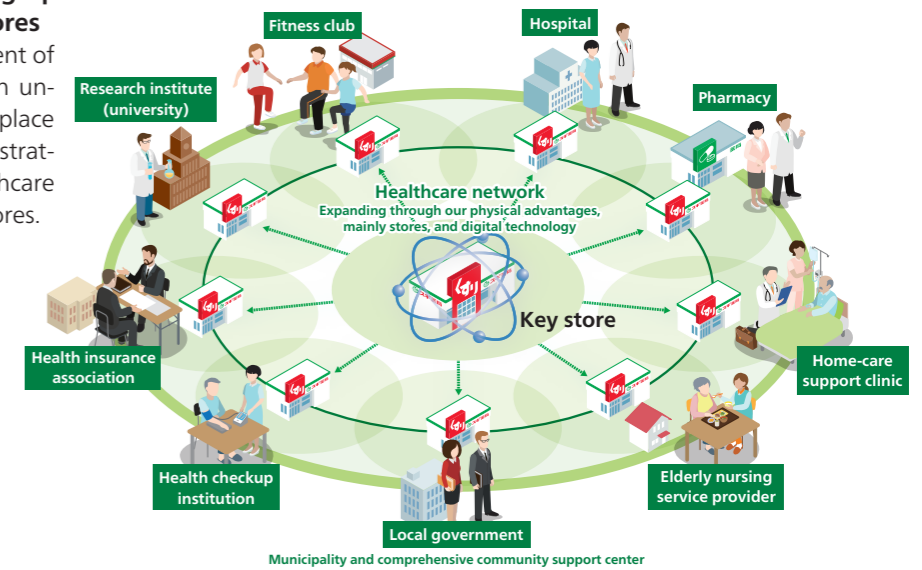
We provide support tailored to the health stage of each customer, from primary prevention and secondary prevention to medical treatment, elderly nursing care and terminal care, thereby establishing a lifelong relationship of trust and underpinning their healthy, rich lifestyles and community healthcare.



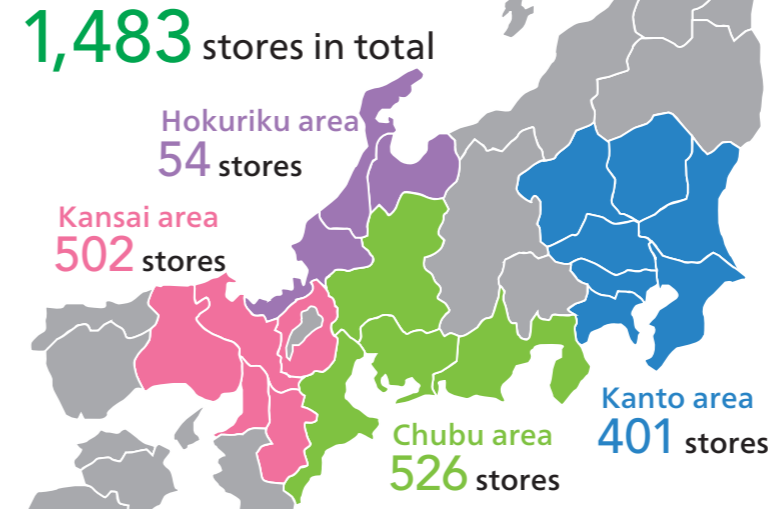
Strategic Dominance of Setting Up New Branches around Key Stores

By proceeding with the development of solution-oriented "key stores," which underpin our strategic dominance, we place the emphasis of our store-opening strategy on the creation of hubs of healthcare networks evolving around our key stores.

*Our key stores fulfill the enhanced function of health support expected to be provided by drugstores. The stores feature a self-service space for customers to take health measurements, while providing a wide variety of services related to health care. They also have a community space where events organized by nationally certified dietitians and other experts take place on a regular basis.



No. of stores As of the end of February 2022



Increasing Regional Shares by Opening Stores Aggressively, and Making Our Stores Even More Competitive

We are pushing forward with strategic dominance in the Kanto, Chubu, Kansai and Hokuriku regions. As of the end of FY 2021, we had established 1,483 stores in total, featuring industry-leading regional market shares in the Chubu and Kansai regions. Many of the stores are prescription dispensing drugstores in suburban areas focused on health and beauty items. However, we have recently been proactively promoting the establishment of stores focused on foods with enhanced convenience for consumers, stores in urban areas focused on beauty items, and stores featuring medical institutions.

Establishing a Network of Prescription Dispensing and Medical Care by Operating Three Types of Stores

We are proceeding with operations of the three types of stores: "pharmacies with the function of prescription dispensing," "pharmacies featuring medical malls or medical institutions" and "pharmacies located on the premises of medical institutions." While achieving cooperation with local medical institutions, we are working to ensure that patient information is shared regardless of the type of pharmacy that the patients use, and to establish a network of prescription dispensing and medical care to underpin local residents' safe and secure daily lives.

- "Pharmacies with the function of prescription dispensing"**: Expanding the standard model as an advantage that we have maintained since our establishment. (Nagoya University Hospital Store)
- "Pharmacies featuring medical malls or medical institutions"**: Reinforcing cooperation with medical institutions from the perspective of local medical infrastructure. (A medical mall or clinic located on a store's second floor or in its parking area)
- "Pharmacies located on the premises of medical institutions"**: Reinforcing support for advanced medical care as an important base connecting core hospitals and local stores. (Mutual sharing of patient information)

Promotion of DX* and Future Vision

*Digital transformation

Through the integration of physical and digital assets, we will effectively provide services tailored to the lifestyle habits and health challenges of each customer.

Improved shopping experience


Introducing smartphone-linked registration terminals

- 1 Enter a store
- 2 Register items
- 3 Settle the account and leave the store

Start shopping with a rental smartphone. Place shopping items in a shopping basket after registering them. Pay for the items at a registration terminal. Return the smartphone before leaving the store.


Advantages for customers

- Can pay quickly at a registration terminal.
- Can prevent the spread of COVID-19 thanks to minimum contact with others.
- Can ensure that the shopping is well-planned by checking the total sum while shopping.



Introducing digital signage and forming a network

We cooperate with manufacturers in providing information that suits customer needs.




In-store or online communication


In-store communication

Providing more effective counseling by using digital tools

Based on the product purchase history and other information collected through digital tools, we will provide counseling tailored to the needs of each customer, thereby providing them with optimal value.



We offer appropriate counseling by using the product purchase history gained from electronic records of cosmetics purchases and information gained from skin analyzers.




We offer counseling services by nationally certified dieticians using lifestyle-related disease risk reports.

Online communication

Providing customer-oriented services anytime, anywhere

Establishment of relationships of trust with customers leads to their frequent visits, and makes it possible for us to utilize accumulated data and contact points for in-store counseling services.




We provide follow-up by pharmacists after medication and online medication instruction.

Expand Communication with Customers by Increasing Productivity through DX

Improved productivity and service quality

Making still more effective use of portable information devices

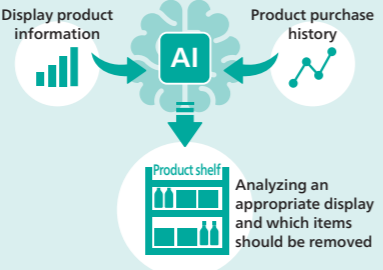
- Connecting portable information devices to various systems, which contributes to the streamlining of order placing, stock control, and point redeeming operations
- Enabling employees to refer to video manuals and record files used for store operation, anytime, anywhere within the stores



Optimizing the product lineup through the use of AI

- Using AI to ensure analysis quality is uniform
- Using AI to optimize display racks in line with customer needs

AI optimizing the product lineup

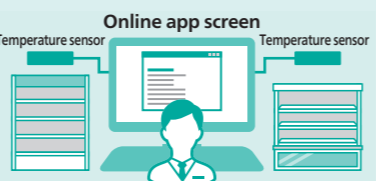


Display product information → AI → Product purchase history → Analyzing an appropriate display and which items should be removed → Product shelf

Proceeding with automation of quality control and further improving operation quality

- Introducing an automated temperature management system
- Introducing an expiration date management system
- Introducing a system for issuing discount labels

Reducing risk of quality defects
Reducing disposal loss



Temperature sensor → Online app screen → Temperature sensor

Strategic Partnership for Proceeding with the Total Healthcare Strategy

In the SUGI Pharmacy Group, we work with companies featuring high-level expertise and advantages to realize mutual cooperation and joint creation, thereby promptly and organically connecting physical and digital contact points with customers. We are proceeding with the Total Healthcare Strategy, designed to contribute to improving local residents' health through our commitment to their lifetime efforts toward disease prevention and health management.

MedPeer

MedPeer Inc.
Capital and business alliance concluded in March 2018
<https://medpeer.co.jp>

Joint Development of SUGIsapo App, Enabling Users to Continue Healthy Habits

MedPeer Inc. operates an online doctor community site, in which 140,000 doctors are registered, and develops an online medical business and preventive care business through the use of IT. The apps *SUGIsapo Walk*, *Eats* and *Deli* have resulted from our joint development project in the selfcare business. By taking advantage of these apps, we will continue to effectively provide services well-tuned to each customer's lifestyle and health problems.

Inagora

Inagora Holdings Co., Ltd.
Capital and business alliance concluded in January 2020
<https://www.inagora.com>

Approach to Customers in China through a Cross-border EC App

Inagora Holdings Co., Ltd. operates *Wando*, an EC app for inbound and cross-border business specializing in Japanese products. We gain from the company its expertise on Chinese consumers' needs and consumption behavior, as well as its marketing know-how. At the same time, through *Wando*, we sell trend-sensitive consumers in China various products, mainly those privately developed by the SUGI Pharmacy Group.

PREVENT

PREVENTS Inc.
Business alliance concluded in June 2020
<https://prevent.co.jp>

Expansion of the Support Business for Preventing the Aggravation of Lifestyle-related Diseases

PREVENTS Inc. provides health insurance associations with a program for preventing lifestyle-related diseases from becoming serious in cooperation with doctors. In our joint project with this company, we will strive to expand the support business for preventing the aggravation of lifestyle-related diseases through the use of SUGI Pharmacy's nationally certified dieticians and the introduction of each other's business partners. This alliance enables us to provide a full line of support, ranging from disease prevention to treatment.

大樹薬局

Great Tree Pharmacy Co., Ltd.
Business alliance concluded in November 2020
<https://www.greentree.com.tw>

Acceleration of Our Efforts to Set up Stores in Taiwan and the Creation of Social Value in the Asia Area

Great Tree Pharmacy Co., Ltd. is a drugstore chain operator running approximately 200 stores in Taiwan. We will provide the company with the total healthcare business model established by the SUGI Pharmacy Group, as well as some of our products and trademarks. In addition, both parties share each other's management know-how. This will enable both of us to further proceed with our business development. Through our alliance with Great Tree Pharmacy, we will strive to achieve new value creation in the Asia area.

OMI CARE

Omicare Joint Stock Company
Business alliance concluded in July 2021
<https://omicare.vn/loi-chao-tu-ceo>

Support for Preventive Care and Health and Productivity Management in Vietnam

Omicare Joint Stock Company operates Omi Pharma, a drugstore with a pharmacy function, and EC business in Vietnam. In the SUGI Pharmacy Group, we provide the company with our business model and management know-how, some of our products and trademarks, and HR interaction opportunities. In so doing, we strive to reinforce the company's function as a base for offering healthcare counseling and disseminating related information, so that we can establish a framework to support preventive care and health and productivity management in Vietnam.

scroll

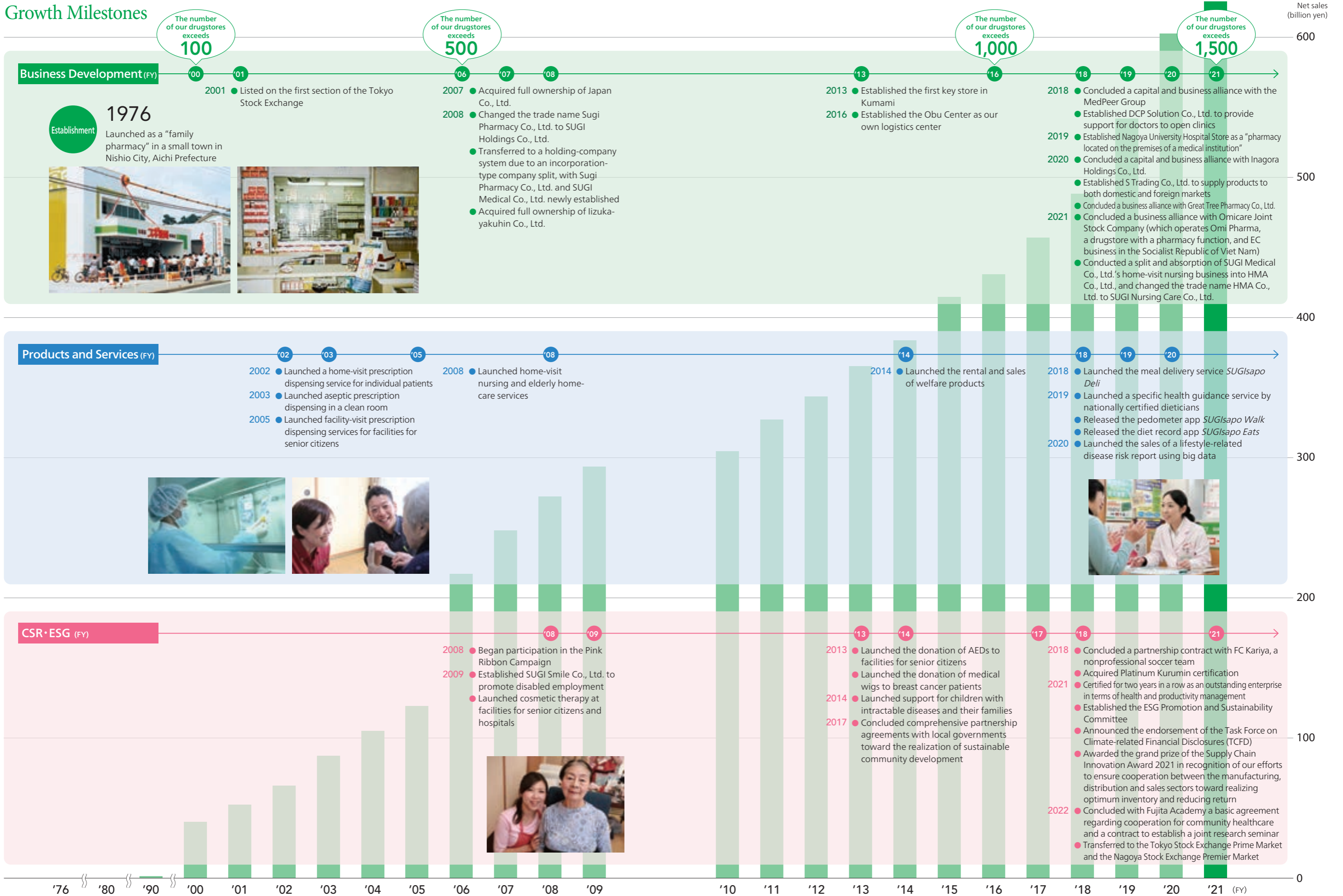
Scroll Corporation
Business alliance concluded in February 2022
<https://www.scroll.jp/>

Expansion of Sales through Catalogue Mail-Order and EC

Scroll Corporation operates based on the catalogue mail-order know-how that the company has long accumulated as a mail-order business. In the EC market, the company focuses on the B-to-C model wherein it sells individual customers a rich lineup of products, including items privately developed by its group companies. In line with this alliance, the company and the SUGI Pharmacy Group will share a wide variety of products and distinctive know-how on mail-order business, thereby striving to contribute to local communities.

Growth Milestones

Net sales (billion yen)



Who is the SUGI Pharmacy Group?

Value Creation Process

While responding to increasingly serious social problems, technology innovation and changes in consumers' values, we leverage our strengths in developing business and services in cooperation with our business partners, with "merchandising" and "prescription dispensing" serving as our two main business sectors. We strive to create new value for customers and accommodate local health needs. At the same time, we endeavor to grow into a corporate entity that can gain the support of the public, and realize a society where everyone is happy and full of smiles.



Technology innovation

- Promotion of 5G and expansion of IoT
- Integration of the real and the digital

Increasingly serious social problems

- Aging population and lower birthrates
- Increase in medical costs
- Global warming
- Use of plastics

Changes in society

Changes in values

- Diversification of values
- Changes in consumption behavior
- Shift from ownership to sharing

Partnership with many stakeholders

Solution of social problems

Accomplishing a society where everyone is happy and full of smiles

- Addressing 16 priority issues -



Sources for creating value

The SUGI Pharmacy Group's strengths

Community-oriented store network

Kindness

Honesty Trust

Membership of 19.41 million as the cornerstone

Plenty of experts

Expertise on prescription dispensing

Sound financial foundation

Returning value

Underpinning community healthcare and contributing to local communities



Among the ongoing impact of the COVID-19 pandemic, we address customers' and patients' anxieties and worries at the front line in local communities and support their safe and healthy daily lives.

Shinya Sugiura
 Director of SUGI Holdings Co., Ltd.
 Managing Director of Sugi Pharmacy Co., Ltd.

Despite the ongoing impact of the COVID-19 pandemic, FY 2021 saw some trends of economic conditions returning to normal thanks to an increase in the vaccination rate. In the latter half of 2021, however, the rapid spread of the omicron variant led the imposition of pre-emergency measures in Japan. In addition, the world experienced the appreciation of raw material prices, returning society to an unstable situation once again.

The drugstore industry is still expanding the prescription dispensing market, although sales of food products and daily items declined in FY 2021 as a rebound from their rapid demand growth in the previous year. Moreover, as a result of the establishment of the custom of always wearing a mask and increase in public awareness of hygiene, there is a protracted decline in demand for cosmetics and OTC pharmaceuticals. This is intensifying competition both inside and outside the industry, spurring each operator to set up new stores and conduct M&A. Combined with this situation is the revision of dispensing fee points and drug prices. Consequently, the business environment is becoming even severer, with no cause for optimism.

In this environment, SUGI Pharmacy is striving to improve its profitability by featuring product lineups and store operation designed to respond to changes in customers' lifestyles and growth in their awareness of health and disease

prevention amid the COVID-19 pandemic, improving customer service through enhanced store operation efficiency, and showing due consideration for staff assignment. In the category of prescription dispensing, where we have always had an edge since our foundation, we are increasing our productivity and enhancing the quality of our communication with customers by, for example, transferring some operations involving the handling of drugs to medical office workers, training pharmacists, making full use of digital tools, and ensuring alliances with medical institutions.



Merchandising

In FY 2021, which marked the 45th anniversary of our establishment, we cooperated with our suppliers in selling 45th-anniversary commemoration products and proceeding with sales promotion for the anniversary, thereby strengthening our efforts to expand sales.

In addition, toward future business growth, we made our store portfolio even more sound by setting up new stores and renovating or relocating our existing stores. We also worked toward establishing a digital CRM foundation in order to realize one-to-one sales promotion. At the same time, to improve our productivity, we reduced the store workload by expanding the scope of automated ordering and improving the relevant systems, optimized working hours by reviewing staff assignment, and optimized the entire supply chain of the manufacturing, distribution and sales sectors by establishing information linkage with suppliers.

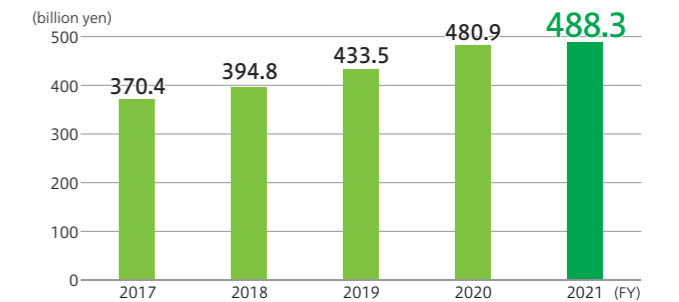
With the impact of the COVID-19 pandemic still continuing from the previous year, in order to reinforce sales of food products by taking advantage of an increase in demand due to the pandemic requiring people to stay home, we equipped stores with many more freezing or cooling showcases to increase sales of frozen foods, and ensured that many more stores handle perishable food. Moreover, at all stores, we strengthened the lineup of products that were typically purchased at drugstores and that would contribute to improving physical strength and immunity. Under the lead of registered pharmaceutical distributors, all our staff called for customers to take anti-infection measures by recommending them to take vitamins and other items.

Many people refrained from going out, leading them to become more aware of improving their physical strength and health and more interested in working out at home. We ensured that our stores appealed even more to such customers, result-

ing in considerable growth of sales of protein-related products. Moreover, the pandemic made many customers realize the importance of oral care, while many more people suffered from difficulty sleeping due to mental stress caused by the pandemic. Paying close attention to such changes in the market and needs, we carefully altered our store layouts, expanded the selling spaces of target products, and enhanced the appeal of our stores. In addition, we ensured linkage between the *SUGI Pharmacy* app, which has marked 8.33 million downloads, and various services, including the provision of product information, discount coupons, and additional point coupons, to enhance customer satisfaction. On top of keeping up with the trend shift caused by the pandemic, we also worked toward attracting young customers by handling many more genderless items and promoting beauty items at stores in association with social media. We thus took the necessary sales measures promptly.

As a result of customers' support for these efforts, we recorded net sales of 488.3 billion yen. Despite the severe market environment, we were thus able to increase our business results.

Sales (merchandising of Sugi Pharmacy Co., Ltd.)



Prescription Dispensing

While setting up new pharmacies to expand our operations in the field of prescription dispensing, we renovated some stores to enlarge their dispensing rooms or waiting rooms, thereby striving to invigorate existing stores. When doing so, we selected high-priority stores from the perspective of the increase in the number of filled prescriptions and the amount of used pharmaceuticals. This led to the improvement of the waiting environment for patients and the working environment of pharmacists and medical office workers. The number of prescriptions filled at the renovated stores has remarkably increased from the figure marked before the renovation, showing that our renovation efforts are steadily generating favorable results.

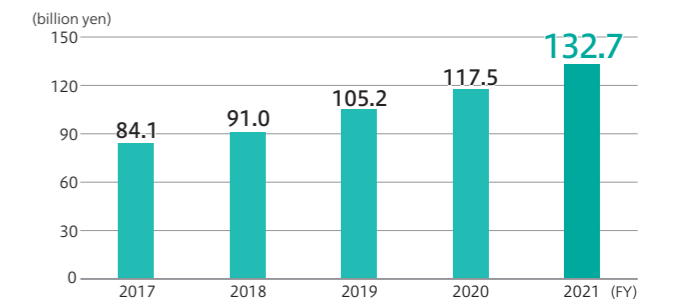
To boost the percentage of use of our prescription dispensing services among those who have purchased our products, we increased the profile of the service and encouraged users to download our *Family Pharmacy* app. Our store staff actively encouraged customers to use the app, resulting in a considerable increase in the numbers of patients registering us as a family pharmacy, cases of medication follow-up, and prescriptions sent through the app. Moreover, we reinforced in-store staff cooperation between the merchandising and prescription dispensing sectors so that communication with and counseling for customers, from which our history started, and other services are fully offered.

To reinforce communication with patients and medical institutions in the form of medication instruction, medication history management, medication follow-up, and mutual information linkage with medical institutions, all of which are primary roles of pharma-

cists, as well as to enable pharmacists to concentrate on communication with patients, we proceeded with the automation of operations by introducing dispensing machinery and the transfer of some operations involving the handling of drugs to medical office workers. For the dispensing machinery, we are equipping all stores with new receipt computers and introducing one-dose packaging machinery, ointment mixers, and checking systems. Furthermore, we are setting up stores specializing in home-visit prescription dispensing in order to enhance the patient service level in the field of home-visit prescription dispensing, strengthen partnerships with players from a wide variety of industries, and improve the operating efficiency.

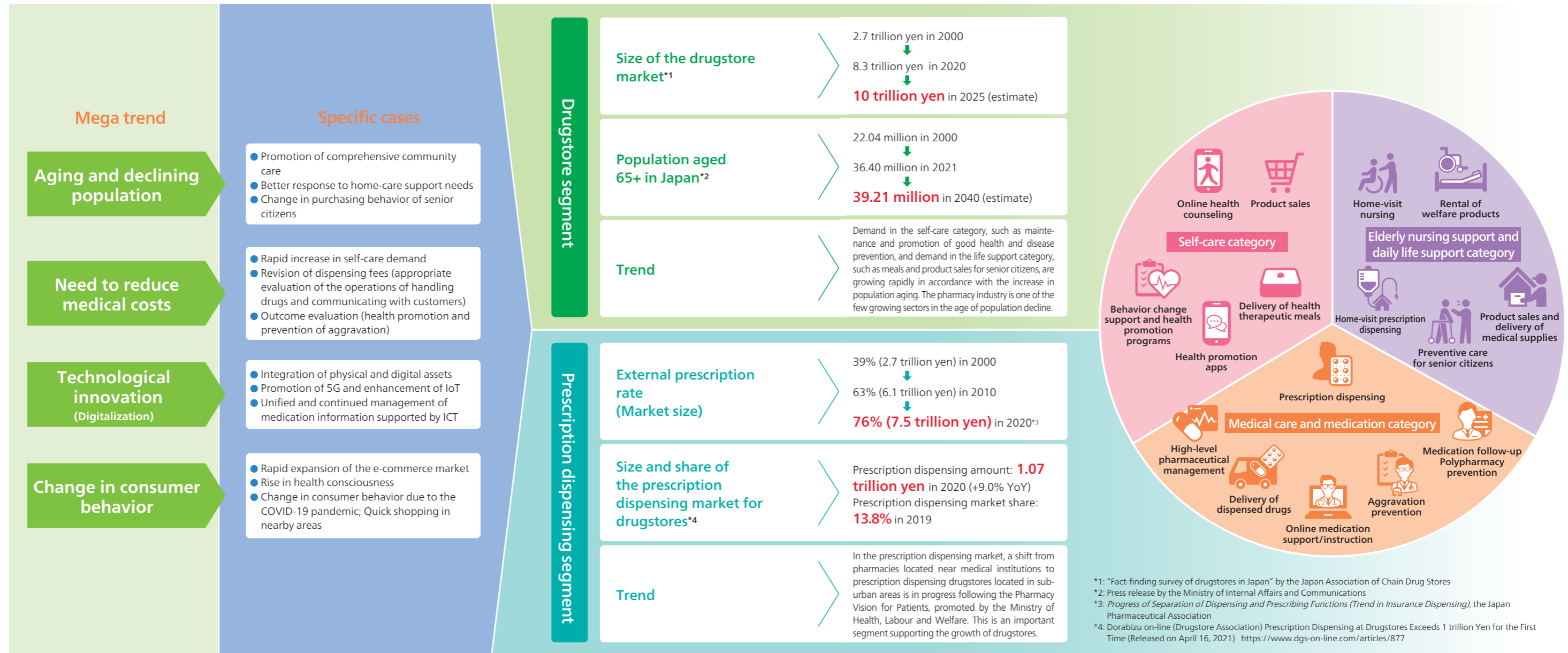
As a result of patients' support for these efforts, we filled 11.73 million prescriptions (up 16.1% from the previous year's level), with sales in prescription dispensing services reaching 132.7 billion yen (up 12.9% from the previous year's level).

Sales (prescription dispensing of Sugi Pharmacy Co., Ltd.)



Market Environment

What is required in addressing challenges, such as the aging and declining population and the need to reduce medical costs, is total healthcare covering self-care, elderly nursing support, and daily life support focused on each customer. Drugstores are experiencing accelerated digitalization in a wide variety of forms in line with changes in society. In addition, the Ministry of Health, Labour and Welfare is promoting policies to reorganize all pharmacies into “family pharmacies” by 2025.



Business Organization's Recommendation on Ideal Visions for Pharmacies and Pharmacists

The Japan Business Federation has presented a healthcare model and recommended the use of online features so that the industry can accommodate health care needs, which are expected to diversify increasingly in line with technological innovation and changes in consumer behavior.

(Specific details)

- Using smartphone apps and other tools for presenting suggestions for appropriate health management
- Providing a full line of online services ranging from counseling to medication instruction and medication follow-up
- Outsourcing prescription dispensing to highly automated prescription dispensing pharmacies
- Spreading e-prescriptions ■ Spreading last-mile delivery and delivery boxes

*With reference to Healthcare in the Age of Society 5.0 Vol. III – Many More Healthcare Options Coming from the Use of Online Features, Japan Business Federation

"Pharmacy Vision for Patients" Promoted by the National Government

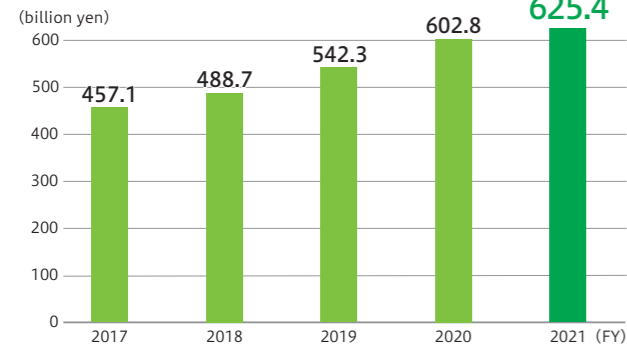
In 2015, the Ministry of Health, Labour and Welfare released the Pharmacy Vision for Patients in order to present the future vision of family pharmacies toward realizing separation of the dispensing and prescribing functions with a focus on patients. Taking advantage of the revision of the Pharmaceutical and Medical Device Act, the Ministry has also presented the course of action to reorganize current pharmacies into family pharmacies.

- 2015 **The Ministry of Health, Labour and Welfare released the Pharmacy Vision for Patients**
 - Aiming to equip all pharmacies, including those located near medical institutions, with the functions of a family pharmacy
- 2020 **It became mandatory to provide medication follow-up (revision of the Pharmaceutical and Medical Device Act)**
 - Providing patients with continuous medication follow-up

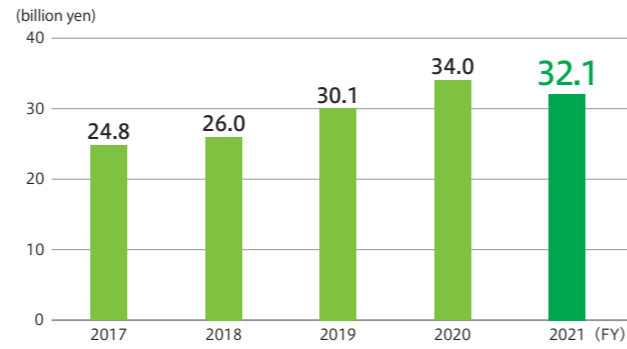
- 2021 **A pharmacy certification system was introduced (revision of the Pharmaceutical and Medical Device Act)**
 - "Local alliance pharmacies" and "pharmacies allied with specialized medical institutions"
- 2025 **All pharmacies will be reorganized into "family pharmacies"**
 - Use of ICT · Family pharmacy + health support functions
- 2035 **Pharmacies will demonstrate the family pharmacy function in daily living areas**
 - Acclaiming pharmacies relocated to a daily living area

Financial/Non-financial Highlights

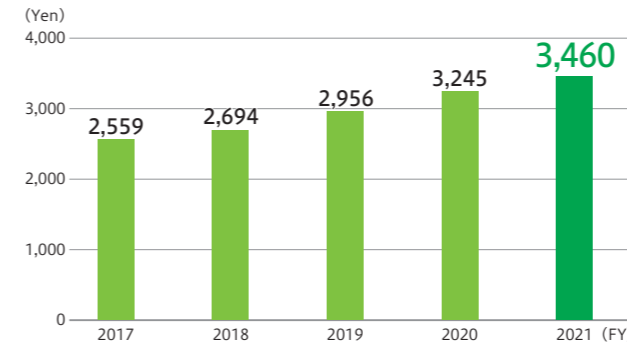
Financial index Net sales



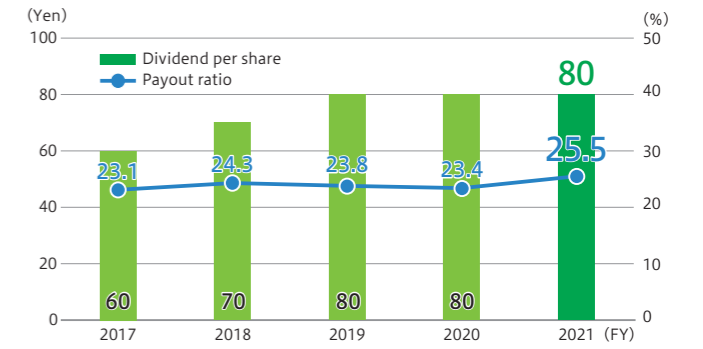
Financial index Operating income



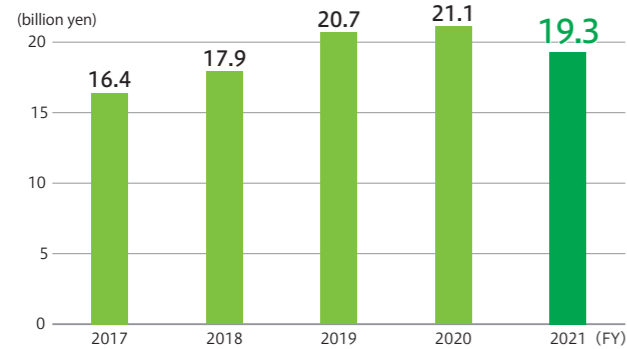
Financial index Net assets per share



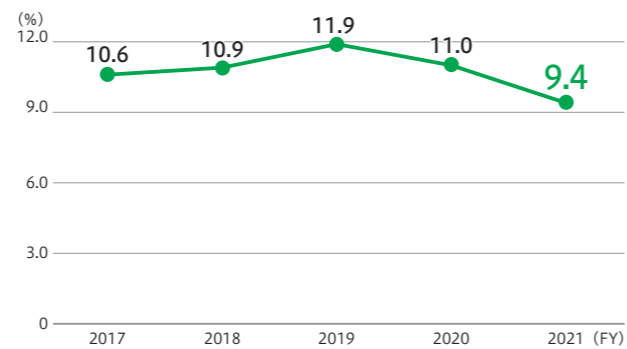
Financial index Dividend per share/Payout ratio



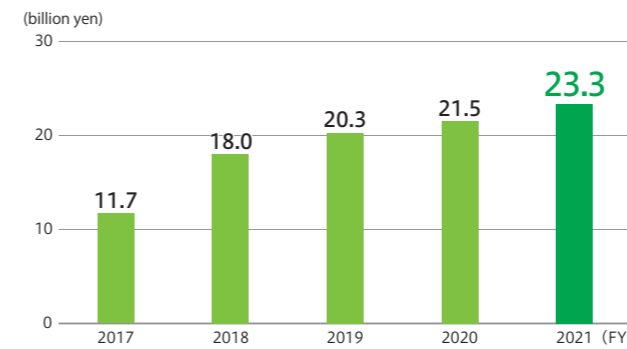
Financial index Profit attributable to owners of parent



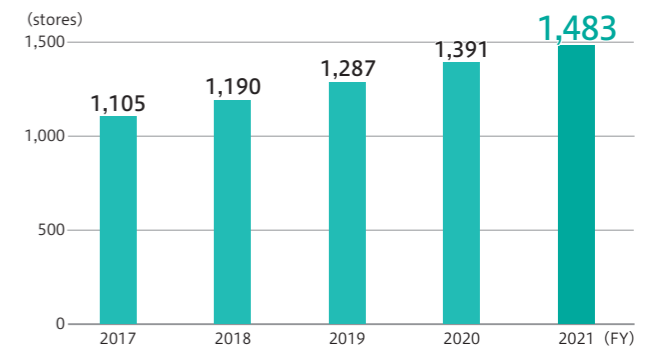
Financial index ROE



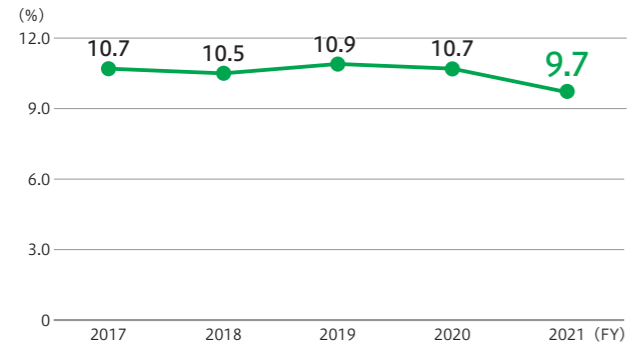
Financial index Capital investment



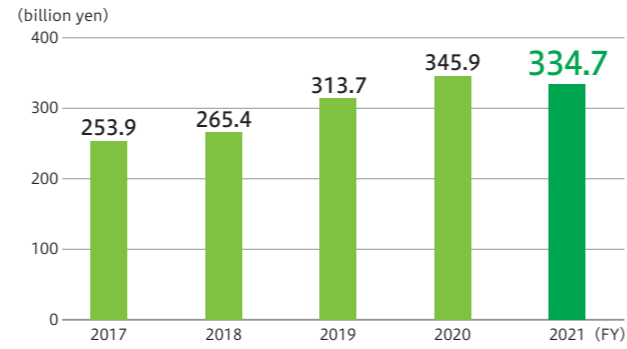
Non-financial index Number of stores



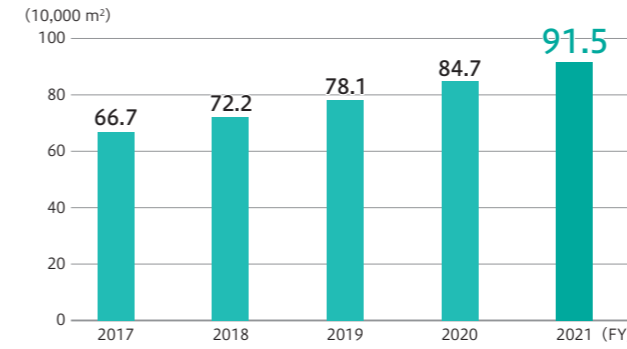
Financial index ROA



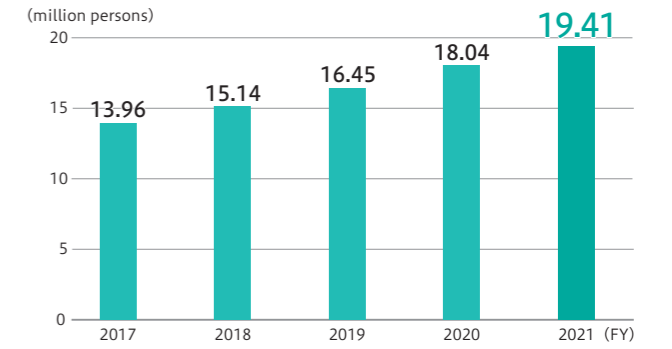
Financial index Total assets



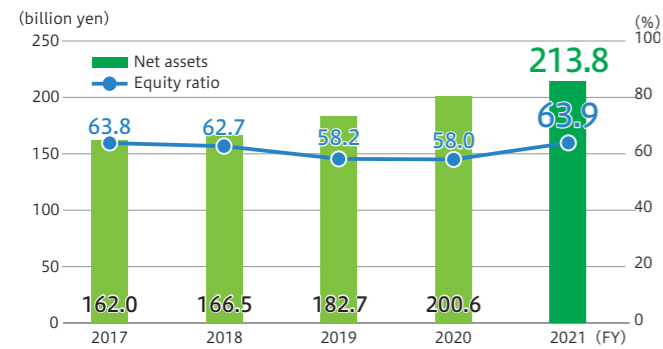
Non-financial index Year-end total square meters of sales floor



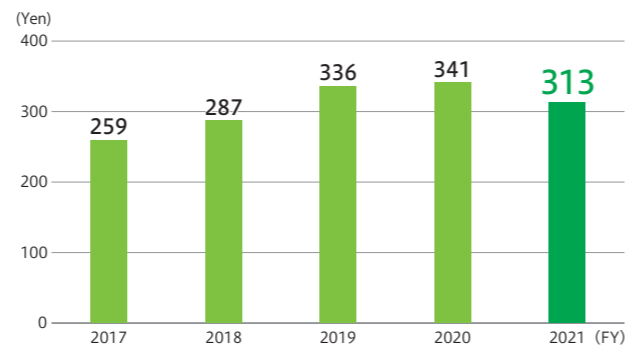
Non-financial index Number of point members



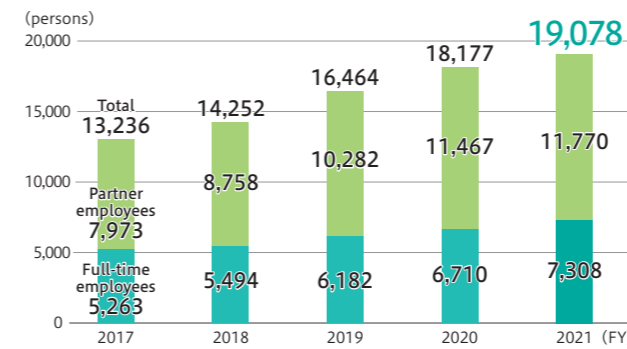
Financial index Net assets/Equity ratio



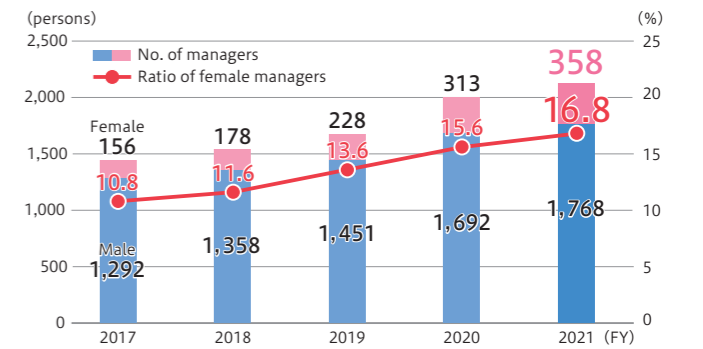
Financial index Net income per share



Non-financial index Number of employees



Non-financial index No. of managers/Ratio of female managers



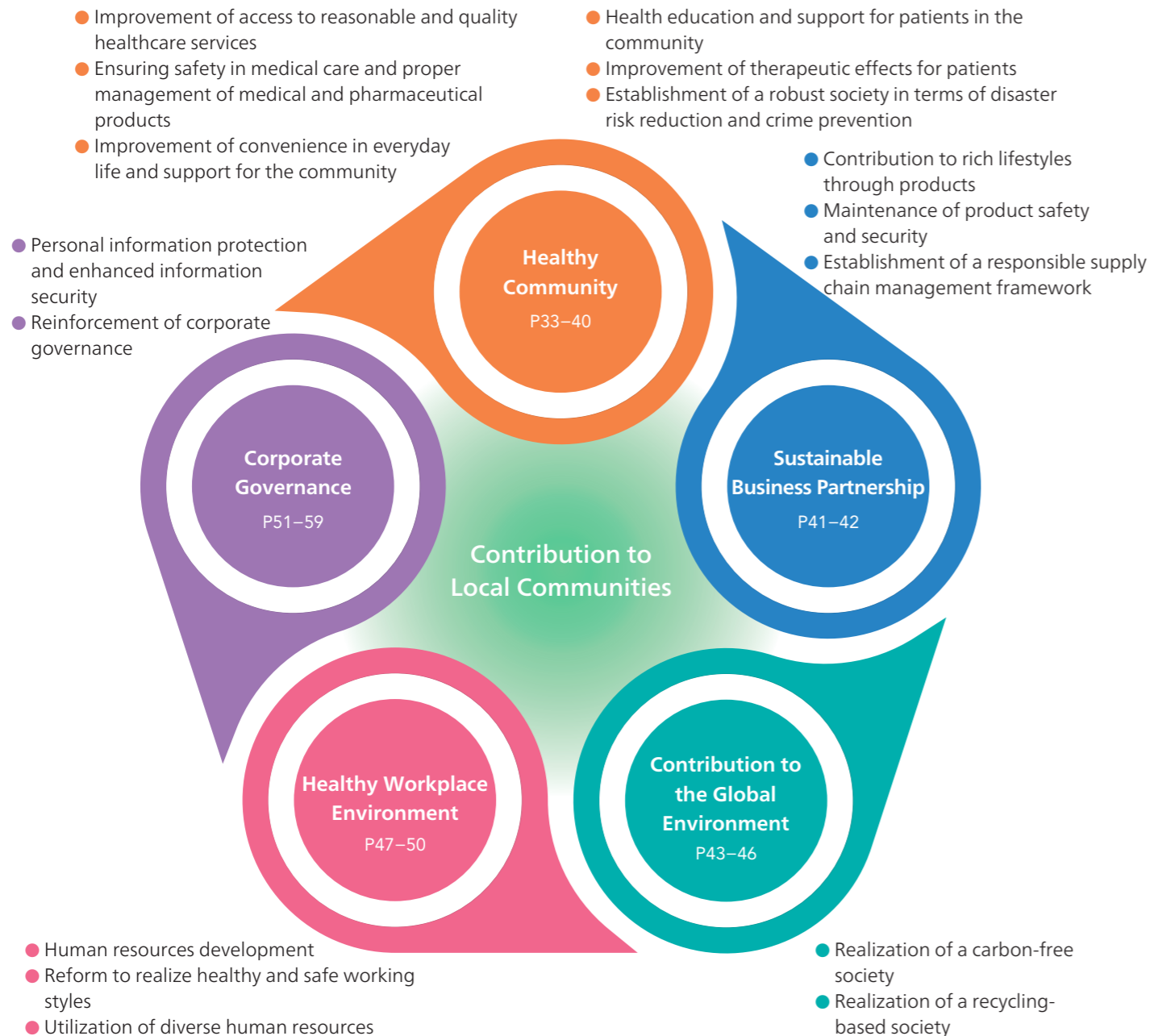
Priority Issues (Issues of Materiality) for Proceeding with Sustainability Management

As a corporate group closely related to the lives of people in local communities, the SUGI Pharmacy Group believes that sustainable corporate growth will be achieved by solving social issues in order to contribute to the establishment of a sustainable society and by consequently realizing our management philosophy. In 2021, we reviewed our priority issues (issues of materiality) and specified five themes.

Sustainability Basic Policy

The SUGI Pharmacy Group aims to contribute to the sustainable development of local communities through cooperation with stakeholders, in order to realize a vigorous society by seriously addressing a wide variety of environmental and social issues and increasing the number of healthy and energetic people through corporate activities.

Five Themes and 16 Priority Issues (Issues of Materiality)



Process for Identifying Priority Issues (Issues of Materiality)

We identified our priority issues (issues of materiality) through the process below. We will flexibly review them as necessary, in accordance with changes in our business and the external environment.

Selection of priority issues

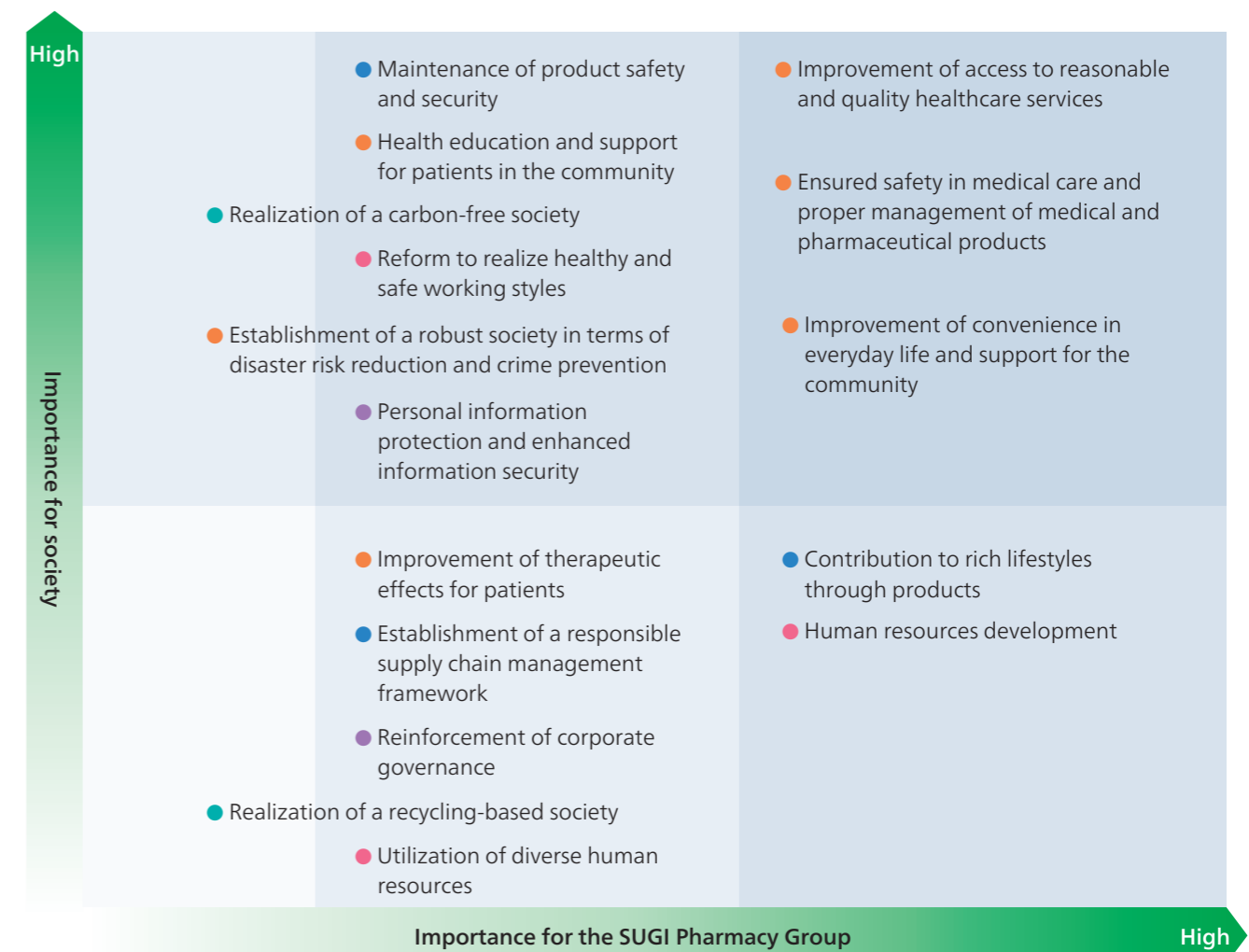
First, we clarified our challenges based on interviews with the heads of departments and directors in charge, as well as on opinions from external specialists. Then we renewed the priority issues, while referring to the guidelines on sustainability (GRI, SASB), the SDGs, ESG rankings, and the statuses of rival companies at home and abroad. In the renewal process, we took into consideration our management philosophy and Sustainability Basic Policy.

Consideration of the order of priority





















We considered the order of priority based on the opportunities, risks and major efforts for each priority issue from the perspectives of economic value and social value, and created the materiality matrix.

Confirmation of the feasibility

After the board of directors reviewed the order of priority, we finalized the five themes and 16 priority issues (issues of materiality).



Five Themes and Priority Issues (Issues of Materiality)

Themes and issues of priority		Opportunities and risks		Major efforts		Related SDGs
Healthy community	Improvement of access to reasonable and quality healthcare services	Opportunity	Acquisition of growing markets	<ul style="list-style-type: none"> Increasing the number of stores with a counseling function Enhancing online services 	<ul style="list-style-type: none"> Providing data-based healthcare services 	     
		Risk	Customer defection			
	Ensured safety in medical care and proper management of medical and pharmaceutical products	Opportunity	Increase in customer satisfaction	<ul style="list-style-type: none"> Collecting near-miss cases and sharing them for training and infrastructure development Safely collecting medical and pharmaceutical products and medical equipment 	<ul style="list-style-type: none"> Providing information on medical and pharmaceutical products using digital tools 	
		Risk	Decline of brand value / Decrease in the number of patients			
	Improvement of convenience in everyday life and support for the community	Opportunity	Acquisition of growing markets / Improvement in brand value	<ul style="list-style-type: none"> Improving access to products and services Enhancing medical and elderly nursing-care services for in-home patients 	<ul style="list-style-type: none"> Supporting activities by local communities and organizations 	
		Risk	Decline of brand value			
	Health education and support for patients in the community	Opportunity	Increase in customer satisfaction	<ul style="list-style-type: none"> Providing more information to promote prevention and care Providing information to and raising awareness of patients and their families 	<ul style="list-style-type: none"> Supporting patients and their families 	
Risk		Decline of brand value				
Improvement of therapeutic effects for patients	Opportunity	Increase in customer satisfaction / Increase in dispensing fees	<ul style="list-style-type: none"> Improving medication adherence by providing medication follow-up Improving therapeutic effects by preventing polypharmacy 	<ul style="list-style-type: none"> Improving therapeutic effects by providing information to medical institutions 		
	Risk	Reduction in dispensing fees				
Establishment of a robust society in terms of disaster risk reduction and crime prevention	Opportunity	Improvement in brand value	<ul style="list-style-type: none"> Establishing robust stores and infrastructure 	<ul style="list-style-type: none"> Supporting disaster-affected people in local communities 		
	Risk	Suspension of operation due to natural disasters, etc. / Decline of brand value				
Sustainable business partnership	Contribution to rich lifestyles through products	Opportunity	Acquisition of growing markets / Improvement in brand value	<ul style="list-style-type: none"> Providing health-conscious products 	<ul style="list-style-type: none"> Focusing on the development of high value-added products 	   
		Risk	Rival companies acquiring growing markets			
	Maintenance of product safety and security	Opportunity	Improvement in brand value	<ul style="list-style-type: none"> Establishing a product quality assurance framework Disclosing information appropriately 	<ul style="list-style-type: none"> Focusing on the development of ethical products 	
Risk		Customer defection				
Establishment of a responsible supply chain management framework	Opportunity	Cost reduction / Improvement in brand value	<ul style="list-style-type: none"> Managing supply chain appropriately 	<ul style="list-style-type: none"> Promoting smooth communication with suppliers 		
	Risk	Customer defection				
Contribution to the global environment	Realization of a carbon-free society	Risk	Cost increase due to carbon taxes / Decline of brand value	<ul style="list-style-type: none"> Shifting to renewable energy Reducing greenhouse gas emissions 	<ul style="list-style-type: none"> Reducing environmental impact through the entire life cycle 	   
		Opportunity	Improvement in brand value / Cost reduction			
	Realization of a recycling-based society	Risk	Decline of brand value	<ul style="list-style-type: none"> Promoting store development aimed at conserving water resources Promoting recycling through the cooperation of the manufacturing, distribution and sales sectors 		
Opportunity		Improvement in brand value / Cost reduction				
Healthy workplace environment	Human resources development	Opportunity	Inspired innovation	<ul style="list-style-type: none"> Improving capacity development training for employees Shifting to a job-focused human resources system 	<ul style="list-style-type: none"> Actively providing opportunities for employees to fully demonstrate their abilities 	   
		Risk	Decline of competitiveness			
	Reform to realize healthy and safe working styles	Opportunity	Enhanced recruiting capability / Inspired innovation	<ul style="list-style-type: none"> Promoting health and productivity management Promoting the establishment of a workplace environment in consideration of employees' safety 	<ul style="list-style-type: none"> Promoting work-style reforms 	
		Risk	Employees leaving the company / Decline of brand value			
Utilization of diverse human resources	Opportunity	Accelerated store launch / Inspired innovation	<ul style="list-style-type: none"> Generating opportunities with a focus on diversity 	<ul style="list-style-type: none"> Developing a framework that supports diverse working styles Fostering a corporate culture that respects diversity 		
	Risk	Slowing store launch / Decline of brand value				
Corporate governance	Personal information protection and enhanced information security	Opportunity	Improvement in corporate value	<ul style="list-style-type: none"> Strengthening efforts for personal information protection and providing thorough training 	<ul style="list-style-type: none"> Strengthening the information security framework and providing thorough training 	 
		Risk	Occurrence of risks in business continuity / Decline of corporate value			
	Reinforcement of corporate governance	Opportunity	Improvement in corporate value	<ul style="list-style-type: none"> Improving board effectiveness Providing thorough compliance training 	<ul style="list-style-type: none"> Strengthening the risk management framework 	
Risk		Occurrence of risks to business continuity / Decline of corporate value				



Priority Issues [Issues of Materiality]

Healthy Community



Since our establishment, we have developed the drugstore model of “pharmacies with the function of prescription dispensing” aimed at contributing to local communities, ahead of our rivals. At present, we have evolved it into a new business model covering self-care, elderly nursing care, and terminal care based on our Total Healthcare Strategy.

Improvement of Access to Reasonable and Quality Healthcare Services

Increasing the number of stores with a counseling function

In this era of digitalization, the importance of counseling by experts at physical stores is increasing. The SUGI Pharmacy Group is now working to integrate the records of customers and patients, including product purchase information, counseling history, and lifestyle-related records obtained through our apps, including the number of daily steps they take and the meals they eat. Using this information, we are striving to increase the number of stores that can provide satisfactory counseling services based on the needs and issues of each person.



Introducing devices that inspire new awareness



Serving as “local alliance pharmacies” and “pharmacies allied with specialized medical institutions”

In FY 2021, we focused on serving as “local alliance pharmacies” and “pharmacies allied with specialized medical institutions,” both of which are promoted under a national initiative. By utilizing our accumulated know-how on home-visit prescription dispensing, we increased the number of stores providing the service. We proceeded with the development of local alliance pharmacies that can serve as local healthcare hubs by sharing patients’ detailed information with the relevant medical institutions at the time of their hospital admission and discharge, and by providing comprehensive support in the phases of elderly nursing care and terminal care.

We are also making efforts to serve as “pharmacies allied with specialized medical institutions” with high-level pharmaceutical management functions that provide training for specialized pharmacists in the field of oncology, and work in close cooperation with medical institutions providing specialized medical care.



Nagoya University Hospital Store, a pharmacy allied with a specialized medical institution

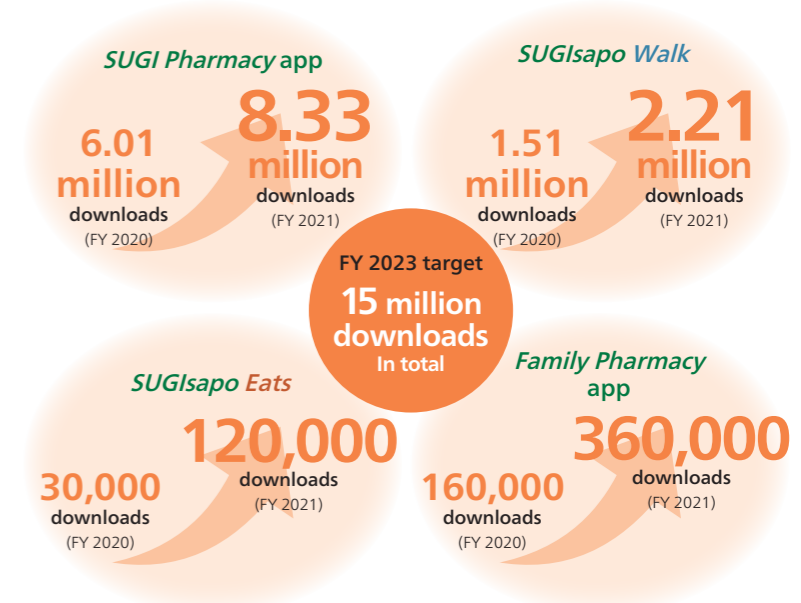
Providing a data-based healthcare service

We began to issue lifestyle-related disease risk reports for determining lifestyle-related disease risk based on health checkup results. Analyzing the probability of developing a stroke, myocardial infarction or diabetes, such reports contain suggestions from a nationally certified dietician to prevent such onset.



Enhancing the digital membership base

The membership of our digital apps (*SUGI Pharmacy*, *SUGIsapo Walk*, *SUGIsapo Eats*, and *Family Pharmacy* [by MedPeer, Inc.]) comprises the base for a variety of our digitalized healthcare services and sales promotion tailored to individual needs. In FY 2021, we focused on promoting the downloading of each app and achieved 11.04 million downloads. With the goal of a total of 15 million downloads of our digital apps (by the end of FY 2023), we will enhance our digitalized healthcare services and sales promotion tailored to individual needs.



Digital contact point
(Gateway to the services)

SUGIsapo Walk

A pedometer app that allows users to earn SUGIsapo Miles, which can be exchanged with SUGI Points

SUGIsapo Eats

A diet recording app that allows users to earn SUGIsapo Miles just by taking photos of their meals

SUGIsapo Deli

A meal delivery service under the supervision of nationally certified dieticians

Joint campaign with business partners

We gather and offer various information based on the needs of each customer.

Exchange with SUGI Points

Redemption of points for rewards is also available on the app.

Family Pharmacy app

An electronic prescription notebook app on which users can register their family pharmacy

*Developed by MedPeer, Inc.

Growth Foundation

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Ensured Safety in Medical Care and Proper Management of Medical and Pharmaceutical Products

Introducing error prevention systems in prescription dispensing

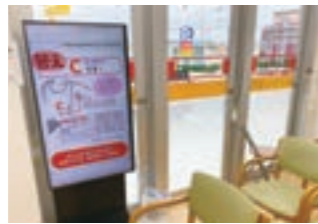
We have installed picking support systems and powder medicine checking systems at all of our stores that provide prescription dispensing services, and will ensure that all new stores have the same systems. Moreover, by proceeding with the introduction of one-dose package checking systems and introducing many more automated picking machines and automated one-dose packaging machines, we will support pharmacists in concentrating on communication with customers and establishing a safe pharmaceutical environment.



One-dose package checking system

Providing information on medical and pharmaceutical products using digital tools

We are proceeding with the installation of digital signage in our waiting rooms in order to provide patients waiting for the dispensing of their prescription with information on secondary prevention, preventive care, treatment and other topics that will guide them to lead a healthy life.



Safely collecting medical and pharmaceutical products and medical equipment

In line with the needs of customers and patients, we are increasing the number of stores where infectious waste (e.g., used injection needles) is collected. To prevent such collection from leading to needle stick accidents, we have a framework for managing collected waste appropriately.



* We sell collection boxes to patients and collect the sold boxes.

Responding to specialty pharmaceuticals

Specialty pharmaceuticals require special temperature management and side-effect monitoring. This means that value-added distribution, such as specialized cooling warehouses and special involvement of pharmacists, are necessary. In the SUGI Pharmacy Group, we have set up a specialized cooling warehouse and have begun to fill prescriptions for specialty pharmaceuticals at Nagoya University Hospital Store. To fulfill our social responsibility of distributing cutting-edge pharmaceuticals with high therapeutic effects, we will continue to actively fill prescriptions of specialty pharmaceuticals.

Opening stores specializing in home-visit prescription dispensing

We have opened key-stores specializing in home-visit prescription dispensing and pursuing efficiency and safety. At Imaike-Minami Store, they have a special space for home-visit prescription dispensing on the second floor. On top of committing to home-visit prescription dispensing, they are also engaged in the rental of welfare products that patients can use while they are hospitalized and even after they are discharged from the hospital, in cooperation with nearby hospitals.



Imaike-Minami Store
Nagoya City,
Aichi Prefecture

Supporting activities by local communities and organizations

Donating AEDs to facilities for senior citizens

In the SUGI Pharmacy Group, we have annually donated AEDs to facilities for senior citizens since FY 2013. In FY 2021, we donated AEDs to 35 facilities located in Osaka Prefecture, Hyogo Prefecture, Kyoto Prefecture, Nara Prefecture and Shiga Prefecture, meaning that we have so far donated AEDs to a total of 217 facilities in 42 cities. After the donation, we visit the facilities and organize seminars for facility staff to learn how to use the device properly.

Improvement of access to products and services

Providing a shopping truck service

In cooperation with local governments, SUGI Pharmacy operates shopping trucks that go to community centers, including those for senior citizens, to provide shopping support. By offering this service, we also strive to contribute to encouraging senior citizens to go out and to help them acquire the habit of exercising.



Providing a catalogue mail-order service through cooperation with newspaper distributors

We provide a catalogue mail-order service for 13,000 households in three elementary school districts in cooperation with distributors of the Chunichi Shimbun. The distributors serve as the point of contact for this service and deliver ordered items from the SUGI Pharmacy store located near the service user's home.

Improvement of Convenience in Everyday Life and Support for the Community

Providing home-visit prescription dispensing and nursing services as a framework underpinning the comprehensive community care system

"Helping local residents maintain their own lifestyles in familiar surroundings" is the basic concept of the comprehensive community care system. To achieve this, we provide in-home patients with home-visit prescription dispensing, home-visit nursing, and life support services (product sales and meal support).



Home-visit prescription dispensing and home-visit nursing services (as of February 2022)

Home-visit prescription dispensing	No. of service stores	556
	No. of users (monthly average)	13,368
	No. of users (yearly total)	160,411
Home-visit nursing	No. of service stations	13
	No. of users (monthly average)	1,493
	No. of users (yearly total)	17,913

Of particular notice is our home-visit prescription dispensing service by pharmacists, which we launched ahead of our competitors in the industry. By 2025, we strive to provide the service to a yearly total of 250,000 people, along with our home-visit nursing and life support services.

Health Education and Support for Patients in the Community

Providing specific health guidance at stores in local communities



No. of recipients in FY 2021
4,862
+185% YoY

In-store health guidance service in which a nationally certified dietician gives suggestions on the prevention and improvement of metabolic syndrome

Organizing online health seminars



(Left/right) Seminar on health and beauty



Online maternity seminar

Organizing in-store seminars on preventive care for senior citizens



Providing support for breast cancer patients

To raise the public awareness of early detection, early diagnosis and early treatment of breast cancer, we display posters, calling people to have a checkup, in our stores, and also distribute a breast cancer self-check handbook to encourage self-checking at home. In addition, to contribute to raising the QOL of patients concerned about hair loss as a side effect of their anticancer drug treatment, we have donated medical hair wigs to 100 breast cancer patients annually since FY 2013. As of FY 2021, we had offered wigs to approximately 900 patients.



Calling for applicants on our website

Improvement of Therapeutic Effects for Patients

Establishing a framework for supporting patients by using our Family Pharmacy support app

Based on the cooperation between our prescription dispensing and merchandising sectors, we have encouraged customers who have purchased merchandise to download our Family Pharmacy support app, with the total number of downloads reaching 360,000. Consequently, 100,000 prescriptions (approximately 10% of the total) are sent per month through the app, leading to improved convenience for patients. We will continue to reinforce the support framework for patients through the app.

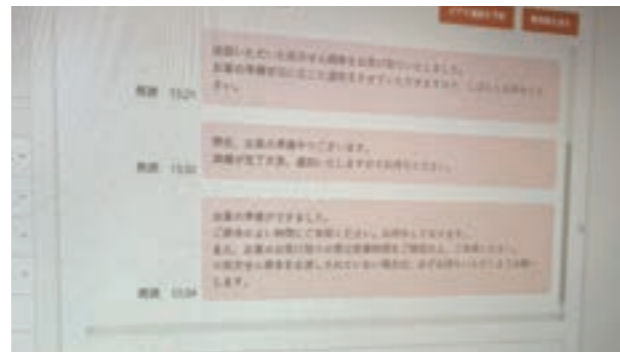
Improving medication adherence by providing medication follow-up

By adopting preliminary counseling, namely providing medication instruction to patients when they present prescriptions at the counter, we ensure that pharmacists can concentrate on communication with customers, which is their primary role. In addition to detailed medication instruction to patients at the store, pharmacists also provide medication follow-up via a smartphone app after the patients return home and take the drugs, thus allowing them to deal with their problems anytime, anywhere. In FY 2021, the number of medication follow-up cases reached 430,000. By reinforcing the activity, we would like to improve medication adherence and therapeutic effects.



Sharing information with medical institutions through tracing reports

We are making efforts to maximize therapeutic effects by providing medical institutions with information on the medication status of patients through tracing reports. Specifically, we conduct regular confirmation with patients through a phone or smartphone app regarding, for example, the therapeutic effects they experience at the time of taking the medicine, whether they have experienced any side effects, whether they have any unused medicine, and, if applicable, the background to and reason for forgetting to take the medicine or taking the wrong medicine. We report such information to doctors so that they can use it in their decision-making at the next consultation.



Communication with a patient through a chat system

Reinforcing alliance toward preventing polypharmacy

Polypharmacy (multiple medication use causing harmful effects) is a social issue primarily related to senior citizens. To prevent this, we are undertaking joint research with the National Center for Geriatrics and Gerontology on an operation model featuring a local alliance involving doctors and pharmacists at hospitals and pharmacists at pharmacies. Usually, it is difficult to address polypharmacy in outpatients and in-home patients after their discharge from hospital. By reinforcing cooperation between hospitals and pharmacies, however, we are striving to eliminate polypharmacy and consequently to increase the effectiveness and safety of medical therapy.

Establishment of a Robust Society in Terms of Disaster Risk Reduction and Crime Prevention

Installing AEDs at many more stores

Mainly from among stores located in regions whose governments request us to install AEDs, we select stores with frequent visits of senior citizens and other customers. The number of our stores equipped with AEDs is increasing.

As of the end of February 2022, we have installed AEDs at 180 stores (approx. 10% of the total), and we are planning to increase the rate to 20% by the end of FY 2025.

Contribution to the enhancement of community safety and security	Achievements by FY 2021
Total number of agreements	74
Comprehensive agreements	19
Agreements on services not covered by health insurance	2
Watching-over agreements	9
Disaster risk reduction agreements	37
Agreements on the environment, etc.	7

Supporting local disaster countermeasures and disaster risk reduction efforts

We are reinforcing various initiatives to address challenges of local communities by concluding comprehensive agreements with local governments. For local disaster countermeasures, we provide support by offering disaster relief goods and allowing our stores to be used as evacuation sites at times of emergency for evacuees and stranded commuters. For local disaster risk reduction efforts, we cooperate with local communities in implementing disaster drills.



Selected for the Co-creation Opportunity Formation Support Program (Regional Revitalization Category)

In the Co-creation Opportunity Formation Support Program, intended to present an ideal social future vision based on the SDGs and promote R&D for realizing the vision, we are selected as the base for realizing the development of a healthy community where family ties are ensured and citizens and IT enjoy mutual prosperity.

For this initiative, we strive to realize healthy longevity and preemptive medicine, and develop a healthy community free from worry for residents' families, even if they

live far away from the residents. We aim to realize early prediction of disease development through non-invasive diagnostic devices, and provide highly accurate technology by enabling self-management of health to be "visualized." In addition, we strive to integrate medical care and health support services, and provide a remote version of a community health service, thereby providing secondary prevention and preventing disease aggravation toward enhancing healthy longevity.

Concluding with Fujita Academy a basic agreement regarding cooperation for community healthcare and a contract for establishing a joint research seminar

On February 3, 2022, we concluded with Fujita Academy a basic agreement regarding industry-academia cooperation for community healthcare and a contract for establishing a joint research seminar. Intended to reinforce the parties' alliance to prepare for disasters in terms of community healthcare, the basic agreement refers to material support, establishment of the necessary measures, mutual cooperation, information sharing, and HR development of disaster risk reduction. Meanwhile, the joint research seminar is designed to establish a Smart Healthcare Town Model.* This contract concerns the Co-creation Opportunity Formation Support Program, for which we were selected in October 2021.



Signing the agreements



*Smart Healthcare Town Model

By ensuring that a drugstore serves as the local health service hub and realizing preemptive medicine through research, we strive to accomplish a healthy longevity society where citizens become healthy without making conscious efforts. In addition, we aim to establish a healthcare data platform to develop a healthy community with the mutual flourishing of citizens and IT, free from worry for residents' families even if they live far away from the residents.

To Protect People's Daily Lives during the Coronavirus Pandemic



Offering cooperation with filling syringes with COVID-19 vaccine doses

In order to assist the ongoing COVID-19 vaccine roll-out, the SUGI Pharmacy Group has engaged in local contribution activities by filling syringes with vaccine doses at vaccination sites based on its social mission as a pharmacy group.

Against the social background of rising needs to carry out mass vaccination speedily, a shortage of healthcare professionals has been highlighted, and pharmacists in the Group are offering cooperation to help achieve speedy vaccination.



Offering the SUGI Pharmacy Group headquarters to Obu City as a COVID-19 vaccination site

The SUGI Pharmacy Group offered its headquarters to Obu City, Aichi Prefecture as a COVID-19 vaccination site. The Group offered conference rooms in its headquarters as part of its cooperation with large-scale weekend mass vaccination, using facilities of private-sector business operators promoted by Obu City, Aichi Prefecture a total of four times during the period from September 18, 2021 (Saturday) to October 10, 2021 (Sunday). Our pharmacists also assisted the vaccination campaign by filling syringes with vaccine doses.

In order to continue to protect people's daily lives from COVID-19, the SUGI Pharmacy Group will support the healthy lives of people in the community in every way to contribute to local communities.



Participation in the project to offer free PCR tests, antigen tests, etc.

In order to control COVID-19 infection cases, particularly those due to the Omicron variant, prefectural governments in Japan have started a project to offer free PCR and antigen tests at pharmacies. Aimed at maintaining a balance between infection control and everyday life, this project offers free tests to those who cannot be vaccinated for health-related reasons, in order to encourage people to use the vaccine and test package and take the tests. In response to a request from Aichi Prefecture, the Group has been offering antigen tests at 101 stores in Aichi Prefecture since December 30, 2021 (Thursday). As this is one of the major expected roles of pharmacies, we will continue to respond appropriately by expanding the geographical coverage of the tests.



Responding to non-contact needs by introducing the "Drug Receiving Locker"

As a non-face-to-face, non-contact solution amid the COVID-19 pandemic, some of our stores have started operating the Quist delivery locker system to enable customers to receive prescription drugs for which they have already been given medication instructions, any time during the business hours of the store.





Priority Issues [Issues of Materiality]

Sustainable Business Partnerships

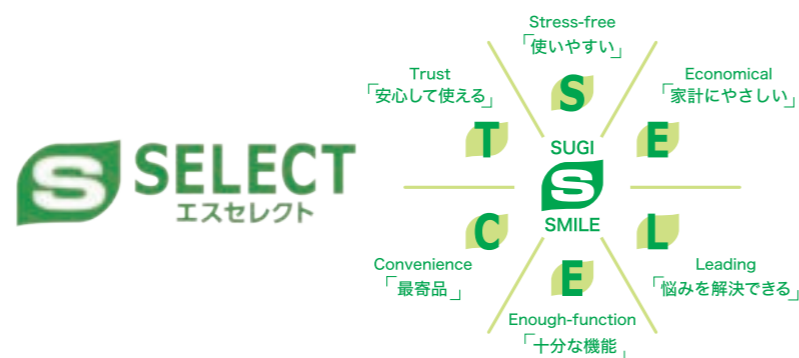
We will develop systems and promote initiatives to fulfill our responsibilities for the entire supply chain. Moreover, through the procurement and development of safe and secure products, we will contribute to facilitating the rich lifestyles of people in local communities.



Contribution to Rich Lifestyles through Products

Focusing on the development of high value-added products

The SUGI Pharmacy Group will strengthen the development of high quality, high functionality, and high value-added private brand products that are equivalent to national brand products in terms of efficacy, quality, ease of use, and price. We aim to resolve the worries and problems of our customers through these products.



Prieclat U



Press conference to announce a new product

Developing unique products: Prieclat U

Prieclat is a skincare product series celebrating the third anniversary since its launch. It embodies our desire to provide "skincare that makes you truly feel the difference" in order to treat the skin of people who no longer feel any difference from using any skincare products and suffer from worrying signs of aging, under the concept of the "power of penetration derived to create shining skin."

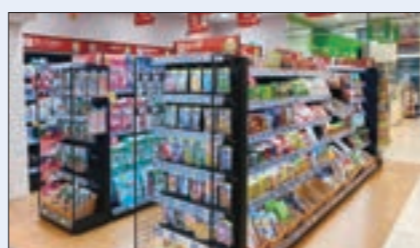
With the power of penetration enabled by SNDP® technology that brings deep into the skin layers various ingredients that were previously difficult to absorb, Prieclat products help you develop moisturized, firm and shining skin. The latest product in the series Prieclat U, which was launched in April 2022, arose from the concept and keyword of "gender neutrality." Rejecting the idea that "skincare is just for women" and "skin problems and types differ between men and women," we launched this new category brand that departs from the concept of gender difference, to target all people who want to improve their skin condition.

By rejecting broad categorization based solely on gender, we offer a new value based on a selection of products suited to the skin condition of each individual. Through such products, we will work to promote diversity and help achieve the SDGs.

Expanding collaboration and co-creation through our overseas partner companies

We have entered into a business partnership with Great Tree Pharmacy Co., Ltd. in Taiwan, and have introduced a SUGI Pharmacy section (to sell Japanese products) to about 200 stores operated by Great Tree Pharmacy (as of February 2022).

As a result of wide exposure to the SUGI brand, awareness of the Japanese product section has increased, and the number of repeat buyers of Japanese products has increased. Since FY 2020, we have worked to expand our collaboration and co-creation with our partner companies in Asia, starting from our collaboration with Inagora, which operates *Wando*, an inbound, cross-border EC platform. In FY 2021, we started selling products in Taiwan and Vietnam.



Above: SUGI Pharmacy section within Great Tree Pharmacy
Below: EC website for Taiwanese consumers (Shopify)

Maintenance of Product Safety and Security

Establishing a product quality assurance system

In FY 2021, we strengthened our quality control systems in order to develop safe, high-quality private brand products. Specifically, we requested that all our business partners involved in the development of private brand products perform self-checks based on specification documents prepared by the Group, and the results were converted to evaluation scores. We request our business partners to improve on problematic items and conduct on-site audits to ascertain improvements. We will continue to maintain high quality by building an appropriate arms-length relationship with our business partners.

Actively collecting and utilizing customer feedback

In reference to customer feedback, such as "I wish there was a product of this kind" and "I want this part of the product to be improved," we will endeavor to develop products that satisfy customer needs.



Collecting opinions from customers through a SUGI Pharmacy app

Developing and promoting eco-friendly products

In FY 2021, we started to develop eco-friendly private brand products. We selected materials that would help environmental preservation, such as FSC certified paper, biomass plastic, and vegetable oil ink. As a near-term target, we aim to increase the ratio of eco-friendly products to all private brand products to 30% by FY 2030 (from 10.2% in FY 2021).



Developing products using FSC certified paper

Disclosing information appropriately

In order to ensure that our private brand products are used safely and securely, we have increased the number of items we provide with enhanced disclosure of ingredients, nutrients, allergens, and chemical-free status.



Establishment of a Responsible Supply Chain Management System

Smooth communication with business partners

To achieve coexistence and co-prosperity with our business partners and address various social challenges, we hold briefing sessions to explain the annual policies and plans of the SUGI Pharmacy Group to our business partners. By promoting their understanding and cooperation, we expect to receive their support for our business, such as the improvement of products and services and streamlining of operations, as well as advancing environmental conservation and other initiatives to realize a sustainable society.



Recently held briefing sessions to explain our policies and plans to 385 attendees from 266 business partners

Establishing a business partner code of conduct and requesting compliance

The SUGI Pharmacy Group Business Partner Code of Conduct clarifies the requirements with which we request compliance by all our business partners involved in products and services offered by the SUGI Pharmacy Group. It is a system for comprehensive assessment including, specifically, respect for and protection of human rights, legal compliance, appropriate working conditions including the prohibition of child labor and forced labor, environmental preservation, quality control, personal information management, internal reporting systems, and supply chain management systems. While valuing our partnerships with all our business partners, the SUGI Pharmacy Group will request their understanding of and compliance with the Code of Conduct to achieve mutual improvements on an ongoing basis.



Priority Issues [Issues of Materiality]

Contribution to the Global Environment

A sustainable global environment is essential for us to continue our business and store operations. Therefore, we have been promoting environmental and other measures to realize a recycling-based society and a decarbonized society.



Realization of a Decarbonized Society

Shifting to renewable energy

We have started to introduce a solar panel-based power generation system into stores to realize the shift to renewable energy. Going forward, we will promote the shift to renewable energy through the installation of solar power generation panels owned by the Company, as well as on-site corporate PPA solar power generation panels (owned by a third party) and off-site PPA solar power generation panels.



Solar power generation panels installed on the rooftop of Fujimi Store in Kariya City, Aichi Prefecture

Reducing the consumption of fossil fuels

In order to reduce the consumption of fossil fuels by company cars, we have started to introduce electronic vehicles (EVs). We will continue to promote the introduction of EVs, as well as hybrid vehicles. We have also introduced a mechanism to monitor the driving status of vehicles, such as sudden braking and starting, to seek safe driving and the reduction of fossil fuel consumption at the same time.

Submission of a voluntary action declaration in support of the "white logistics" promotion movement

We have endorsed the purport of the "white logistics" promotion movement advocated by the Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Economy, Trade and Industry, and the Ministry of Agriculture, Forestry and Fisheries, and submitted a voluntary action declaration on August 1, 2021 to work toward the realization of sustainable logistics.

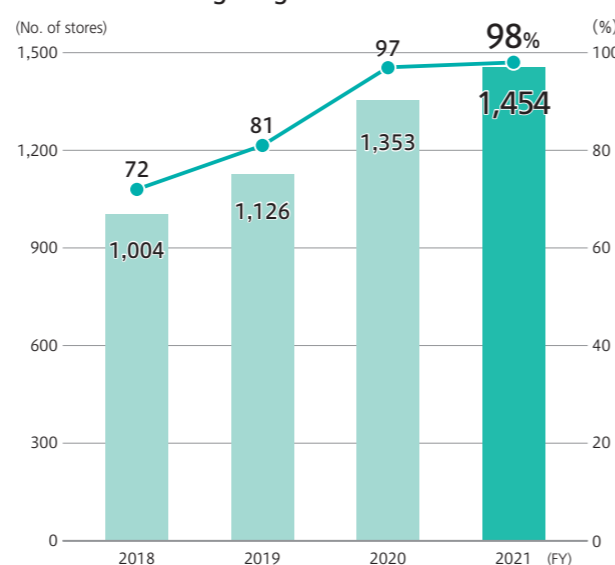
Specific actions set forth in SUGI Pharmacy's voluntary action declaration

Action areas	Specific actions
Recommendations and cooperation to improve logistics	If there are any requests from business partners or logistics companies regarding manual unloading by truck drivers, the rationalization of ancillary work, etc., we will diligently discuss the matters with them and actively propose solutions.
Introduction of a reservation system	Introduce a truck reservation system to reduce the waiting time of truck drivers.
Use of pallets, etc.	Reduce loading time by utilizing pallets, foldable containers, returnable containers, etc.
Provision of receiving/shipping information from business partners in advance	We will secure adequate work hours for on-site workers and truck drivers to allow them to complete their work and delivery without undue time constraints, in order to promote the rationalization of logistics by requesting business partners to share quantity information and data with the distribution center in advance.
Reducing fluctuations in order quantity	Reduce weekly and monthly fluctuations in order quantity to shorten the waiting time for loading and improve operating efficiency.
Promotion of documentation of shipping contracts	Select logistics companies to contract with through the mutual review of applicable laws and regulations to ensure legal compliance.

Introducing energy saving equipment and reducing power consumption (energy saving)

We are working to reduce power consumption by closely monitoring temperatures and regularly clearing AC equipment at stores as well as the headquarters and other offices. We have also been working to replace conventional lighting with LEDs at all our stores since FY 2013. We will also replace old LEDs in due course in order to reduce power consumption and CO₂ emissions further.

Stores with LED lighting



Realization of a Recycling-based Society

Promoting resource recycling through coordination among the manufacturing, distribution and sales functions



Won the Supply Chain Innovation Award

Sugi Pharmacy Co., Ltd., together with Lion Corporation and PALTAC CORPORATION, won the grand prize in the Supply Chain Innovation Award 2021, which was given in recognition of their achievements in leading the industry toward supply chain optimization. Sugi Pharmacy established a dedicated team in 2020 and has promoted collaboration among these three companies in the areas of increasing sales through data-powered collaborative marketing, supply chain optimization, and the development of exclusive products. The grand prize was given to these three companies in recognition of their efforts to optimize inventory and reduce returns under the bottom-up, speedy, and open coordination among the manufacturing, distribution and sales functions. Going forward, we plan to launch a new project involving other wholesalers and manufacturers, and make publicly available the solution models to be developed. Through this project, we will work to reduce waste and create new values through close coordination among the manufacturing, distribution and sales functions.

Strengthen initiatives to reduce food waste

Since FY 2021, we have been implementing the "te-maedorii" (taking from the one in front) initiative together with the government agencies concerned and JACDS member companies.

This initiative is aimed at reducing food waste by encouraging customers who plan to eat food right away to choose from and purchase products in the front.

At the same time, we will promote the initiative to reduce the food-loss-and-waste ratio through the promotion of selling out by revising food disposal standards, the reduction of excess inventory by revising inventory standards for bread, and the optimization of inventory by introducing automatic order placement for food.



Initiatives aimed at conserving water resources

In order to start water saving initiatives in store activities, we will work on the visualization of displacement in FY 2022. By analyzing changes in displacement over time and comparing displacement among different store types (in terms of size and services), we will implement measures to save water effectively.

Reducing the use of plastic

We continue to charge for plastic checkout bags to reduce their use.

No. and weight of used checkout bags

	FY 2019	FY 2020	FY 2021
No. of used bags (unit: 1 million bags)	262	144	43
Weight of used bags (unit: ton)	2,000	1,100	328

Reduction of about 85%

Health x Biodiversity x Digital

We held a "SUGI Green Walk Challenge" event, which featured SUGIsapo Walk, a pedometer app. We are working on the popularization and enlightenment of biodiversity through donations to environmental groups in proportion to the number of people who have achieved certain step counts in walking rallies, and the provision of information on endangered species of animals.



Reducing marine plastic waste by installing water stations

We have endorsed the "work together to install water stations" challenge of the Sutehaji Project, which will be carried out by co-creation partners of TEAM EXPO 2025 (Expo 2025 Osaka, Kansai), and participated in the project as a co-creation partner. Through the installation of water stations, we aim to contribute to the reduction of PET bottle use and marine plastic waste.



Information Disclosure Based on TCFD Recommendations

Responses to TCFD recommendations

The SUGI Pharmacy Group endorsed the recommendations in the TCFD's final report in December 2021. From now on, we will disclose information in accordance with the framework recommended by the TCFD (governance, strategy, risk management, and metrics and targets), and promote initiatives on climate change issues to contribute to the realization of a sustainable society.



* TCFD stands for the Task Force on Climate-related Financial Disclosures. The TCFD was established by the Financial Stability Board at the request of the G20 to discuss how climate-related information disclosures and financial institutions' responses should be.

Governance and risk management

Responding to climate-related risks and opportunities is one of the key ESG issues we should tackle with concerted group-wide efforts. Based on this recognition, we have established a Sustainability Committee (which meets at least twice a year) as an advisory body to the Representative Director & President for the purpose of promoting sustainability management including the deliberation and determination of basic policies and necessary matters relating to such responses.

The Sustainability Committee holds meetings attended by directors in charge of the main divisions, and conducts the planning of measures to address climate-related is-

ssues, management of progress toward targets, materiality assessment of risks, priority setting, and the determination of response measures to be taken before making reports and recommendations to the Representative Director & President. We have also established a Risk Committee within the Sustainability Committee as a body to manage relevant risks and execute tasks in accordance with the instructions of the Sustainability Committee.

The Sustainability Committee is supervised by the Board of Directors, which receives reports and issues instructions as necessary on important matters deliberated by the Committee to ensure that its decisions are free from errors.

Strategy

Selection of climate change scenarios

We have assessed risks and opportunities that may have an impact on the Group in reference to the 2°C and 4°C scenarios identified in the IPCC's Fifth Assessment Report, after collecting various parameters based on future forecasts.

Assessment of risks and opportunities

Category			Assessment	
			Assessment in the world of +2°C	Assessment in the world of +4°C
Transition risks and opportunities	Policies and regulations	Carbon pricing	Risk: Expenditure will increase following the introduction of carbon pricing. Risk: Expenditure will increase due to increases in production and procurement costs of products and services throughout the supply chain.	Risk: The impact of carbon pricing will be limited.
		Control of CFCs	Risk: Expenditure will increase due to the introduction of CFC-free equipment at stores.	
	Technology	Logistics efficiency	Opportunity: Expenditure will decrease as a result of more efficient logistics.	—
	Market	Electricity prices	Risk: Expenditure will increase due to rises in electricity prices.	
Reputation	Customer preferences	Risk: Sales will decrease due to a delay in the provision of eco-friendly products and services. Opportunity: Sales will increase as we develop private brand products that meet the needs for sustainable consumption.	Opportunity: Sales will increase as we develop private brand products that meet the needs for sustainable consumption.	
	EV charging	Opportunity: The frequency of visits to stores will increase as we enhance the charging environment.	—	
Physical risk and opportunities	Acute	Drastic increases in extreme weather	Risk: Sales will decrease to a limited extent due to temporary store closures and lower customer traffic.	Risk: Sales will decrease significantly due to increases in temporary store closures and lower customer traffic caused by physical damage to stores.
			Opportunity: Sales of disaster prevention and stockpiling-related products will increase.	Opportunity: Sales of disaster prevention and stockpiling-related products will increase. Risk: Repair expenses will increase due to physical damage to stores.
	Chronic	Average temperature	Risk: AC-related expenditure will increase as the temperature rises.	Risk: AC-related expenditure will increase as the temperature rises.
		Production and procurement	—	Risk: Expenditure will increase as purchase costs increase due to lower production of raw materials.

Discussion of assessment results

■ 2°C scenario

We expect that various transition risks will increase. In this scenario, we expect that countermeasures against climate-related issues will be strengthened and decarbonization will progress. As a result, we expect increases in expenditure due to the introduction and higher rates of carbon taxes and the widespread use of renewable energy.

■ 4°C scenario

We expect that physical risks, such as extreme weather, will increase. We expect damage to store operations due to the frequency and intensification of natural disasters caused by climate change. As a result, we expect increases in expenditure for repairs and decreases in sales due to temporary store closures.

■ Common risks and opportunities under both scenarios (2°C and 4°C)

We expect that changes in consumer preferences and behavior will be influenced by temperature rises. If we are unable to develop and display products that meet customer needs or effectively market services that meet customer needs, opportunity losses may arise. On the other hand, we could take advantage of increases in opportunities if we can capture such needs.

Next steps

The Group will implement the following measures to be able to create a sustainable society not only for society, but also for the Group itself.

■ Response measures toward the realization of a decarbonized society

Energy saving measures

- Daily operational improvements and enlightenment for power saving
- Introduction and replacement of energy saving equipment
- Introduction of energy management systems

Energy creation measures

- Installation of solar power generation panels owned by the Company
- Installation of on-site and off-site solar power generation panels on a PPA basis

Other measures to reduce CO₂ emissions

- Purchase of non-fossil certificates and green power certificates
- Purchase of CO₂-free menu services from electric power companies
- Use of EVs as company cars

■ Response measures toward the realization of a recycling-based society

- Repair and reuse of foldable containers and transportation and delivery equipment
- Reuse of furniture, fixtures and equipment following store renovation or closure
- Monitoring of any abnormal quantity of supplies or inventories at each store and providing guidance
- Development of private brand products with eco-friendly packaging
- Promotion of the "temaedorii" (taking from the one in front) campaign to prevent food waste
- Reducing waste by sharing information with our business partners
- Charging for plastic bags

Metrics and targets

Current status of the Group

Year	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
No. of stores	947	996	1,048	1,105	1,190	1,283	1,391	1,483
CO ₂ emissions (t-CO ₂)	104,299	105,432	104,597	112,201	110,339	104,000	110,809	To be measured
CO ₂ emissions / store (t-CO ₂)	110.1	105.9	99.8	101.5	92.7	81.1	79.7	To be measured

* CO₂ emissions based on the use of gasoline by company cars are calculated on a trial basis based on the pro rata allocation of FY 2020 results using the number of stores.
* CO₂ emissions shown in the table above are Scope 1 and 2 emissions (emissions from the Group). Scope 3 emissions are currently being calculated.

Metrics and targets

The SUGI Pharmacy Group has set targets for each of the metrics shown on the right, and will strive to reduce climate change risk and capture opportunities. In particular, we aim to reduce CO₂ emissions per store by 35% in FY 2030 compared to FY 2014, and to reduce them further to effectively zero in FY 2050, while striving to achieve this target as early as possible.

■ Metrics to measure progress toward the realization of a decarbonized society

- Ratio of reduction in CO₂ emissions (Scope 1 and 2) per store
- Ratio of reduction in CO₂ emissions from our supply chain (Scope 3)
- Renewable energy ratio

■ Metrics to measure progress toward the realization of a recycling-based society

- Ratio of eco-friendly private brand products
- Food-loss-and-waste ratio
- Volume of plastic bags used



Priority Issues [Issues of Materiality]

Healthy Workplace Environment

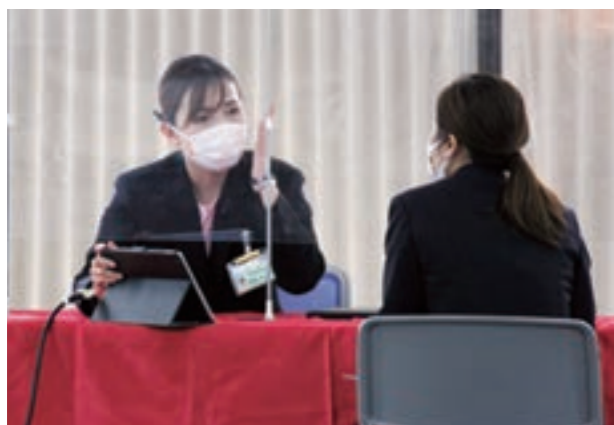
Considering employees as important assets that support the company and improve our corporate value, we are developing systems to ensure diverse careers and working styles for our employees, creating a workplace environment where they can work healthily and happily, and fostering a corporate culture accepting of human resources with diverse backgrounds.



Human Resources Development

Improving capacity development training for employees

We clarify the "required skills" for each task and role as well as for in-house certification, and provide training for employees to obtain such skills and demonstrate them on site. We will increase the average training time provided to each employee in order to promote human resources development.



National competition (award) for beauty advisors to compete in their customer service skills

Group award program

Employees who have given an excellent performance by acting thoroughly in line with the Company's management philosophy are recognized at the year-end award ceremony. In addition, based on thank you messages received from customers on a daily basis, employees of the relevant stores are recognized as appropriate. In FY 2021, 121 individuals were so recognized.



Employees recognized in the employee magazine

Provision of opportunities for growth through achievement presentation

To facilitate horizontal rollout of best practice and human resource development, pharmacists and medical office workers who have delivered excellent results gather together at an achievement presentation meeting.

Reviewing and giving a presentation on annual results at this meeting lead to confidence in one's daily work. Receiving feedback from other participants provides opportunities for further development of their abilities.



Capacity development training for employees



Reform to Realize Healthy and Safe Working Styles

Promoting health and productivity management

■ Certified again in 2022 as an outstanding enterprise in terms of health and productivity management

The SUGI Pharmacy Group was certified as a 2022 outstanding enterprise (in the large-enterprise division) in terms of health and productivity management. We were selected as such jointly by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi, in recognition of our strategic efforts concerning health and productivity management, based on the stance of viewing the enhancement of employees' health as a management issue.



■ Certified as a Platinum Kurumin company

SUGI Pharmacy has been certified as a Platinum Kurumin business operator. This certification is granted to general employers who conform to the designated standards regarding parenting support. In FY 2021, 805 employees (721 women and 84 men) took parenting leave, with the percentage of those returning to work after their leave reaching 97.7%.



Launch of a project to reduce in-store work

In FY 2021, after collecting problems in stores through a questionnaire to all 35,000 employees and interviews during rounds of all the stores by the directors of SUGI Pharmacy, we started a project to reduce in-store work and improve store operations by changing systems and operations, introducing IT systems, and other measures. By reducing in-store work, we will thereby create an environment where employees can focus on the customers.

Mechanisms to support the physical and mental health of employees

The Company established the "Mental Health Promotion Office" for employees in March 2007 for the first time in the industry, and the Office started its activities. By now, we have introduced various mechanisms in this area.

■ Establishment of a health consultation channel

This is a channel for consultation by email or telephone with external industrial counselors. Employees can access this channel at any time directly without going through the Company, so that they can use it with peace of mind.

■ Conducting stress checks

In order to prevent and detect any mental health problems at an early stage, we conduct stress checks annually. Employees can also conduct these checks from their smartphones, allowing them to easily monitor their own stress conditions. Stress checks are conducted to provide employees with the opportunity to notice their own stress and prevent any mental health problems, and also to improve a workplace that is causing them stress and transform it into a comfortable workplace.

■ Consultation with doctors via chat or video call

This mechanism allows employees to easily consult doctors on technical matters anytime and anywhere, free of charge.

Utilization of Diverse Human Resources

Preparing fields and opportunities with a focus on diversity

The SUGI Pharmacy Group will make serious efforts to enhance diversity and inclusion (mutual acceptance and recognition of differences as strengths).

■ Increasing the ratio of female managers

Developing services to address the needs of diverse customers and patients based on the ideas and perspectives of diverse people including female employees is indispensable for the sustainable growth of the Group. Therefore, we are strengthening our efforts for human resources development and improvement of the workplace environment so as to increase the ratio of female managers to 30% by the end of FY 2029. Regarding human resources development, we train employees to obtain and practice the skills needed to discover and resolve essential challenges, communication and leadership skills, knowledge of products, specialized and managerial knowledge, and technical skills.

Regarding the improvement of the workplace environment, we focus on improving the benefits package and encouraging each employee to present their opinions to the company, thereby reinforcing support for employees. We will also promote work-style reforms to support a better work-life balance. In order to create an environment where male employees can also maintain a balance between work and family life, and men and women can cooperate with each other in furthering the empowerment of women, we will encourage male employees whose spouses are expecting a child to take parenting leave and promote work style reform so that male employees can take parenting leave with peace of mind to raise the ratio of male employees who take parenting leave to at least 30%.



■ SUGI Smile's efforts

Eleven in-house job coaches and 30 career counselors provide operational guidance and daily support to 226 employees with disabilities working at eight offices nationwide. At stores, these employees perform cleaning and arrange products on shelves, while at our headquarters, they sort mail, perform cleaning, and ship products to support logistics.

Percentage of employees with disabilities
(FY 2021, SUGI Pharmacy Group)
2.43%

Initiatives to create an open work environment (Strengthening employee engagement)

■ Establishment of a consultation channel to provide support for any kinds of workplace concerns that employees may have

We have established an external reporting channel to respond to any concerns, such as: "I have a problem at the store"; "I have something I want to talk about"; "I have something I want the Company to address"; "This is wrong"; "I have something I cannot report to my boss and I want the Company to address"; "I want the Company to improve the work environment"; or "I am worried about my relationships with others." This is aimed at fostering peace of mind in employees as well as risk awareness that any harassment will be subject to admonition, in order to eliminate harassment and create good human relationships and a pleasant work environment.

■ Multi-rater evaluation system

Multi-rater evaluation is an evaluation system that allows employees to evaluate the daily behavior of their bosses in order to promote communication between the boss and his or her team members and encourage the boss's self-growth. Evaluation results are provided to the boss anonymously, allowing team members to evaluate their bosses frankly with peace of mind.

■ Self-declaration system

This system provides employees with the opportunity to review their current status and develop a future plan (career development plan) to clarify their future challenges. Based on the requests of employees, the system has been upgraded to enable employees to make self-declarations using their own smartphones from this year.

Interview

Please tell us the Group's approach to human resources, which are also one of the areas for growth investments.

Mori: The most important assets of the Group are its employees. What is most important for the Group in pursuing its growth strategy is to secure and develop human resources and to develop human resource management that helps employees grow without a sense of insecurity.

First, from the perspective of securing human resources, we will strengthen, in each area, the recruitment of qualified employees such as pharmacists and registered pharmaceutical distributors, who are necessary for store operations. At the same time, we will strategically hire human resources with strong expertise in digital fields, which will rapidly advance in the future, as well as other fields, such as medical care, development, products, international business, and administration, to promote the Group's growth strategy. It is also important to create a comfortable work environment to help existing employees demonstrate their ability freely. To this end, in addition to working hour management, encouraging employees to use their paid leave, measures to prevent occupational injury, compliance education, and the promotion of diversity, we have established a consultation channel to provide support for any kinds of concerns that employees may have. This is a mechanism through which the administration and sales teams can work together to find a solution. The Company is currently certified as a Platinum Kurumin company and an outstanding enterprise in terms of health and productivity management. By strengthening such initiatives, we will work to secure excellent human resources.

Next, in the area of human resource development, through coordination among "education and practice," "evaluation and assessment," "personnel changes and job rotation," and "self-enlightenment," we will implement growth strategies by developing leaders who will promote businesses and strengthening on-site capabilities to promote store operations that can satisfy customer needs. Leaders are developed through participation in external seminars and internal leadership seminars in which all directors serve as lecturers, job rotation that requires strong performance in multiple departments, and measurement of abilities through regular external assessment, among other things. In order to strengthen our on-site capabilities, we develop on-site leaders and experts through education based on the internal skills matrix, such as store manager education, pharmacist and registered pharmaceutical distributor education, manager (store manager, etc.) candidate education, and education in the fields of wellness and beauty, as well as strategic personnel changes, such as personnel changes that take into consideration human resource development and



Shigeki Mori

General Manager, Human Resources Department and General Manager, Legal Affairs Office, SUGI Holdings Co., Ltd. Director and General Manager, Administration Division, Sugi Pharmacy Co., Ltd.

motivation factors, and promotion to store manager position from the technical fields of beauty and wellness.

Lastly, as part of our efforts to develop human resource management that helps employees grow without a sense of insecurity, we are undertaking reforms of personnel systems and corporate culture, which form the foundation for such management. For the last two years, we have worked to drastically revise our personnel systems for managers, general office workers, and partner employees so that they are transformed into personnel systems that embrace growth, sound competition, and crisis awareness in addition to security and stability, from the current systems that are more akin to a seniority system, in order to further stimulate employees' desire to grow. Going forward, in view of the advent of the era of the 100-year life, we will promote reforms of personnel systems, such as the mandatory retirement system, retirement benefit programs, flexible work styles, and the promotion of health and productivity management, in a manner to adapt to changes in the times, to ensure that the Company will continue to offer a workplace in which employees can be themselves and continue to work happily with vigor. As part of corporate culture reform, we have been having all officers conduct rounds of all stores and distributing anonymous questionnaires among all 35,000 employees since FY 2021. We are working to develop an open corporate culture in which the management diligently listens to the opinions of employees and is perceptive to their feelings toward the Company, and the voice of each employee reaches the management.

By securing and developing human resources and developing human resource management that helps employees grow without a sense of insecurity focusing on the areas mentioned above, we aim to realize our growth strategy and management philosophy by pooling the strengths of each employee, who are the Company's most valuable assets.



Priority Issues [Issues of Materiality]

Corporate Governance

To become a company needed by society, the Company has been working on achieving sustainable growth and the improvement of its medium- to long-term corporate value in collaboration with its stakeholders. To that end, we continue to strengthen our corporate governance by improving the soundness and transparency of our management.



Basic Views on Corporate Governance

Based on our management philosophy, we believe that we should contribute to society by effectively utilizing the assets and resources we have borrowed from society such as people, products, stores, money and information, and returning profits to society. To that end, we regard the enhancement of corporate governance as one of the highest priorities of our management. We have also established a basic policy for the purpose of being a sound and highly transparent listed company that provides accurate information to all stakeholders, and promoting profitable and

effective management. We also endeavor to improve and further develop our corporate governance by continuously examining the content of the basic policy.

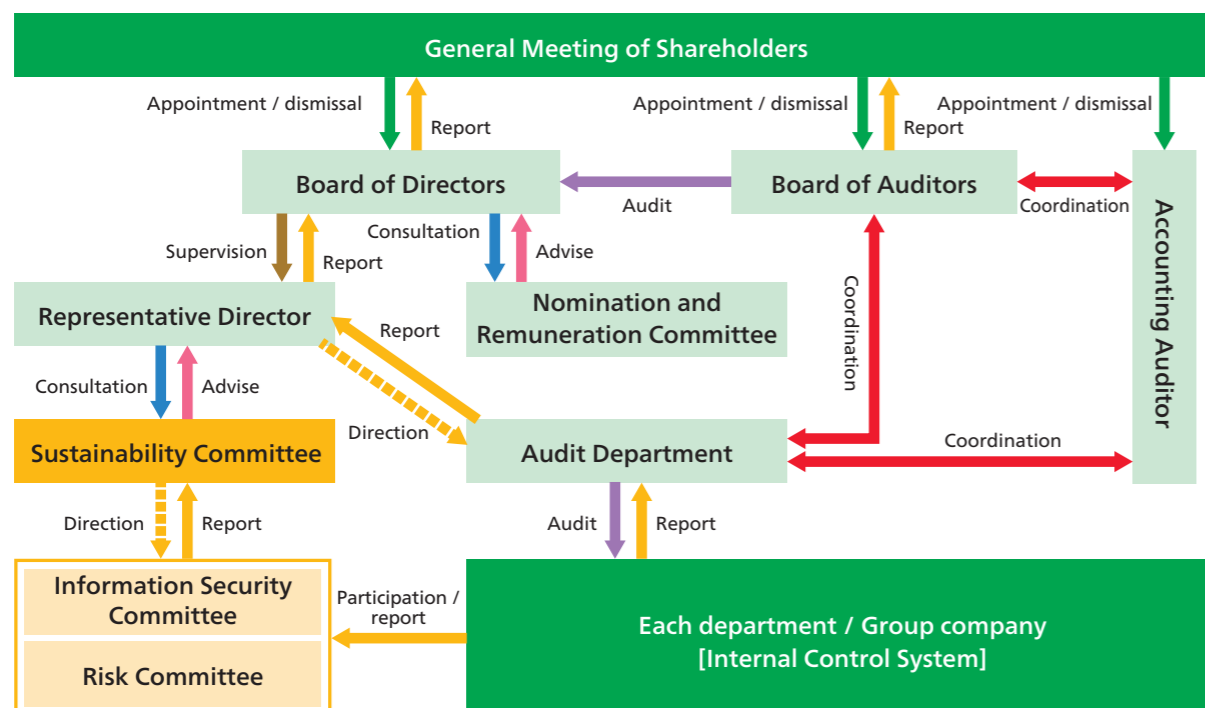
Click the website below for the SUGI Pharmacy Group Corporate Governance Basic Policy.
URL: https://www.sugi-hd.co.jp/ir/ir_english/pdf/cg_basicE.pdf

Corporate Governance System

The Company has chosen to adopt a corporate structure as a company with a Board of Auditors. In addition to the Board of Directors comprising five Directors (including two External Directors)* and the Board of Auditors, we have also established a Nomination and Remuneration Committee as an advisory organization to the Board of Directors concerning the nomination of, and remuneration for, Directors and Auditors. We have also separated the functions of decision-making and supervision from business execution, thus enhancing flexibility in our business execution by delegating authority to the management team except in matters to be determined by the Board of Directors, in accordance with laws and regulations, the Articles of Incorporation, and internal rules.

*As of May 20, 2022

Diagram of the Corporate Governance System



Board of Directors / Board of Auditors

Composition of the Board of Directors

The Board of Directors consists of diverse directors in terms of background, such as expertise, experience and gender. The number of Directors is maintained at an appropriate level in accordance with the provisions of the Articles of Incorporation, in order to ensure that the Board of Directors functions most effectively and efficiently from the following viewpoints:

- (1) Sufficient diversity should be secured to conduct decision-making and supervision of management.
- (2) The Board of Directors Discussions should engage in active discussion on relevant matters including concerns raised by the Independent External Directors.

In principle, at least one-third of the Directors are required to be Independent External Directors in order to make use of their abundant experience and expertise outside the Company for the management of the Company, and at the same time to strengthen the supervisory function of the Board of Directors and improve the transparency of management.

Number of Directors	5
Number of Directors who are External Directors	2
Number of External Directors designated as independent officers	2

(As of May 20, 2022)

Composition of the Board of Auditors

The number of Auditors is as provided for in the Articles of Incorporation, and a majority of Auditors shall be External Auditors. Persons with the insight, high ethical standards, objectivity and integrity required of Auditors will be appointed. In particular, at least one person with expertise in finance, accounting and legal matters will be selected.

Number of Auditors	3
Number of Auditors who are External Auditors	3
Number of External Auditors appointed as independent officers	3

(As of May 20, 2022)

Roles of the Board of Directors

The Board of Directors performs its supervisory functions by realizing highly effective corporate governance. In addition, it pursues the sustainable growth of corporate value by making the best decisions using objective judgment and appropriately exercising its authority.

- (1) The Board of Directors makes important managerial decisions in accordance with laws, ordinances, the Articles of Incorporation and internal rules, and supervises business execution.
- (2) After precisely understanding the cost of capital of the Company, the Board of Directors formulates manage-

ment strategies and management plans, taking into consideration the management philosophy and changes in the external environment, and discloses their outline. As for the formulated management strategies and management plans, the Board of Directors annually checks and analyzes the progress status, reviews the business portfolio, and revises, as needed, the management resource distribution plans including new investments, the establishment of new stores, system investments, and investments in human resources development.

- (3) The Board of Directors is proactively involved in the formulation and operation of educational programs aimed at finding and developing capable Directors and top management for the Group including its operating subsidiaries. Furthermore, based on the management philosophy and management strategies, the Board of Directors appropriately supervises the content of the programs and subsequent development through post-program assignment and promotion of the participants in the programs.

- (4) The Board of Directors delegates its decision-making to the Representative Directors in terms of business execution of matters other than those matters that should be decided by the Board of Directors, in accordance with laws and regulations, the Articles of Incorporation, and internal rules.

- (5) As for the meetings of the Board of Directors, each Director and Auditor shall secure an attendance rate of at least 80%.

Roles of the Board of Auditors

As an organization independent from the management team, the Board of Auditors performs audits concerning the Directors' business execution, the internal control system, accounting, and other matters.

- (1) The Board of Auditors prepares a standard for appropriate evaluation of the Accounting Auditor. On an annual basis, the Board of Auditors evaluates the independence and expertise of the Accounting Auditor based on the standard, and decides the details of the proposal for the General Meeting of Shareholders concerning the appointment or dismissal of the Accounting Auditor.
- (2) The Board of Auditors secures sufficient cooperation with External Directors so that they can smoothly collect information while maintaining their independence.
- (3) The Board of Auditors collects necessary and sufficient information to perform appropriate audits by securing cooperation with the Internal Audit Department, the Finance and Accounting Department, the Legal Department, and other departments concerned.

Career Summary and Reasons for Appointment of Directors (As of May 20, 2022)

 Eiichi Sakakibara Representative Director & Chairperson Date of birth: August 14, 1956	September 1986: Joined the Company September 2008: Managing Director, Sugi Pharmacy Co., Ltd. March 2011: Representative Director & President, Sugi Pharmacy Co., Ltd. March 2017: Representative Director & Chairperson, Sugi Pharmacy Co., Ltd. (to date) May 2017: Representative Director & President, SUGI Holdings Co., Ltd. May 2021: Representative Director & Chairperson, SUGI Holdings Co., Ltd. (to date)	Mr. Eiichi Sakakibara, as Representative Director of the Company and Sugi Pharmacy Co., Ltd., has led the Group and carried on its management philosophy, while fulfilling his responsibilities with his profound insights and extensive experience in the drugstore industry, by actively working on, for example, the selection of items and the creation of stores that suit the lifestyle of consumers that have changed amid the COVID-19 pandemic, and the improvement of customer services. Based on the judgment that his management track record, broad business knowledge, and leadership for sustainable improvement of corporate value will significantly contribute to the further development and expansion of the Group, we reappointed him as Director.
 Katsunori Sugiura Representative Director & President Date of birth: October 14, 1978	March 2006: Joined the Company March 2011: Managing Director, Sugi Pharmacy Co., Ltd. March 2014: Representative Director & President, SUGI Smile Co., Ltd. (to date) March 2017: Representative Director & President, Sugi Pharmacy Co., Ltd. (to date) May 2018: Representative Director & Senior Vice President May 2021: Representative Director & President, SUGI Holdings Co., Ltd. (to date)	Mr. Katsunori Sugiura, as Representative Director of the Company and Sugi Pharmacy Co., Ltd., has been involved in management, while fulfilling his responsibilities by actively working on, for example, the formulation of a business strategy to realize a "total health care strategy" designed to provide comprehensive support to customers from the maintenance of health and prevention of disease to nursing care and terminal care, DX (digital transformation) strategy, new businesses both in Japan and overseas, and corporate value improvement through the promotion of the SDGs. Based on the judgment that his business knowledge and leadership for sustainable improvement of corporate value will significantly contribute to the further development and expansion of the Group, we reappointed him as Director.
 Shinya Sugiura Director Date of birth: November 30, 1979	April 2004: Joined the Company March 2010: Director, Sugi Pharmacy Co., Ltd. March 2011: Director, SUGI Medical Co., Ltd. March 2017: Managing Director, Sugi Pharmacy Co., Ltd. (to date) May 2017: Director, SUGI Holdings Co., Ltd. (to date) May 2021: Representative Director & President, SUGI Medical Co., Ltd. (to date) December 2021: Representative Director & President, SUGI Nursing Care Co., Ltd. (to date)	Mr. Shinya Sugiura, as Managing Director of Sugi Pharmacy Co., Ltd., supervises the sales division, while fulfilling his responsibilities by actively working, as Representative Director of Sugi Medical Co., Ltd. and Sugi Nursing Care Co., Ltd., on the formulation of medium- to long-term strategy for the healthcare business and leading various related collaborative initiatives with companies in other industries, and the improvement of value-added of the pharmacies with the function of prescription dispensing, leveraging his experience and knowledge in the area of healthcare business. Based on the judgment that his knowledge and experience will significantly contribute to development of the core business of the Group, we reappointed him as Director.
 Shigeyuki Kamino External Director Date of birth: May 23, 1947	April 1970: Joined Nagoya Railroad Co., Ltd. May 2007: Representative Director, Mie Sangyo Co., Ltd. (to date) June 2008: Representative Director & Senior Vice President, Nagoya Railroad Co., Ltd. April 2009: Representative Director & President, MEITETSU Department Store Co., Ltd. May 2012: Chairperson, Chubu Department Store Association May 2015: Director, SUGI Holdings Co., Ltd. (to date) June 2021: External Director, AT-Group Co., Ltd. (to date)	Mr. Shigeyuki Kamino has been involved in the management of other companies for many years. Based on his abundant experience in, and knowledge of, management, he has actively made remarks and recommendations during deliberations of the Board of Directors' meetings, and has also served as Chair of the Nomination and Remuneration Committee. Based on the judgment that his appropriate supervision and advice from a high-level, independent standpoint supported by his profound insights and supervisory capability in the areas of corporate management, business strategies, and organizational and human resource management will significantly contribute to the further development and expansion of the Group, we reappointed him as External Director.
 Yoshiko Hayama External Director Date of birth: October 7, 1959	April 1983: Joined The Fuji Bank, Limited. (currently, Mizuho Bank, Ltd.) March 1994: Registered as a Certified Public Accountant January 2015: Representative, Yoshiko Hayama Certified Public Accountant Office (to date) May 2016: Director, SUGI Holdings Co., Ltd. (to date) August 2016: Fellow Member, The Japanese Institute of Certified Public Accountants (to date) June 2017: External Director, COCO'S JAPAN CO., LTD. May 2018: External Director, Adastria Co., Ltd. (to date) March 2020: External Director, Dynac Holdings Corporation (Member of the Audit and Supervisory Committee) June 2020: External Director, Zensho Holdings Co., Ltd. (to date)	Ms. Yoshiko Hayama has abundant experience and professional knowledge developed by serving as a certified public accountant, and an external director and external auditor of listed companies. She has also actively made remarks and recommendations during deliberations of the Board of Directors' meetings. We expect from Ms. Hayama appropriate supervision and advice based on her strong expertise in finance and accounting and profound insights in the areas of legal affairs, compliance, and risk management, from the viewpoint of an independent officer, and thus reappointed her as External Director.

Career Summary and Reasons for Appointment of Auditors (As of May 20, 2022)

 Toshihiko Sakamoto External Auditor Date of birth: October 25, 1946	October 2001: General Manager, Finance and General Affairs Division, Nagoya Branch, ITOCHU Corporation June 2006: Representative Director & President, C&S Co., Ltd. June 2009: Senior Managing Director in charge of human resources, finance and accounting and information systems, ITOCHU Sugar Co., Ltd. May 2012: Auditor, SUGI Holdings Co., Ltd. March 2017: Auditor, Sugi Pharmacy Co., Ltd. (to date) May 2017: Full-time Auditor, SUGI Holdings Co., Ltd. (to date)	Mr. Toshihiko Sakamoto has been involved in business management at other companies, and has abundant experience in, and knowledge of, management. Furthermore, he took office as an Auditor of the Company in May 2012, and is familiar with the business of the Company. We have judged that he is capable of conducting strict audits of the Company's business from an objective viewpoint by applying his profound insights concerning corporate management and knowledge of the overall management of the Company, and thus appointed him as External Auditor.
 Kana Yasuda External Auditor Date of birth: April 10, 1969	October 1993: Joined KPMG Century Audit Corporation (currently, Ernst & Young ShinNihon LLC) April 1997: Registered as a Certified Public Accountant March 2000: Established Yasuda Tax & Accountant Office, Director (to date) March 2004: Registered as a Certified Public Tax Accountant September 2009: External Auditor, Simpo Co., Ltd. May 2010: Auditor, SUGI Holdings Co., Ltd. (to date) June 2016: External Director, GEO HOLDINGS CORPORATION (to date) June 2019: External Director, Chuo Spring Co., Ltd. (to date) June 2020: External Director (Member of Audit and Supervisory Committee), KONDOTEC INC. (to date) September 2021: External Director, Monogatari Corporation (to date)	Ms. Kana Yasuda has engaged in a wide range of business fields, including accounting audits for business corporations as a certified public accountant and a certified public tax accountant, also serving as an external auditor and an external director for listed companies. We have reappointed Ms. Yasuda as External Auditor, expecting her to conduct strict audits from an independent standpoint, supported by her strong expertise in the areas of accounting and tax and abundant experience in the areas of legal affairs, compliance, and risk management.
 Makoto Kamiya External Auditor Date of birth: anuary 7, 1964	August 1988: Joined Tohmatsu & Co. (currently, Deloitte Touche Tohmatsu LLC) March 1993: Registered as a Certified Public Accountant May 2002: Partner, Tohmatsu & Co. (currently, Deloitte Touche Tohmatsu LLC) April 2004: Registered as a Certified Public Tax Accountant Partner, Tohmatsu Tax Co. (currently, Deloitte Tohmatsu Tax Co.) October 2005: Representative Partner, Tohmatsu Tax Co. (currently, Deloitte Tohmatsu Tax Co.) July 2007: Managing Partner of Nagoya Office, Tohmatsu Tax Co. (currently, Deloitte Tohmatsu Tax Co.) May 2020: Director, Kamiya Makoto Certified Public Accountant, Certified Public Tax Accountant Office (to date) Auditor, SUGI Holdings Co., Ltd. (to date) Auditor, Mizkan Asset Co., Ltd. (to date) June 2020: Auditor, Yamazaki Mazak Capital Co., Ltd. (to date)	Mr. Makoto Kamiya has professional knowledge and abundant experience developed as a certified public accountant and certified public tax accountant. We have judged that he is capable of appropriately fulfilling the duties of External Auditor by applying a high level of expertise from his independent standpoint, and thus appointed him as External Auditor.

Skills Matrix

	Name	Corporate Management	Business Strategy	Organization / Human Resources	Legal / Compliance / Risk Management	Finance / Accounting	Healthcare
Director	Eiichi Sakakibara	●	●				●
	Katsunori Sugiura	●	●				●
	Shinya Sugiura	●	●				●
	Shigeyuki Kamino	●	●	●			
Auditor	Yoshiko Hayama				●	●	
	Toshihiko Sakamoto				●	●	
	Kana Yasuda				●	●	
	Makoto Kamiya				●	●	

Training program (for officers including those of the major subsidiaries)

We continuously provide opportunities for External Directors and External Auditors to share our management philosophy, management plan, business overview, finance, organization, etc. We offer training programs for Directors, Auditors and Directors of the major subsidiaries concerning relevant laws, finances, corporate governance, risk management, etc. when they newly take office. After they take office, we continuously provide or mediate training opportunities according to their duty, capability and experience, and offer them financial support for the cost.

Content of the training programs (FY 2021)

Domestic and overseas economic status	Marketing
Trend of capital markets	Legal affairs and corporate governance
Trend of medical systems	Corporate Governance Code
Sustainability management	Compliance training
ESG	Risk management
Management strategy	Organization and HR management and leadership
Management and finance	Digital transformation

Effectiveness Evaluation of the Board of Directors

Effectiveness evaluation of the Board of Directors

For the purpose of securing further effectiveness and improving the functions of the Board of Directors, we implement an effectiveness evaluation of the Board of Directors.

We conducted a written questionnaire survey and held interviews on the self-evaluation with all the Directors and Auditors concerning the effectiveness of the Board of Directors in terms of its structure, operation and agenda, as well as the systems to support the Board of Directors, management strategy, and challenges.

Based on the results of the questionnaire survey, we implemented constructive discussions for future initiatives by sharing the evaluation results of the current status and challenges within the Board of Directors.

Outline of evaluation results

The effectiveness evaluation conducted in the fiscal year ended February 2022 indicated that the effectiveness of the entire Board of Directors was secured at a high level. The evaluation results also indicated that discussions on medium- to long-term strategies, digital transformation,

and ESG initiatives in the fiscal year ended February 2022 were even livelier than in the prior year.

In addition, constructive opinions were submitted to and discussed by the Board of Directors in order to secure higher effectiveness on such topics as further information sharing for the Board of Directors to discuss and monitor managerial responses to risks from a medium- to long-term perspective, and the improvement of training programs for Directors and candidates for Directors.

Future initiatives

Following the initiatives in the fiscal year ended February 2022, we will continue to facilitate discussions on medium- to long-term strategies, digital transformation, and ESG initiatives. We will also enhance the training programs for Directors and candidates for Directors to help them respond quickly to changes in the economic environment both in Japan and overseas, changes in the healthcare system, etc., and further improve the effectiveness of the Board of Directors by ensuring its access to the latest information so that it can appropriately address various challenges.

Interview

It has been seven years since you assumed office as Director. Could you tell us about the progress in effectiveness improvement of the Board of Directors during that period?

Kamino: Recently, reports and proposals on medium- to long-term group strategies, healthcare strategies, digital transformation, and ESG are put on the agenda of the monthly meetings of the Board of Directors for its lively discussions under the leadership of President Sugiura. At times, discussion becomes so heated that it is difficult to end it within the predetermined time. We have also had much discussion on such topics as the close examination of the cost of capital for opening a new store, the promotion of women to managerial positions, and risk management based on various perspectives and objective evidence such as numerical data that are relevant to each topic.

The Board of Directors (including External Directors and Auditors) consists of members with diverse expertise, and its composition is improving gradually. As a result, the current management structure is optimal for the size of the Company.

While the external environment surrounding hospitals, pharmacies, etc., is changing more rapidly than

before, the Company will promote management that is sustainable over the long term, in order to conform to its management philosophy that should not change while at the same time adapting to changes in the times under the spirit of “immutability and fluidity.” To this end, I will endeavor to fulfill my responsibilities as External Director by supervising and supporting the steering of management, while learning new things on my own initiative.



Shigeyuki Kamino
External Director, SUGI Holdings Co., Ltd.

Remuneration System for Directors and Auditors

Remuneration system for Directors and Auditors

Under the remuneration system for Directors and Auditors, basic amounts are fixed for each title and position using remuneration data provided by specialized external organizations, as well as publicly available data while considering the remuneration levels of industry peers of similar sizes. The composition of remuneration differs between Internal Directors and External Directors and Auditors.

In FY 2022, we introduced non-monetary compensation (restricted stock compensation) as a new component of the remuneration of Directors and Auditors.

■ Composition ratios of fixed compensation, performance-linked compensation, and non-monetary compensation (restricted stock compensation)

The remuneration of Internal Directors consists of fixed compensation, performance-linked compensation, and non-monetary compensation (restricted stock compensation), whose amount is based on the Company's financial performance for each fiscal year. This is designed to provide the Internal Directors with incentives to work toward sustainable improvement of the corporate value of the Company.

The remuneration of External Directors and Auditors is composed only of fixed compensation in view of their roles and independency.

The composition ratios of remuneration of Directors and Auditors are determined each time in consideration of the business results of the Company, after verifying the levels of remuneration of industry peers of similar sizes.

Composition ratios of remuneration for FY 2021

Category	Fixed compensation	Performance-linked compensation	Non-monetary compensation (restricted stock compensation)
Internal Directors	83%	17%	—
External Directors and Auditors	100%	—	—

* We introduced non-monetary compensation (restricted stock compensation) as a new component of remuneration of Directors in FY 2022.

■ Nomination and Remuneration Committee

As an advisory body to the Board of Directors, we established a voluntary Nomination and Remuneration Committee, a majority of which is composed of external

officers (External Directors and External Auditors).

The final decision on remuneration of Directors and Auditors is subject to appropriate deliberations by the Nomination and Remuneration Committee.

■ Calculation method of fixed compensation

The amount of fixed compensation is deliberated by the Nomination and Remuneration Committee, and that for Directors is determined by the Representative Director who is delegated by the Board of Directors, whereas that for Auditors is determined by the Board of Auditors based on its deliberations.

■ Calculation method of performance-linked compensation

According to the degrees of achievement of the budget of consolidated ordinary income for each fiscal year, we set the basic amounts for each title and position, to which the degree of contribution by each Director is added. Then, the Representative Director who is delegated by the Board of Directors determines the amount to be paid following the deliberation of the Nomination and Remuneration Committee.

We have chosen consolidated ordinary income as an indicator for performance-linked compensation because we recognize the importance of improving overall profitability including financing activities.

■ Calculation method of non-monetary compensation (restricted stock compensation)

Regarding restricted stock compensation as non-monetary compensation, the specific number of shares allotted to each Director and other necessary matters are determined by the Board of Directors based on the deliberation results of the Nomination and Remuneration Committee.

Total amount of remunerations for the current fiscal year including remuneration of Directors and Auditors

Category	Number of persons	Fixed compensation (millions of yen)	Bonus (millions of yen)	Total amount (millions of yen)
Directors (of which, External Directors)	7 (3)	107 (15)	19 (—)	126 (15)
Auditors (of which, External Auditors)	3 (3)	16 (16)	— (—)	16 (16)
Total (of which, External Directors and External Auditors)	10 (6)	124 (32)	19 (—)	143 (32)

Notes: 1. The total amount of remuneration paid to Directors excludes the portion of employees' salaries of Directors who concurrently serve as employees.
2. The upper limit on remuneration of Directors was resolved at 400 million yen per year (not including salaries received as employees) at the 25th ordinary general meeting of shareholders held on May 24, 2007.
3. The upper limit on remuneration of Auditors was resolved at 30 million yen per year at the 25th ordinary general meeting of shareholders held on May 24, 2007.
4. The above-mentioned figures include the remuneration paid to one Director who resigned at the end of the 39th general meeting of shareholders held on May 2021.

Relationships with Shareholders

Securing shareholders' rights

We are determined to act appropriately to treat all shareholders, including minority shareholders and foreign shareholders, substantially equally according to the number of shares they hold, and secure shareholders' rights as represented by the exercise of voting rights at the general meeting of shareholders.

In the case where we are to implement a capital policy that may result in a change of control or a large-scale dilution, we will resolve the matter by fully discussing the necessity and rationality at the Board of Directors before providing sufficient explanation to shareholders from the perspectives of fulfilling fiduciary duties for shareholders.

Constructive dialogues with shareholders and investors

We endeavor to improve medium- to long-term corporate value through constructive dialogues with shareholders and investors.

- (1) We will focus on the improvement of IR activities to gain understanding concerning our corporate philosophy, management strategy, financial strategy, management plan, business results, and concept of sustainability.
- (2) The Representative Director & President will supervise all aspects of dialogue, and consultation will be provided by the relevant departments, if necessary.
- (3) As for individual face-to-face meetings with shareholders and investors, the IR department will serve as the contact point, and the matter will be appropriately handled within a reasonable scope based on the requests of, and the purpose of the meeting with, the shareholders and investors.
- (4) In order to promote constructive dialogues with shareholders and investors, the IR department and other related departments will periodically exchange opinions and share information based on their professional viewpoints, and respond to matters in cooperation with each other.
- (5) Useful opinions and requests expressed in dialogues with shareholders and investors will be provided to the Board of Directors, etc. as necessary.
- (6) The composition of shareholders will be checked periodically, based on which communication will be im-

Status of dialogues with investors

	FY 2020	FY 2021
Financial briefings for institutional investors and analysts (1H and full-year)	2	2
Financial briefing small meetings for institutional investors and analysts	25	34
Conference hosted by securities companies	6	8
Individual meetings for institutional investors (face-to-face meetings and interviews by phone)	133	168

proved in an appropriate manner suited to the shareholders and investors.

- (7) In carrying out dialogues with shareholders and investors, we will comply with laws and regulations and other related rules, and manage insider information properly.

Cross-shareholdings

Policy on acquisition and shareholding

- (1) In principle, we will not hold shares under a cross-shareholding policy toward the improvement of corporate value except in the case of strategically important collaboration, and the case where the maintenance and development of trading relationships are confirmed.
- (2) As for shares held, we will periodically verify the rationality of holding the shares, and the Board of Directors will check this on an annual basis, the details of which will be disclosed. We will gradually sell any shares whose holding purpose is no longer significant, in a manner taking into consideration the status of the relevant issuer.
- (3) As for the exercise of voting rights of the shares held, we make comprehensive judgment by confirming whether each agenda will contribute to the enhancement of corporate value from the medium- to long-term perspectives, while respecting the management policy of the relevant issuer.
- (4) We will not carry out any transaction with a company that holds the Company's shares if the transaction is not economically rational. When such a company expresses the intention to sell the Company's shares, we will not try to prevent it from doing so.

Verification results by the Board of Directors

As for the cross-shareholdings of the Company as of February 28, 2022, the Board of Directors has examined each stock to confirm the significance of its holding purpose.

Disclosure

We appropriately disclose information on a timely basis in compliance with laws, regulations and related rules toward the realization of fair and highly transparent management.

- (1) We will proactively disclose both financial and non-financial information if such information is considered useful for shareholders and other stakeholders to deepen their understanding of the Company.
- (2) Disclosure will be made in such a manner that our shareholders and other stakeholders can easily access it.
- (3) From the viewpoint of information disclosure particularly to overseas investors, we will prepare materials in English concerning the Company profile, management strategy, medium-term management plan, budget, trend of business results, notice of convocation of the general meeting of shareholders, corporate governance basic policy, and ESG. These materials will be posted on the website of SUGI Holdings Co., Ltd.

Establishment of the Sustainability Committee

With the aim of promoting sustainability management, we have established the Sustainability Committee as an advisory body to the Representative Director & President.

- 1 The Sustainability Committee discusses the sustainability strategy and initiatives for the entire Group, and reports and makes recommendations to the Representative Director & President.
- 2 The Sustainability Committee consists of members appointed by the Representative Director & President as appropriate in light of the purpose of the committee.
- 3 The Risk Committee and the Information Security Committee have been established inside the Sustainability Committee as the bodies that manage relevant risks and perform tasks assigned by the Sustainability Committee.

Risk Management

For the purpose of promoting sound, highly transparent and efficient management, the Board of Directors will improve the systems concerning compliance, appropriateness of financial reporting, risk management and other matters, seeking more effective functions in the internal control system from the perspectives of group management, and supervise their operation status by utilizing the Internal Audit Department. In order to enhance the accuracy of internal control, we endeavor to minimize managerial risks by documenting and monitoring the details of the business operations of each Group company, the assumed risks, and their countermeasures. The Representative Director & President

has established the Risk Committee and the Information Security Committee inside the Sustainability Committee to control high-risk fields in the management, thus improving the relevant business operations and preventing accidents at an early stage.

The Risk Committee prevents risks from occurring by evaluating and identifying serious risks concerning corporate management such as business strategy, natural disasters, and infectious diseases, and by taking actions in advance. In the event of a crisis, we are prepared to immediately establish a separate "emergency task force" to act quickly and appropriately.

Examples of the major risks to be managed

	Risks	Examples of the major risks
1. Risks concerning business strategy	1-1 Business environment	<ul style="list-style-type: none"> ● Intensified competition with industry peers and different industries ● Industrial reorganization and oligopoly through large-scale M&A
	1-2 Applicable laws and regulations, etc.	<ul style="list-style-type: none"> ● Drastic reductions of drug prices and dispensing fees ● Revisions of applicable tax rules and accounting standards
	1-3 Investments	<ul style="list-style-type: none"> ● Failure in investments in new stores ● Failure in M&A investments
2. Risks relating to natural disasters and infectious diseases, etc.	2-1 Large-scale disasters	<ul style="list-style-type: none"> ● Stagnant economic activities ● Suspension of business activities due to damage to stores, offices, systems and employees ● Damage to properties held and repair costs arising therefrom
	2-2 Climate change	<ul style="list-style-type: none"> ● Damage to stores and facilities due to typhoons, heavy rains, etc. ● Introduction of a carbon tax, etc. due to the tightening of regulations
	2-3 Infectious diseases	<ul style="list-style-type: none"> ● Stagnant economic activities ● Self-restraint and suspension of business activities at stores ● Suspension of business activities due to infection of employees
3. Risks relating to corporate management	3-1 Wrongdoing and accidents	<ul style="list-style-type: none"> ● Occurrence of serious mistakes in prescription dispensing ● Fraudulent activities by officers or employees ● Defective products, foreign substance mixing, and inappropriate labeling
	3-2 Information security	<ul style="list-style-type: none"> ● System failures caused by accidents, defects, etc. ● Unauthorized invasion and/or access and virus infection from external networks ● Leakage of customer information
	3-3 Human rights	<ul style="list-style-type: none"> ● Worsening of work environments and safety and health ● Acts of human right violation (harassment and discriminatory practices)
	3-4 Human resources	<ul style="list-style-type: none"> ● Shortage of managerial human resources ● Intensified competition for hiring capable human resources
	3-5 Supply chain	<ul style="list-style-type: none"> ● Human rights and environmental issues concerning the supply chain ● Changes in purchase prices

Internal Reporting System

For the purpose of preventing and correcting violation of laws and regulations or misconduct by systems or individuals, SUGI Pharmacy Group has established a compliance consultation channel, enabling employees to seek consultation anonymously. The Internal Reporting System is operated in accordance with the internal rules, and reporting channels are established within the Group and in external law offices. In order to prohibit disadvantageous treatment of informants and increase the recognition and understanding of the above-mentioned system, we have ensured that contact information for the system is displayed at our stores and offices, and have also distributed the Compliance and Disaster Countermeasure Pocket Book. By such promotional activities, we endeavor to establish a sound reporting system.

The Internal Reporting System was renamed “Anything Consultation Dial for All Workplace Concerns” in FY 2021 to create an environment where employees feel able to use it more freely.

Personal information protection and enhanced information security

The SUGI Pharmacy Group works to strengthen the protection of personal information and information security in order to protect and prevent the leakage of personal information, customer information, and confidential information. By establishing the Information Security Basic Policy, the Group is taking various measures to prevent any unauthorized access from outside, virus infection, or data leakage. As the same time, we work to strengthen information security systems and educate employees appropriately.

<p>Reinforcement of information security systems and education</p> <ul style="list-style-type: none"> Establish the Information Security Basic Policy Inform employees of the Information Security Basic Policy and provide relevant education Obtain certification from an external organization (ISMS) 	<p>Prevention of unauthorized access from outside</p> <ul style="list-style-type: none"> Install firewalls Implement defense against unauthorized intrusion from websites Prevent the receipt of virus-infected emails
<p>Prevention of virus infection</p> <ul style="list-style-type: none"> Introduce anti-virus software Apply security patches Restrict communications with and browsing of websites 	<p>Prevention of data leakage</p> <ul style="list-style-type: none"> Prohibit the connection of PCs with external devices Implement measures to prevent emails from being sent to the wrong recipients Restrict access to customer information Install security rooms and security cameras Preserve logs of PC operations and email sending to strengthen the ability to investigate in the case of leakage and secure tracking trails

Information Security Basic Policy

The SUGI Pharmacy Group has been engaging in management to contribute to society by effectively utilizing assets and resources borrowed from society (people, things, money, information, etc.) and continuing to provide profits to society. To realize this, we understand that it is our top priority management issue to strengthen the information security of the entire Group by protecting our customers’ personal information and other information assets owned by us from various threats, including unauthorized access and cyberattacks. Based on this concept, the Group established the “Information Security Basic Policy.”

Going forward, we will endeavor to maintain and improve information security through compliance with, and proper handling of, the aforementioned policy and the “Handling of Personal Information (Privacy Policy)” by our officers and employees.

Click the website below for the Information Security Basic Policy (set forth in Attachment 2 of the Corporate Governance Basic Policy).
 URL: https://www.sugi-hd.co.jp/ir/ir_english/pdf/cg_basicE.pdf

Conformance of information security management systems to standard requirements

Certain operations at the SUGI Pharmacy Group, including registration and change of information of point card members, responses to incoming calls and maintenance of incoming call records, provision of specified health guidance, and provision of health information to corporate customers, conform to the standard requirements of ISO27001. The Group will endeavor to strengthen and upgrade its responses in the areas of personal information protection and information security by receiving examinations by external organizations appropriately.



Financial Indices

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
(Millions of yen)					
Net sales	457,160	488,701	542,361	602,850	625,477
Operating income	24,873	26,053	30,159	34,041	32,137
Ordinary income	25,900	27,237	31,473	35,333	33,082
Profit attributable to owners of parent	16,411	17,940	20,782	21,120	19,389
Depreciation	6,455	7,389	8,412	9,940	11,268
Cash flows from operating activities	27,564	22,894	45,353	34,027	7,174
Cash flows from investing activities	-17,911	-22,362	-18,422	-29,254	-23,892
Cash flows from financial activities	-3,401	-13,897	-4,895	-5,274	-5,295
Cash and cash equivalents at end of period	47,676	34,311	56,347	55,845	33,831
End of consolidated fiscal year					
Net assets	162,046	166,563	182,750	200,629	213,890
Total assets	253,989	265,481	313,757	345,933	334,758
Per share information					
Net income (yen)	259	287	336	341	313
Net asset (yen)	2,559	2,694	2,956	3,245	3,460
Dividend (yen)	60	70	80	80	80
Management indices (%)					
Equity ratio	63.8	62.7	58.2	58.0	63.9
Return on equity (ROE)	10.6	10.9	11.9	11.0	9.4
Return on total assets (ROA)	10.7	10.5	10.9	10.7	9.7
Payout ratio	23.1	24.3	23.8	23.4	25.5
Annual sales growth rate (%)					
All stores: Corporate group as a whole	+6.1	+6.9	+11.0	+11.2	+3.8
All stores: SUGI Pharmacy operations*	+8.3	+9.9	+13.8	+12.7	+5.3
Existing stores: Corporate group as a whole	+2.3	+2.2	+5.1	+4.3	-0.7
Existing stores: SUGI Pharmacy operations*	+2.7	+2.6	+5.9	+4.7	0.0
Indices on prescription dispensing information					
Sales from prescription dispensing	84,108	91,074	105,279	117,597	132,743
Number of prescription sheets filled by us (thousands)	7,704	8,698	9,833	10,101	11,730
Prescription cost (yen)	10,917	10,471	10,707	11,642	11,318

SUGI Pharmacy operations indicates only the number of stores of SUGI Pharmacy.

Non-financial Indices

	FY 2018	FY 2019	FY 2020	FY 2021
Numbers representing the Company				
Number of stores	1,190	1,287	1,391	1,483
Number of new stores	102	116	121	112
Year-end total square meters of sales floor	722,317	781,303	847,543	915,322
Numbers relating to customer base				
Number of visitors per year	245,658,072	269,803,126	316,850,068	339,909,390
Number of <i>SUGI Pharmacy</i> point members	15,154,963	16,459,486	18,042,809	19,414,675
Number of <i>SUGI Pharmacy</i> app downloads*1	–	3,506,481	6,018,926	8,331,741
Number of <i>SUGI Sapo</i> app downloads*2	–	611,625	1,549,738	2,342,561
Number of <i>Family Pharmacy</i> app downloads	–	–	161,060	368,644
Numbers relating to prescription dispensing				
Number of prescription dispensing pharmacies	833	930	1,050	1,166
Percentage of prescription dispensing stores (%)	78.4	80.0	82.9	85.5
Percentage of prescription dispensing of drugs that require special management*3 (%)	–	–	–	2.4
Numbers relating to private brands				
Percentage of private brand sales (%)	8.6	9.4	8.3	8.6
Percentage of eco-friendly private brand products*4 (%)	–	–	–	10.2
Numbers relating to function updates for an aging society				
Number of stores providing home-visit prescription dispensing services	447	487	541	556
Total number of customers who used home-visit prescription dispensing services	115,326	128,880	146,794	160,656
Number of home-visit nursing stations	9	11	13	13
Total number of customers who used home-visit nursing services	11,645	12,453	14,590	17,913
Numbers relating to contribution to the enhancement of community safety and security				
Total number of partnership agreements concluded	–	53	58	74
Comprehensive agreements	–	13	13	19
Agreements on services not covered by health insurance	–	2	2	2
Watching-over agreements	–	9	9	9
Agreements concerning the environment, etc.	–	–	–	7
Disaster risk reduction agreements	–	29	34	37
Total number of AEDs donated to facilities for senior citizens	127	147	182	217
Total number of stores where AEDs are installed	27	47	130	180
Numbers relating to employees				
Number of full-time employees	5,494	6,182	6,710	7,308
Men	3,074	3,340	3,540	3,804
Women	2,420	2,842	3,170	3,504
Percentage of women (%)	44.0	46.0	47.2	47.9
Percentage of partner employees (converted into the number of 8-hour workers) (%)	61.5	62.5	63.1	61.7
Number of new graduates hired	567	590	695	727
Number of pharmacists	2,567	2,803	3,025	3,390
Number of registered pharmaceutical distributors	6,766	7,810	8,527	9,704
Number of nationally certified dietitians	348	426	466	498
Number of nurses	80	88	92	87

*1 This is the number since the revamp of the app in October 2018. *2 This is the total number of downloads of the Walk app and the Eats app.

*3: Percentage of drugs that require special management (narcotics, raw materials for stimulants, psychotropic drugs, and toxic substances) to the prescription dispensing of all drugs.

*4: Percentage of eco-friendly products to all private brand products.

	FY 2018	FY 2019	FY 2020	FY 2021
Numbers relating to diversity and work style				
Number of managers	1,536	1,679	2,005	2,126
Percentage of female managers (%)	11.6	13.6	15.6	16.8
Percentage of disabled employees (%)	2.47	2.54	2.36	2.44
Number of employees with foreign nationality	134	353	472	454
Number of employees who took parenting leave	396	455	697	805
Percentage of male employees who took parenting leave (%)	5.5	18.2	27.9	To be measured
Percentage of those returning to work after parenting leave (%)	90.1	93.4	93.7	97.7
Matters relating safety and health (%)				
Regular health checkup rate	92.7	99.7	99.6	To be measured
Percentage of smokers	17.9	17.0	15.2	12.0
Numbers relating to human resource development				
Number of participants enrolled in dementia supporter courses	–	9,469	10,213	10,284
Average hours per employee spent in capacity development training	73.7	88.3	68.3	136.0
Numbers relating to the environment				
Number of plastic bags used	270	262	144	43
Tonnage of plastic bags used	2,400	2,000	1,100	328
Electric power consumption (thousand kWh)	240,121	250,121	279,619	To be measured
Gasoline consumption of company cars (liters)	320,714	348,007	375,300	405,420
Number of stores with LED lighting	1,004	1,126	1,353	1,454
Percentage of stores with LED lighting (%)	72	81	97	98
Food waste ratio (%)	–	–	0.45	0.41
Numbers relating to governance risk and compliance				
Number of Board of Directors meetings held	13	13	12	12
Number of Risk Committee meetings held	–	21	58	31
Directors	6	6	7	6
Men	5	5	5	4
Women	1	1	2	2
Independent External Directors	2	2	3	3
Men	1	1	1	1
Women	1	1	2	2
Percentage of independent outside directors (%)	33.3	33.3	42.8	50.0
Percentage of female directors (%)	16.6	16.6	28.6	33.3
Auditors	3	3	3	3
Men	2	2	2	2
Women	1	1	1	1
Percentage of independent outside auditors (%)	100.0	100.0	100.0	100.0
Percentage of female auditors (%)	33.3	33.3	33.3	33.3
Compliance training attendance ratio (%)	99.5	95.3	100.0	100.0
Annual number of calls to "Anything Consultation Dial for All Workplace Concerns" ^{*5}	269	430	832	1,254

*5: The system was renamed in FY 2021 to ensure that employees feel able to use it more freely.

Consolidated Balance Sheet

	(Millions of yen)		(Millions of yen)	
	As of the end of FY 2020 (Feb. 28, 2021)	As of the end of FY 2021 (Feb. 28, 2022)	As of the end of FY 2020 (Feb. 28, 2021)	As of the end of FY 2021 (Feb. 28, 2022)
Assets			Liabilities	
Current assets			Current liabilities	
Cash and deposits	86,845	62,831	Accounts payable – trade	91,061
Accounts receivable – trade	31,655	33,577	Income taxes payable	6,588
Securities	9,000	9,000	Provision for bonuses	2,599
Inventory	71,165	71,571	Others	28,142
Others	15,207	15,455	Total current liabilities	128,391
Allowance for doubtful accounts	-1	-1	Non-current liabilities	
Total current assets	213,871	192,434	Retirement benefit liability	7,304
Non-current assets			Asset retirement obligations	6,087
Property, plant and equipment			Others	3,520
Buildings and structures	101,330	112,267	Total non-current liabilities	16,912
Accumulated depreciation	-41,419	-46,622	Total Liabilities	145,304
Buildings and structures (net)	59,910	65,645	Net Assets	
Land	8,517	8,764	Shareholders' equity	
Construction in progress	2,861	3,238	Capital stock	15,434
Others	35,963	40,651	Capital surplus	24,632
Accumulated depreciation	-25,043	-28,933	Retained earnings	167,983
Others (net)	10,919	11,717	Treasury stock	-9,298
Total property, plant and equipment	82,209	89,366	Total shareholders' equity	198,751
Intangible assets	5,326	6,612	Accumulated other comprehensive income	
Investments and other assets			Valuation difference on available-for-sale securities	2,208
Investment securities	6,032	4,297	Remeasurements of defined benefit plans	-329
Long-term loans receivable	4	5	Total accumulated other comprehensive income	1,878
Deferred tax assets	9,839	11,946	Total Net Assets	200,629
Guarantee deposits	25,747	27,491	Total Liabilities and Net Assets	345,933
Others	2,938	2,631		
Allowance for doubtful accounts	-36	-27		
Total investments and others	44,527	46,344		
Total non-current assets	132,062	142,323		
Total Assets	345,933	334,758		

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	FY 2020 (Mar. 1, 2020 to Feb. 28, 2021)	FY 2021 (Mar. 1, 2021 to Feb. 28, 2022)
Consolidated Statement of Income		
Net sales	602,850	625,477
Cost of sales	421,219	433,987
Gross profit	181,631	191,490
Selling, general and administrative expenses		
Salaries, allowances and bonuses	60,524	66,688
Provision for bonuses	2,576	1,873
Retirement benefit expenses	1,081	1,267
Rent expenses	30,122	32,362
Others	53,284	57,161
Total selling, general and administrative expenses	147,590	159,353
Operating income	34,041	32,137
Non-operating income		
Interest income	88	84
Dividend income	60	2
Gain on donation of non-current assets	439	455
Rental income	1,801	1,856
Others	978	729
Total non-operating income	3,368	3,129
Non-operating expenses		
Interest expenses	21	19
Rental costs	1,425	1,547
Loss on retirement of non-current assets	135	281
Others	493	335
Total non-operating expenses	2,075	2,183
Ordinary income	35,333	33,082
Extraordinary losses		
Impairment loss	3,812	5,626
Total extraordinary losses	3,812	5,626
Profit before income taxes	31,521	27,456
Income taxes – current	12,355	9,660
Income taxes – deferred	-1,955	-1,594
Total income taxes	10,400	8,066
Net income	21,120	19,389
Profit attributable to owners of parent	21,120	19,389
Consolidated Statement of Comprehensive Income		
Net income	21,120	19,389
Other comprehensive income		
Valuation difference on available-for-sale securities	1,890	-1,142
Remeasurements of defined benefit plans	-185	-39
Total other comprehensive income	1,705	-1,182
Comprehensive income	22,825	18,207
(Breakdown)		
Comprehensive income attributable to owners of parent	22,825	18,207

Consolidated Statement of Cash Flows

(Millions of yen)

	FY 2020 (From Mar. 1, 2020 to Feb. 28, 2021)	FY 2021 (From Mar. 1, 2021 to Feb. 28, 2022)
Cash flows from operating activities		
Profit before income taxes	31,521	27,456
Depreciation	9,940	11,268
Impairment loss	3,812	5,626
Increase (decrease) in provision for bonuses	643	-699
Increase (decrease) in retirement benefit liability	644	804
Increase (decrease) in allowance for doubtful accounts	0	-8
Interest and dividend income	-149	-87
Gain on donation of non-current assets	-271	-233
Interest expenses	21	19
Loss on retirement of non-current assets	10	3
Decrease (increase) in trade receivables	-3,443	-1,922
Decrease (increase) in inventories	-7,445	-203
Increase (decrease) in trade payables	8,586	-20,079
Others	1,081	-128
Sub-total	44,952	21,814
Interest and dividends received	84	25
Interest paid	-17	-16
Income taxes paid	-10,993	-14,648
Net cash provided by (used in) operating activities	34,027	7,174
Cash flows from investing activities		
Payments into time deposits	-67,000	-81,000
Proceeds from withdrawal of time deposits	63,000	81,000
Purchase of securities	-32,000	-24,000
Proceeds from redemption of securities	31,000	26,000
Purchase of property, plant and equipment	-18,627	-20,743
Purchase of intangible assets	-2,936	-2,636
Purchase of investment securities	-43	-
Proceeds from sale of shares of subsidiaries and associates	-	100
Collection of loans receivable	0	-
Payments of guarantee deposits	-2,505	-2,512
Proceeds from refund of guarantee deposits	267	299
Others	-408	-399
Net cash provided by (used in) investing activities	-29,254	-23,892
Cash flows from financing activities		
Purchase of treasury shares	-1	-1
Repayments of finance lease obligations	-328	-348
Dividends paid	-4,944	-4,944
Others	-0	-0
Net cash provided by (used in) financing activities	-5,274	-5,295
Net increase (decrease) in cash and cash equivalents	-502	-22,013
Cash and cash equivalents at beginning of period	56,347	55,845
Cash and cash equivalents at end of period	55,845	33,831

Corporate Profile and Stock Information

(As of February 28, 2022)

Corporate Profile

Trade name: SUGI Holdings Co., Ltd.
 Established: March 8, 1982
 Capital: 15,434,588,000 yen
 Number of employees:
 Number of full-time employees: 7,308 (on a consolidated basis)
 Number of partner employees: 11,770*
 *Number of partner employees converted into the number of 8-hour workers

Major operations:
 Control and management of companies operating in such fields as prescription dispensing, drugstores, and home-visit nursing stations

Headquarters: 62-1 Shin'e, Yokone-machi, Obu-shi, Aichi 474-0011
 Main store: 1-8-4 Mikawa Anjo-cho, Anjo-shi, Aichi 446-0056

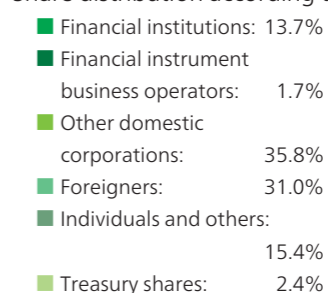
Number of stores:
 1,483 (Total of the Group)
 - Sugi Pharmacy: 1,363
 - Japan: 107
 - SUGI home-visit nursing stations: 13

Directors (as of May 20, 2022)
 Representative
 Director & Chairman: Eiichi Sakakibara
 Representative
 Director & President: Katsunori Sugiura
 Director: Shinya Sugiura
 External Director: Shigeyuki Kamino
 External Director: Yoshiko Hayama
 External Full-time
 Auditor: Toshihiko Sakamoto
 External Auditor: Kana Yasuda
 External Auditor: Makoto Kamiya

Stock Information

Total number of shares authorized to be issued by the Company: 200,000,000
 Total number of issued shares: 63,330,838
 Number of shareholders: 31,844

Share distribution according to shareholders



Major shareholders (Top 10)

Name	Number of shares held (thousands)	Shareholding ratio (%)
Sugi Shoji Co., Ltd.	20,972	33.92
The Master Trust Bank of Japan (trust account)	6,442	10.42
STATE STREET BANK AND TRUST COMPANY 505223	2,125	3.43
Katsunori Sugiura	1,892	3.06
Shinya Sugiura	1,892	3.06
THE BANK OF NEW YORK MELLON 140051	1,627	2.63
CEP LUX-ORBIS SICAV	1,445	2.33
Tsuruha Co., Ltd.	1,272	2.05
Custody Bank of Japan, Ltd. (trust account)	1,046	1.69
THE BANK OF NEW YORK MELLON 140042	912	1.47

(Notes) 1. We possess 1,517,333 treasury shares, but exclude ourselves from the above list of the major shareholders.
 2. The shareholding ratio is calculated after excluding our treasury shares.