



To Be the No. 1 Health Station in Each Local Community

Integrated Report 2023



WELCIA HOLDINGS CO., LTD.
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WELCIA HOLDINGS CO., LTD.



Our Mission

To promote a higher quality of life and healthy lifestyles for our customers

2030 Vision

To Be the No. 1 Health Station in Each Local Community

Embodying our vision of what the drug store of the future should be, the Welcia Group has set itself the goal of becoming the community's No. 1 Health Station by 2030.

To provide our customers with enriched social interactions and healthy lifestyles, we aim to create a community space that supports local people to help them live full, enjoyable, healthy lives, and we aim to be trusted as professionals in everything, from prevention and pre-symptomatic care to treatment and nursing care. We will strive to do what we can, to do what only we can do, and to do what we should do.



The meaning of the cover image
 As the illustration on the front cover of this report suggests, we have a strong commitment to playing a vital role in the local community through contact points with our customers, such as the provision of counseling services. The image embodies our hope to get as many people as possible to use our services, including people who may not have visited drug stores much in the past.

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Editorial Policy

The aim of this report is to communicate the Welcia Group's values, strengths, medium- to long-term strategy, and initiatives to all stakeholders, including investors, so that they can be used to achieve constructive dialogue. When compiling this report, we have focused on including only the most important content in a simple and easy-to-understand format. IR information, CSR-related information, and other content not included in this report can be found on our website.

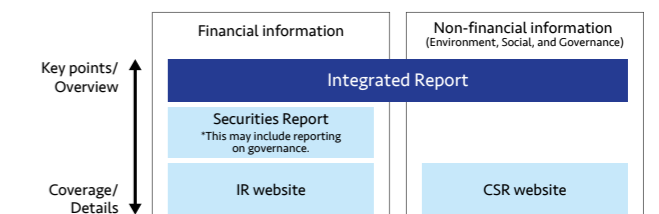
● Period Covered

This report is mainly focused on activities that were carried out in fiscal 2022 (March 2022 to February 2023) but also contains activities carried out before and after this period. The names of organizations and officers are current as of May 25, 2023.

● Scope of Report

Financial information included in this report is based on the consolidated financial information of WELCIA HOLDINGS CO., LTD., while non-financial information is based on information covering Welcia Yakkyoku Co., Ltd. only.

Positioning of this Report



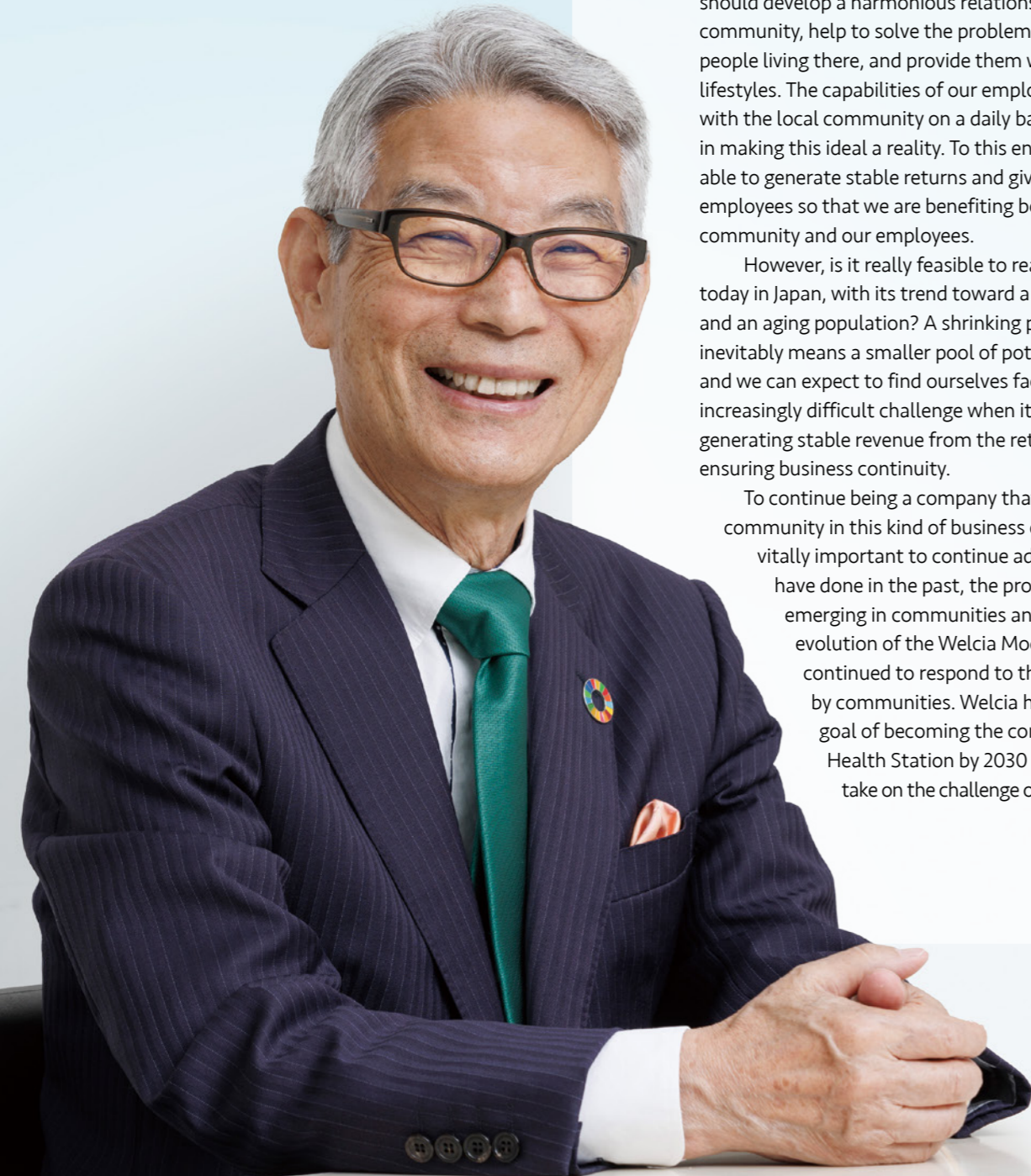
Note on Forward-looking Statements

Forward-looking statements in this report reflect the Company's judgment based on information available at the time of writing and include a certain amount of risk and uncertainty. Please understand that performance forecasts and other such statements contain the risk that results may differ from those forecasts.

The No. 1 Health Station in Each Local Community that Brings People and Communities Together and Supports Healthy Living

Takamitsu Ikeno

Chairman and Representative Director
WELCIA HOLDINGS CO., LTD.



Aiming to continue playing an important role in supporting the local community

Welcia's ideal of what it should be is a corporation that is important to the local community. I believe that we should develop a harmonious relationship with the local community, help to solve the problems experienced by people living there, and provide them with enriched lifestyles. The capabilities of our employees, who interact with the local community on a daily basis, play a vital role in making this ideal a reality. To this end, I want us to be able to generate stable returns and give back to our employees so that we are benefiting both the local community and our employees.

However, is it really feasible to realize this vision today in Japan, with its trend toward a declining birthrate and an aging population? A shrinking population inevitably means a smaller pool of potential customers, and we can expect to find ourselves faced with an increasingly difficult challenge when it comes to generating stable revenue from the retail business and ensuring business continuity.

To continue being a company that supports the local community in this kind of business environment, it is vitally important to continue addressing, as we have done in the past, the problems that keep emerging in communities and realize a further evolution of the Welcia Model, which has continued to respond to the difficulties faced by communities. Welcia has set itself the goal of becoming the community's No. 1 Health Station by 2030 and is beginning to take on the challenge of achieving this goal.

Supporting life in the local community by providing things that are needed but in short supply

As a retailer, Welcia's most important mission is to provide the things that people need when they need them. Stores are the venue for this, and going forward, we will continue to open new stores throughout Japan. But what are customers who have difficulty in getting to our stores supposed to do? The solution to this problem is our "Uetan-go" mobile sales vehicles, which we launched last year. This system allows us to provide products and services to people who do not have a means of transport to get to one of our stores and people who have difficulty leaving the house. Starting off by deploying 20 of these vehicles within the first year, we will then go on to expand the fleet to around 100 vehicles as soon as possible, aiming to monetarize this as a new drug store business model.

At the same time, being part of a community is very important in order for people to enjoy a fulfilling life. With this in mind, Welcia is increasing the number of stores that have a Welcafe, a space that anyone can make free use of at no charge. By having these spaces in our stores, it should be possible for senior citizens (who often tend to become isolated and lonely) who visit our stores to become friends with other people in the local community. Precisely because there are no restrictions on how the space can be used, the Welcafe concept should foster the emergence of innovative ways of using spaces and of new types of community.

By providing household essentials and a sense of community through our "Uetan-go" mobile sales vehicles and Welcafe, we will be integrating ourselves with the local community and helping to safeguard people's ability to live in safety and with peace of mind.

Providing a foundation for peace of mind through supporting community health

The Japan of the future will be a hyper-aged society, and it will be important to ensure that every senior citizen can live healthily and without constraints. As a leading company in the healthcare field, Welcia has an important role to play here. Our current concept is to install various types of health monitoring devices in Welcafe areas and in our "Uetan-go" mobile sales vehicles so that people can check their blood pressure, body fat, etc. easily when they visit a Welcia store or shop at an "Uetan-go" mobile sales vehicle. Welcia has around 8,000 pharmacists and just under 20,000 registered pharmaceutical sales clerks throughout Japan, as well as trained caregivers, who can provide consultations as necessary. We are also proceeding with the building of a network that links us with medical facilities so that we can recommend that customers see a doctor when necessary. Our aim is for customers who visit our stores to be able to monitor their own health status and for our store employees, with their specialist expertise, to share customers' worries and joys.

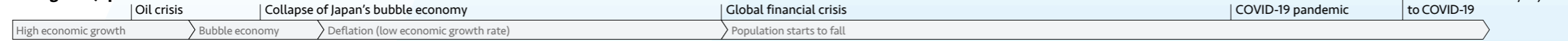
The number of people who find shopping difficult is forecast to increase steadily in the future. Making it possible for these people to shop with peace of mind through visits from our "Uetan-go" mobile sales vehicles or having them enjoy forging links with other people at our Welcafe facilities when visiting our stores has a vital role to play in ensuring our Company's business continuity. By providing these services, we are also helping to solve the problems affecting these communities. Going forward, we will be feeling our way toward a more precise vision of what a drug store needs to be in the future so that we can continue to play a role in which we are always busy helping people with their problems.

Value Creation History

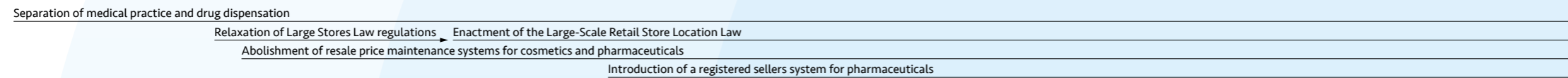
Developing the Welcia Model in anticipation of changes in the social environment

The Welcia Group has expanded its business operations in anticipation of changes in the social environment. Going forward, we will aim to achieve continuous corporate growth while also helping to create a sustainable society, with a constant commitment to connecting closely with the lifestyles of local communities.

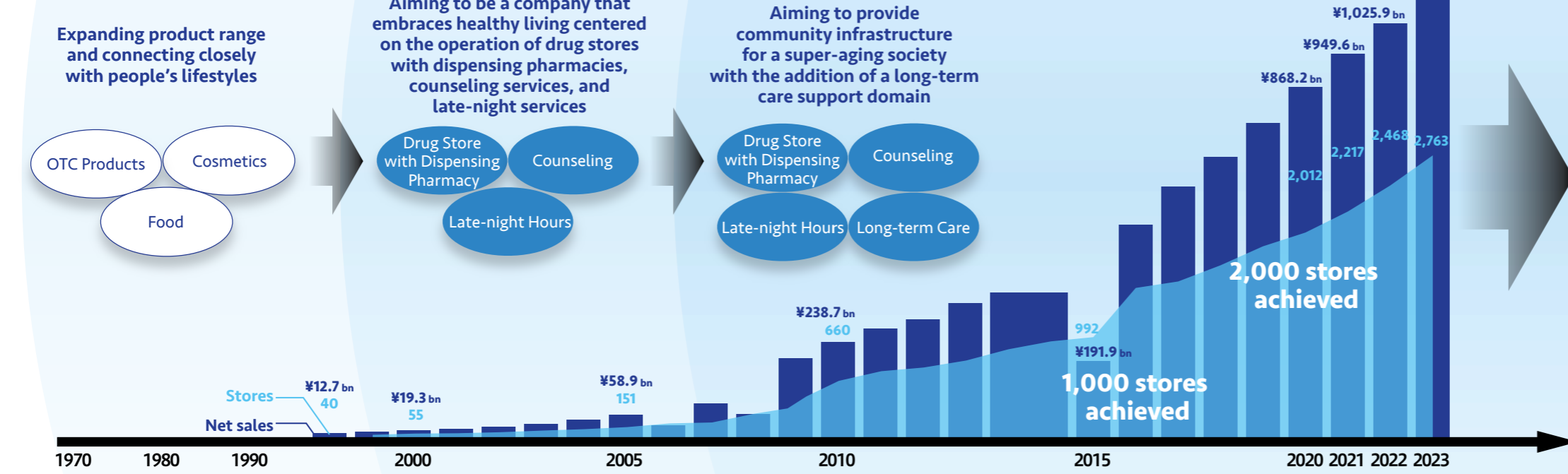
Changes in Japan's social environment



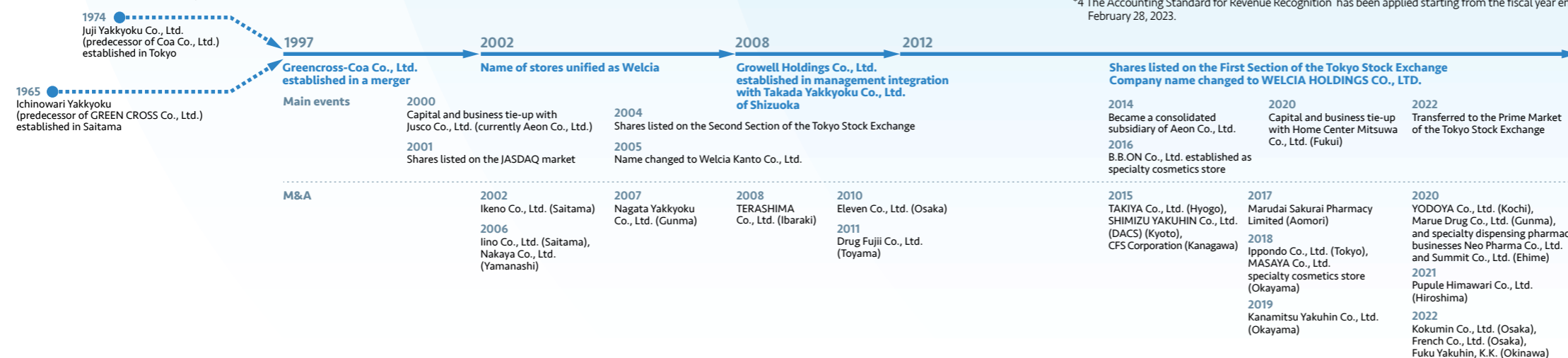
Main regulatory movements in the Japanese drug store industry



Sales trends and value creation



Main events & M&A projects



Drug Store with Dispensing Pharmacy

Counseling

Promoting the Welcia Model and becoming the community's No. 1 Health Station

Late-night Hours

Long-term Care

Leveraging the Welcia Group's scale and expertise to grow in an ever-expanding market

Market growth potential

Continuous expansion toward a 10-trillion-yen market

Scale

Scale and collective strength cultivated over many years

Expertise

Leveraging the expertise of a wide variety of specialists

As of February 28, 2023

Drug store market size:
¥10 trillion (2025)

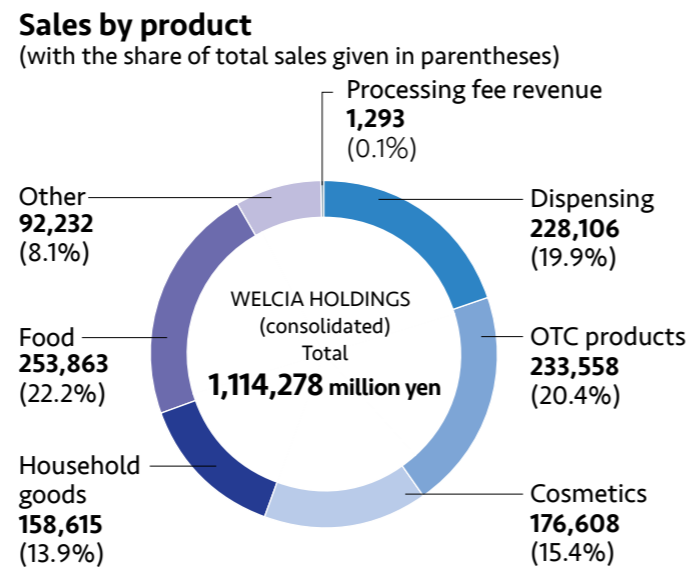
Oligopoly in the drugstore industry
Share owned by the top 10 companies:
71% (2022)

Dispensing market size:
¥8 trillion (2025)

Oligopoly in the dispensing business
Share owned by the top 10 companies:
17.3% (2022)

Net sales:
¥1,144.2 billion

YoY change in net sales:
+11.5%



Annual number of customers:
32 million

Prescriptions dispensed:
21.64 million

Welcia members:
8.80 million
(including 5.15 million WAON card users)
(as of July 20, 2023)

No. of employees:
66,634
(including both permanent and temporary employees)

No. of beauty care advisors:
2,553

Area covered by stores:
2,751 stores in 45 prefectures
(excluding 12 overseas stores)

Stores offering late-night services:
1,937 stores

No. of stores with a pharmacy that opens on Saturdays:
1,661 stores

No. of pharmacists:
7,706

No. of registered pharmaceutical sales clerks:
18,586

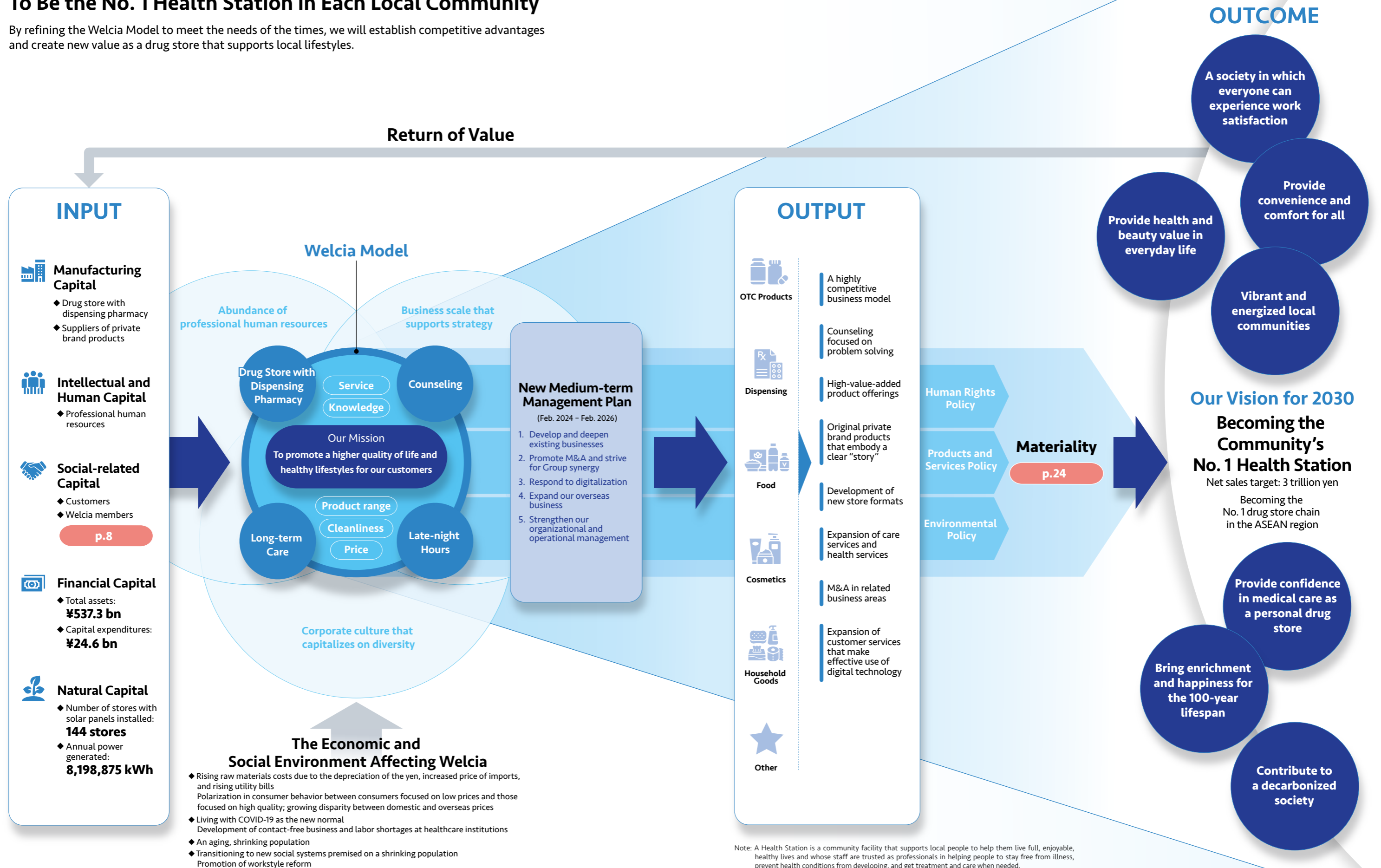
No. of drug stores with dispensing pharmacies (in Japan):
2,019 stores

No. of staff who have obtained the Lifree care advisor qualification:
Newly qualified staff in the fiscal year ended February 28, 2023
742 (cumulative: 6,940)

No. of stores that offer medication management and advice for in-home medical care:
857 stores

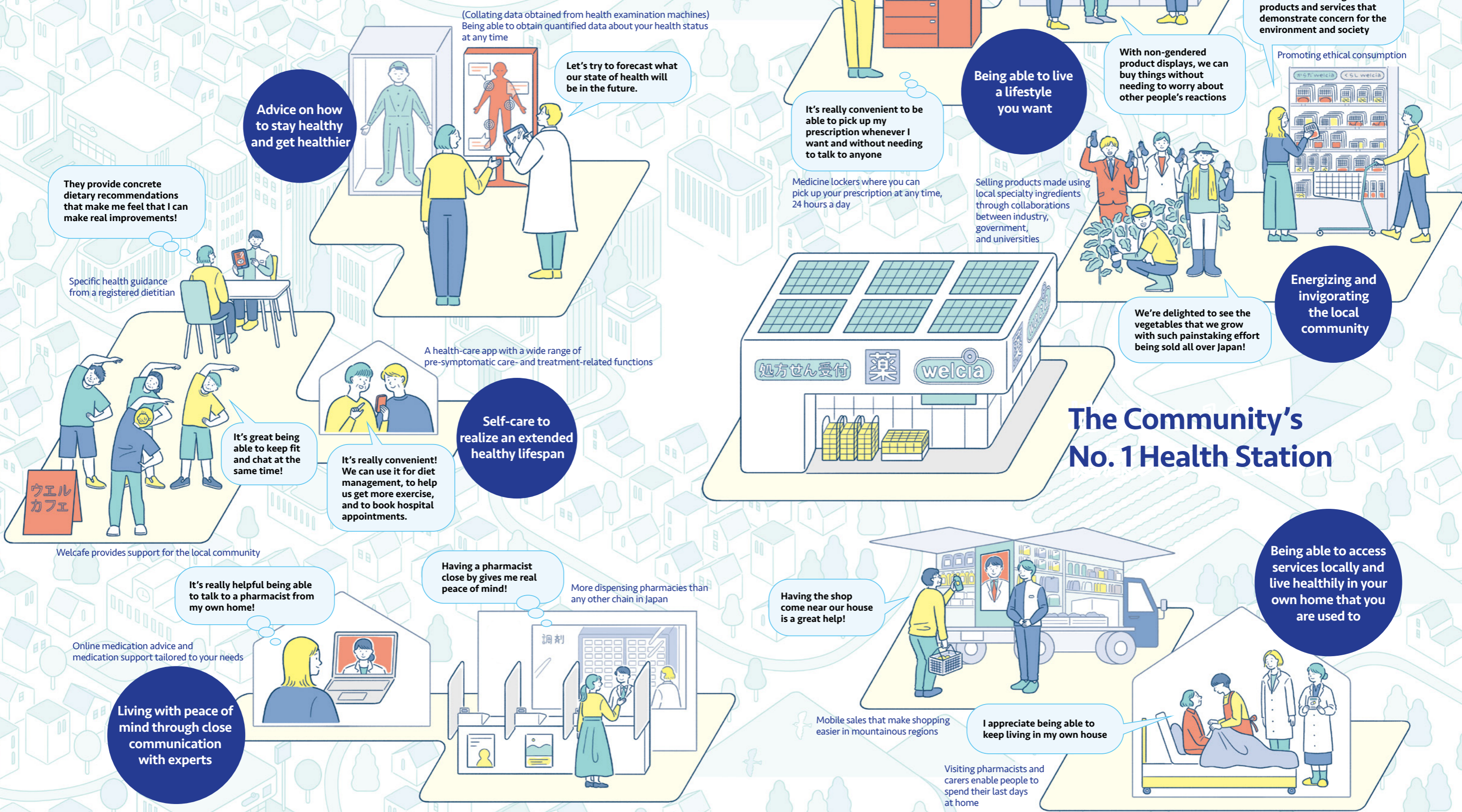
2030 Vision: To Be the No. 1 Health Station in Each Local Community

By refining the Welcia Model to meet the needs of the times, we will establish competitive advantages and create new value as a drug store that supports local lifestyles.



Spreading enriched lifestyles as the community's No. 1 Health Station

Life with "Health Stations" is a future in which people in the local community can enjoy healthy, happy lives, supported by professionals who help them with everything from prevention and pre-symptomatic care to treatment and nursing care whenever they need it. By 2030, the Welcia Group aims to be the community's No. 1 Health Station in providing this kind of lifestyle.



Advice on how to stay healthy and get healthier

(Collating data obtained from health examination machines) Being able to obtain quantified data about your health status at any time

Let's try to forecast what our state of health will be in the future.

They provide concrete dietary recommendations that make me feel that I can make real improvements!

Specific health guidance from a registered dietitian

A health-care app with a wide range of pre-symptomatic care- and treatment-related functions

Self-care to realize an extended healthy lifespan

It's great being able to keep fit and chat at the same time!

It's really convenient! We can use it for diet management, to help us get more exercise, and to book hospital appointments.

Welcafe provides support for the local community

It's really helpful being able to talk to a pharmacist from my own home!

Online medication advice and medication support tailored to your needs

Living with peace of mind through close communication with experts

Having a pharmacist close by gives me real peace of mind!

More dispensing pharmacies than any other chain in Japan

Having the shop come near our house is a great help!

Mobile sales that make shopping easier in mountainous regions

I appreciate being able to keep living in my own house

Visiting pharmacists and carers enable people to spend their last days at home

It's really convenient to be able to pick up my prescription whenever I want and without needing to talk to anyone

Medicine lockers where you can pick up your prescription at any time, 24 hours a day

Being able to live a lifestyle you want

Selling products made using local specialty ingredients through collaborations between industry, government, and universities

With non-gendered product displays, we can buy things without needing to worry about other people's reactions

An LGBTQ+-friendly shopping environment

There is a wide range of products and services that demonstrate concern for the environment and society

Promoting ethical consumption

We're delighted to see the vegetables that we grow with such painstaking effort being sold all over Japan!

Energizing and invigorating the local community

The Community's No. 1 Health Station

Being able to access services locally and live healthily in your own home that you are used to

We will be a new drug store that values health even more.

Tadahisa Matsumoto

President and Representative Director
WELCIA HOLDINGS CO., LTD.



Review of the previous medium-term management plan

Q. Now the final fiscal year of the previous medium-term management plan has ended, what is your performance assessment for the plan?

A. Although profitability remained an issue, we have achieved growth in scale, including the sales targets, by pursuing most of the priority measures.

Under the previous three-year medium-term management plan (hereafter the previous plan) that started in March 2020, we continued to actively open new stores to achieve a one-stop store that offers key specialist support for the lives of people in local communities. We also worked to strengthen customer-facing operations in the dispensing sector as well as Healthcare Sales Areas.

Looking back at our performance in the fiscal year ended February 28, 2023, the final fiscal year of the previous plan, net sales totaled 1,144,278 million yen, which was 11.5% higher than the previous fiscal year and 3.1% higher than what was contemplated at the beginning of the term of the plan. Among the factors contributing to this was the increased consumer appetite on a rebound from staying home as the COVID-19 pandemic was subsiding, as well as being able to scale up through continuous mergers and acquisitions, such as the acquisition of Kokumin Co., Ltd. (162 stores) and French Co., Ltd. (3 stores) in June 2022 and Fuku Yakuin, K.K. (25 stores) in December of the same year as our subsidiaries. In addition, we sought to achieve our daily goal of expanding sales at existing stores, and consequently, we realized 3.8 % growth over the previous fiscal year, exceeding the 3.4% growth initially planned at the beginning of the term, which I believe was the direct result of our efforts.

Profits reached a record high as ordinary income totaled 52,149 million yen, which was 9.6% higher than the previous fiscal year and exceeded by 1.1% of what was planned for at the beginning of the term.

This can be attributed to our efforts to optimize expenses by promoting automated ordering and other

measures to streamline store operations, which countered the increased expenses due to a sharp rise in utilities costs in response to soaring fuel prices. Net income attributable to owners of the parent company was 27,030 million yen, up 2.2% from the previous fiscal year but lower than the initial plan due to the impact of an extraordinary loss of 1,100 million yen caused by the loss on guarantees related to the ESOP trust.

As I have described, while we became the first company in the drugstore industry in Japan to achieve net sales of one trillion yen, exceeding our sales target of 1.08 trillion yen, the ordinary income margin was only 4.6%, and the target of 5.0% was not achieved. The dividend payout ratio was 24.7%, compared to the target of 20% or higher.

Since the reasons for not achieving our profit targets are clear, we will take adequate measures to address them. One is our response to rising prices for utilities and other items. To absorb the increase in costs, we have launched a business improvement project to continue to improve productivity and, at the same time, reduce expenses. The other reason is the impact of M&A. In many cases, the net income margin of a newly acquired company is lower than that of our Group, which inevitably lowers our profit margin at

first. Since M&A is an investment for the future, we will continue to undertake such transactions while working to quickly bring the profit margin up to the Group's level.

Furthermore, I believe that, as a leader in the industry with one trillion yen in sales, we need to be one step ahead in sustainability as well. Based on this recognition, we have formulated the Sustainability Basic Policy in 2021 and also set KPIs for each materiality we identified (See p. 22 and beyond for more details).

Specifically, we are working to reduce environmental impacts by promoting the recycling of PET bottles to PET bottles (bottle-to-bottle), switching from plastic cutlery to wooden and paper cutlery. We will also work to create an

LGBTQ+ friendly shopping environment by formulating a manual on how to serve customers in stores in collaboration with P&G Japan Limited in addition to using the Welcia O-GUARD Shinjuku Store as a model store to promote this concept throughout society. I believe creating a stress-free shopping

environment through those initiatives will enable us to meet the expectations and trust of society, realize stores that customers willingly choose, and enhance our brand image and competitiveness.

Our commitment to customers boosts customer traffic and leads to sales increases

Summary of the previous medium-term management plan (March 2020 – February 2023)

Priority Items	Targets	Progress/Results
New store openings	Actively open new stores. Open around 120 new stores each fiscal year.	● Feb. 2021: 124 stores, Feb. 2022: 144 stores, Feb. 2023: 140 stores
Dispensing sector	Establish dispensing pharmacies in 80% of stores, and engage in at-home dispensing	● Group: 74.7%, in-store prescriptions from facilities and prescriptions from individual customers: 856 stores
Products	Develop private-brand products (200 SKU), and carry out digital promotions	▲ Private-brand product development: 162 SKU Welcia members: approx. 590 million
Stores	Standardize store operations (automated ordering and the work schedule management system)	● Automated ordering was installed (second half of 2020) Work schedule management was introduced (September 2021)
IT and logistics	Standardize store operations (new cash registers and packing slip-free operations)	▲ New cash registers are scheduled to be implemented in January 2024. Packing slip-free operations did not make significant progress.
Human resources and training	Reform workstyles (reduce total working hours by 10%)	▲ Total working hours was reduced by 4.2% (January 2023)

● Achieved ● Almost achieved ▲ Underway

Vision for 2030

Q. How do you envision the Group in 2030?

A. Welcia aims to become the community's No. 1 Health Station, where people come for health-related consultations and fun shopping.

In April 2023, we announced our Vision for 2030, which is to become the community's No. 1 Health Station.

The community's No. 1 Health Station means to be a community venue that provides beauty, fun, and healthy lives for local customers and where they feel free to ask for reliable professional advice for any health-related issues at any stage of their lives, from prevention and pre-symptomatic care to treatment and nursing care.

This clearly reaffirms our commitment to be a health industry company in addition to being in line with our Mission, "To promote higher quality of life and healthy lifestyles for our customers" and based on our long-held Vision of "Providing key support for people's lives."

In recent years, market expansion due to the growing demand for health products has triggered a shakeout in the drugstore industry in Japan, which consequently has become increasingly oligopolistic and polarized: one is a low-price strategy, which seeks to offer the lowest possible prices, and the other is a problem-solving, high-value-added strategy. Now that our Group accounts for 11 % of the total sales of the drugstore industry, it is expected to play a role in providing a roadmap for the entire industry to follow. With this recognition, we have decided that our Vision for the future is to help people in the community become healthier, which is the value we provide. To realize this vision, we must place emphasis on raising the awareness of this Mission to all of our employees. No matter how big the Company grows and no matter how many functions are added, it will not be

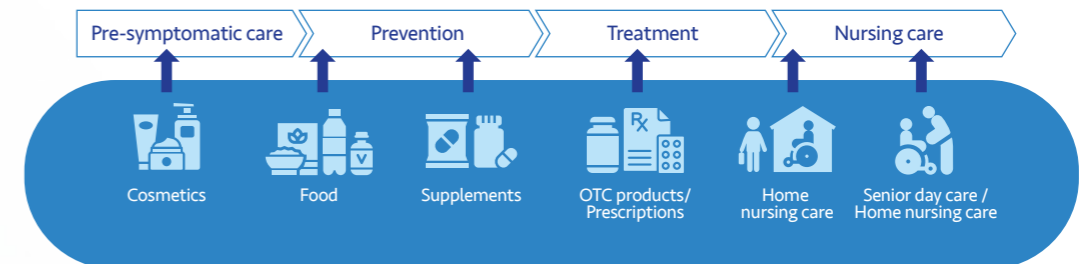
able to help its consumers become healthier if its employees are not fully aware of this. I would like to make every employee think about the importance of working at Welcia so that they will be conscious that we are all committed to making Welcia the community's No. 1 Health Station.

One of the initiatives we are working on as a trigger for becoming a Health Station is to stop handling tobacco products. We plan to accomplish this in all our stores within three years by the fiscal year ending February 28, 2026. Sales of tobacco products are approximately 20 billion yen a year. With the sales of other products purchased by customers who buy tobacco added to that, we will lose even more.

Discontinuing the sale of tobacco products demonstrates our commitment to becoming a Health Station and consequently, I expect this will make us chosen for our emphasis on health, which will not only make up for the loss but also allow us to grow more.

To become the community's No. 1 Health Station by 2030, we must commit ourselves to every stage of people's healthy lives, from prevention and pre-symptomatic care to treatment and nursing care. We handle, for example, OTC and BTC medicinal products for treatment, food and supplements for prevention, and food and cosmetics that support internal and external health during pre-symptomatic care. These are the areas that we have long focused on as part of the Welcia Model. In this sense, our Group is the closest to becoming a Health Station in the drugstore industry. With this in mind, we will further bolster the four major policies of the Welcia Model, namely, the operation of drug stores with dispensing pharmacies, counseling services, late-night services, and long-term care services. First, the operation of drug stores with dispensing pharmacies is the pillar of our Group's management, and our goal is to have a

Health Stations' areas of coverage



Our commitment to supporting customers at all stages, from prevention and pre-symptomatic care to treatment and nursing care

dispensing pharmacy in 80% of our stores by the fiscal year ending February 28, 2026. With more than 80% of Welcia's directly operated drug stores already having a dispensing pharmacy, most consumers, especially in the Kanto region, take it for granted that they can find a dispensing pharmacy at every Welcia's store. We will seek to be more accessible to our customers by increasing the number of contact points for customer service, including online consultations and pharmacists' in-person visits to patients, in the future.

In addition, profitability related to dispensing has been on a downward trend due to the revision of drug prices and the stricter rules on items that can be covered by National Health Insurance. Therefore, we intend to improve profitability and contribute more to our customers' health by shifting away from conventional dispensing, and from products to services and from handling goods to attending to people.

Second, we will improve our counseling services by increasing the amount of time for interaction with customers through automation, such as the introduction of dispensing robots, as well as by proactively approaching them. In addition to boosting these existing activities, we will also provide counseling services to a wider range of customers by increasing channels for conversation, such as specific health guidance and online counseling.

Third, the late-night services are what we have been

focusing on to enhance customer convenience. Although many competitors have reduced their business hours due to people staying at home and labor shortages caused by the COVID-19 pandemic, we will further strengthen this area to meet customers' shopping needs, even late at night.

We will also work to expand our product lineup to make shopping more enjoyable. Specifically, we will enhance two lines of conceptually unique private-brand (PB) products. One is "Karada Welcia," which consists of products that directly affect customers' bodies and thus

pursue reliable quality. The other is "Kurashi Welcia," which comprises articles of daily necessities that are not only functional but also considerate of the environment and other social issues. In the food sector, we established Aeon Welcia Kyushu Co., Ltd. in September 2022 as a joint venture with

Aeon Kyushu Co., Ltd. and launched a store that combines grocery and drug store functions. We will provide values, such as freshness, that have been difficult to achieve in conventional drug stores.

Finally, regarding long-term care services, we are planning to work on both institutional care and home nursing care, but first, we must reinforce our initiatives through reorganization to tackle many challenges, such as fulfilling scale requirements at certain levels and developing human resources. I believe that we need to draw on outside resources, including M&A, because the speed at which we train our staff from scratch at our

A Health Station is a platform of new lifestyles centered on health

Our Vision for 2030

The Community's No. 1 Health Station

A community venue that supports beauty, fun and the healthy lives of local customers and where they can find reliable, professional advice, from prevention and pre-symptomatic care to treatment and nursing care.

Goal

ASEAN's No. 1 drug store
Sales: 3 trillion yen

current scale will not allow us to meet the 2030 goal.

In reinforcing these four major policies, we emphasize the creation of a health ecosystem in collaboration with local healthcare providers and the government. To realize this, it is necessary to consider the circumstances specific to each area, such as each city or ward. We believe this is only possible for us as a group with 2,751 stores across Japan, and thus, we will further strengthen this strategy going forward. We are particularly working with outside organizations to establish a system to reinforce cooperation with the government. In addition, we will train personnel to have the knowledge and skills to communicate with doctors in each area. Steadily promoting these measures in each area throughout Japan will ultimately differentiate our Company and lead to securing an absolute market share in that area.

Through these efforts, the community's No. 1 Health Station will spread throughout Japan and eventually overseas, and our Group will grow to become the No. 1 drug store in the ASEAN region. Consequently, sales will reach three trillion yen. This is Welcia Group's Vision for 2030.

Refining the Welcia Model is to become a professional advisor, from prevention and pre-symptomatic care to treatment and nursing care.

New medium-term management plan

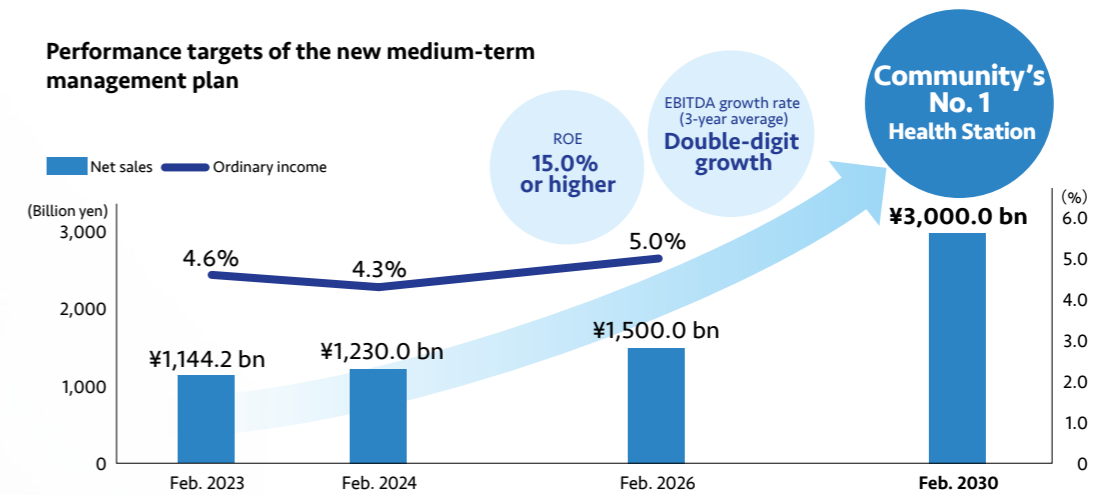
Q. What is the new medium-term management plan that started in March 2023?

A. As the first step to realizing our Vision for 2023, we will promote five major policies.

As the first step toward realizing our Vision, the community's No. 1 Health Station, our Group has created a new three-year medium-term management plan (hereafter the new plan), which began in March 2023. Under this new plan, we aim to achieve consolidated net sales of 1.5 trillion yen and an ordinary income margin of 5.0% while raising ROE to 15.0% or higher and achieving double-digit growth in the EBITDA growth rate in the new plan's final fiscal year ending February 28, 2026.

To achieve these numerical targets and realize our Vision, we have identified five major policies as explained in the following:

Performance targets of the new medium-term management plan



1. Evolving and deepening existing businesses

Up until now, we have tended to prioritize investments in new stores to expand our scale, but we will increase investment in existing stores based on our belief that stores that are supported by customers are the ones that must be kept in good condition. In doing so, we will not only renew facilities but also deepen the level of customer services. That is why we use the phrase "evolving and deepening."

Especially, we emphasize expansion of our business domain by enhancing health-related services. In addition to the increase in dispensing and nursing care I mentioned earlier, we are also working to build an internal proposal system that encourages employees to contribute new ideas that will foster a corporate culture in which employees are willing to take on new challenges.

Moreover, we are trying new types of stores, such as drug stores with grocery functions, small urban stores, and mobile sales vehicles. Particularly, we launched an integrated store that is between a drug store and a fresh food supermarket through a joint venture with AEON Kyushu Co., Ltd. Through an experimental store of this type, we have already confirmed that the integration of experts in both fields can achieve greater customer satisfaction and a higher net income margin. So, we plan to expand this business model throughout Kyushu to establish 50 stores within three years.

2. Driving M&A and pursuing Group synergy

M&A has been an important factor in our Group's growth. Of course, as I mentioned before, it can temporarily lower the Group's overall net income margin and the percentage of stores with a dispensing pharmacy, but our plan is to just raise the net income margin of the acquired company to match the Group's level.

Another important factor is to stay on the same page while working together. If a company pursues different goals from ours, no matter how good its performance is, no synergy can be expected. We would like to work with companies with the same vision as ours to further scale up our business.

3. Responding to digitalization

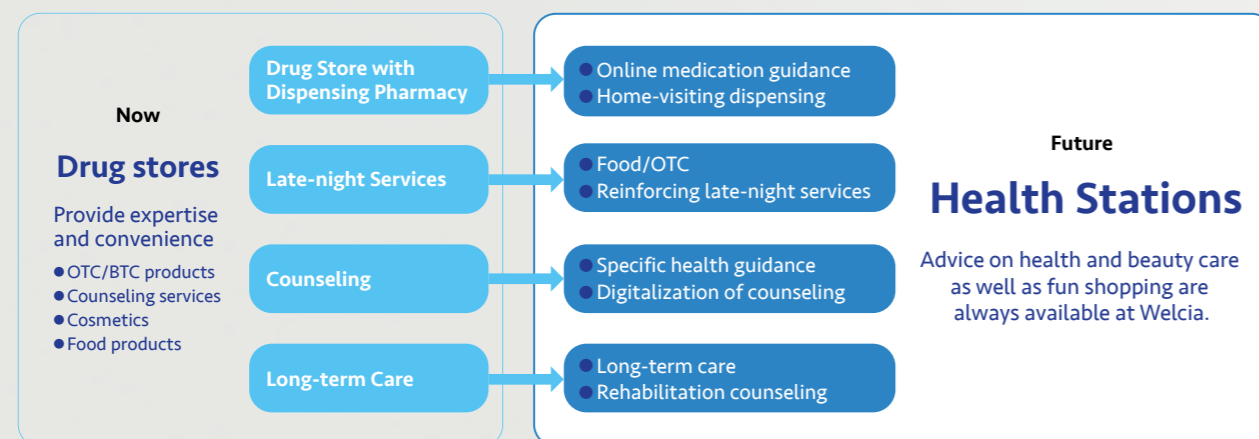
Under the previous plan, we promoted initiatives to improve customer convenience and operational efficiency, such as the introduction of electronic payment and self-checkout systems. We will continue to strengthen such initiatives,

including digital marketing and healthcare apps, to remain in contact with more customers both offline and online.

We will also do one-to-one marketing to create new value using digital technology. The number of registered Welcia members, which started in September 2021, had reached approximately 5.9 million by the end of February 2023 (8.8 million as of July 20, 2023). In March 2023, we introduced the WAON POINT service. By utilizing the data that we have collected, we will strive to meet the needs of each registered customer on a truly one-to-one basis.

Take the first step toward becoming a Health Station through steady implementation of five major policies.

Our Vision for 2030



Message from the President

4. Overseas business expansion

As an overseas operation, we established a joint venture in Singapore in 2017, which has now expanded to 12 stores. We are considering expanding throughout the ASEAN region using this company as our headquarters and the malls where the Aeon Group has stores as our infrastructure.

To succeed in overseas markets, it is essential to carry an extensive lineup of high-quality private-brand products available only at Welcia and popularize them among local customers. Our Group has also developed the private brands, "Karada Welcia" and "Kurashi Welcia." All those products are labeled in English so that overseas customers can understand what kind of products they are. We will continue to enhance our private-product lineup in cooperation with AEON's private brand "TOPVALU" as well.

5. Upgrading organizational and business management

At the start of the previous plan, our organizational structure was reorganized into a branch office system, establishing five branch offices throughout Japan. By delegating authority to the branches, we sought to speed up the decision-making process and make our stores more responsive to local needs. Under the new plan, we will review the initiatives of the past three years

to further reinforce our branch office system.

Specifically, we will further delegate authority and install a numerical performance management function in the administrative department of each district office to strengthen the profitability of each store. In addition, the number of stores managed by a district manager, which was limited to 15 to 30 stores in the previous plan, can now be set flexibly according to the situation in each district. Furthermore, to strengthen the three areas of district managers, dispensing, and cosmetics in an integrated manner, we will create a system that facilitates cooperation among the three by clarifying the leadership position of the district managers.

Message for shareholders and investors

Q. Finally, what are your aspirations for the fiscal year ending February 29, 2024?

A. We will take courageous steps in the first fiscal year of our newly launched medium-term management plan.

The fiscal year ending February 29, 2024, is the first fiscal year of our newly launched medium-term management plan and is also the first step toward realizing our Vision for 2030. We

will steadily implement the major policies that I have described so far to become the community's No. 1 Health Station, which is trusted and chosen by local customers.

Additionally, now that our Group accounts for 11% of the total sales of the drugstore industry in Japan, I believe that it should play a role in establishing rules within the industry, or rather, take the lead in setting an example. I feel that it will be rewarding for us if other companies take a cue from our initiatives, such as sustainable management and discontinuation of tobacco products sales, so that the entire industry can support the realization of a sustainable and healthy society. I believe that such efforts will help us meet the expectations and respond to the confidence of our stakeholders.

Now, our basic policy for dividends is to secure investment funds for growth and maintain stable dividends, with a target payout ratio of 20% or higher. The annual dividend per

share for the fiscal year ended February 28, 2023, was 32 yen, comprising an interim dividend of 16 yen and a year-end dividend of 16 yen. The forecast of our annual dividend for the fiscal year ending February 29, 2024, is 34

yen per share, comprising an interim dividend of 17 yen and a year-end dividend of 17 yen.

Our price-to-book ratio (P/B ratio), which has recently attracted much attention, is well over two times. This is a high level in the drugstore industry in Japan, indicating that we are highly evaluated and there are high expectations. We will continue to actively invest in M&A and other businesses, return profits to shareholders, and enhance communication with stakeholders to achieve our Vision and increase both corporate value and public understanding of our Company.

I would like to ask our shareholders, investors, and other stakeholders for their continued support.

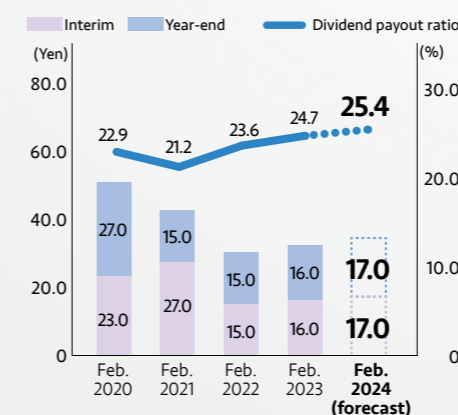
We will be a company chosen by many stakeholders through proactive investment, communication, and other ways.



Five major policies of the new medium-term management plan (March 2023 to February 2026)

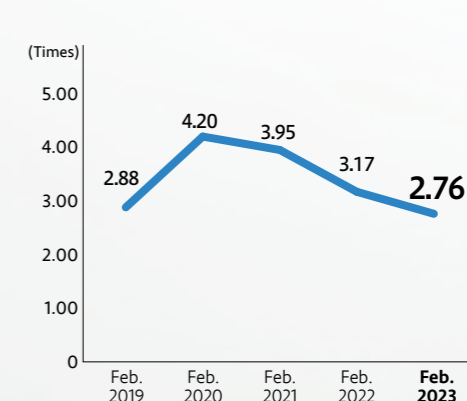
Five major policies	Main activities
1 Evolving and deepening existing businesses	<ul style="list-style-type: none"> Strengthen competitiveness by opening new stores, remodeling existing stores, etc. Enhance counseling ability and improve product promotion Increase in-store dispensing pharmacies and respond to increased sophistication of dispensing operations Develop conceptually unique private-brand products Develop types of stores, such as drug stores with grocery functions, small urban stores, and mobile vending vehicles Expand actively the nursing care business Expand our business domain by enhancing health-related services
2 Driving M&A and pursuing Group synergy	<ul style="list-style-type: none"> Conduct M&A of drug store businesses and their peripheral businesses Improve profitability of subsidiaries through the expansion of the Group's synergy by mutually utilizing its common functions and promoting the Welcia Model
3 Responding to digitalization	<ul style="list-style-type: none"> Develop digitally enhanced customer services Implement labor-saving and efficiency measures in stores and headquarters
4 Overseas business expansion	<ul style="list-style-type: none"> Increase the number of Welcia-BHG stores (Singapore) and improve profitability Expand into other ASEAN regions
5 Upgrading organizational and business management	<ul style="list-style-type: none"> Optimize the headquarters' organization across the Group

Dividend per share and payout ratios



Note: On September 1, 2020, the Company implemented a 2-for-1 split of ordinary shares. Figures for dividend per share are the actual amounts paid.

Price-to-book ratio or P/B ratio



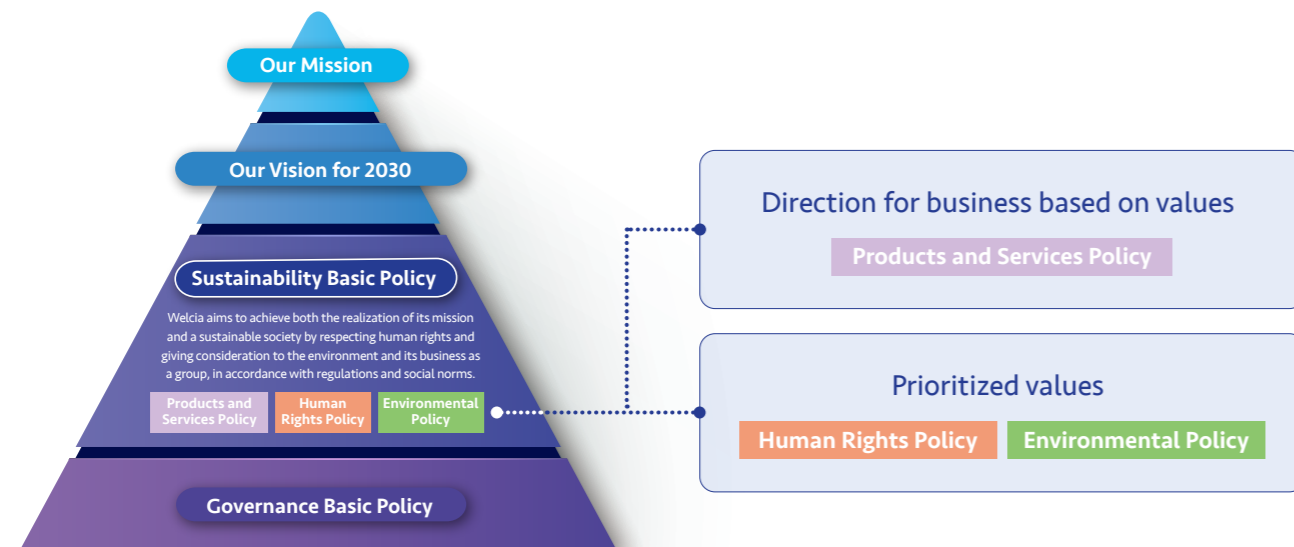
Corporate Governance and Risk Management for the Sustainability Policy

The Welcia Group's sustainability initiatives are all linked to its core business. By undertaking business activities that embody awareness of our materiality issues, we are realizing sustainable growth for our Company while also contributing toward solving social issues and the realization of the United Nations' Sustainable Development Goals (SDGs).

Promoting sustainability

In 2021, the Welcia Group formulated a Sustainability Basic Policy that emphasizes both fulfilling our corporate philosophy and helping to realize a sustainable society. The Sustainability Basic Policy comprises three individual policies: Our Human Rights Policy and Environmental Policy collate our values with regard to human rights

and the environment, which we consider as particularly important in relation to realizing a sustainable society, while our Products and Services Policy outlines the strategic direction that our core business should be moving in based on these values.



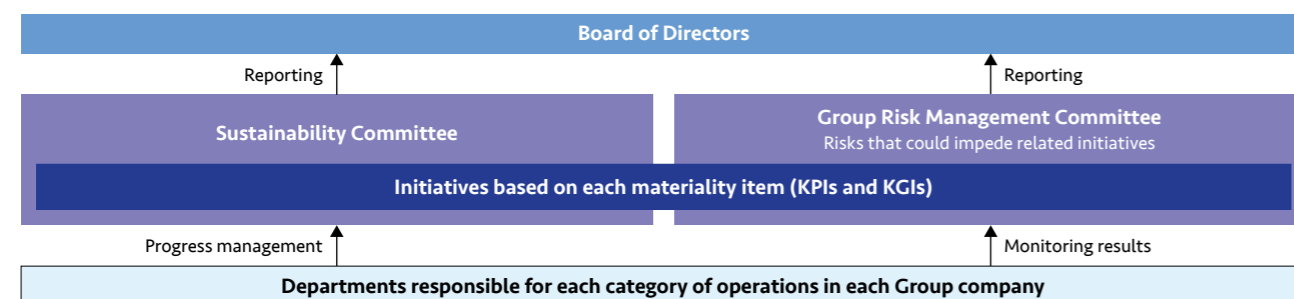
Governance

Taking our Sustainability Basic Policy as the foundation, the Welcia Group has specified 26 materiality items. We have also established a Sustainability Committee, chaired by the president and representative director, as a dedicated organization to oversee and promote the efficient, speedy implementation of initiatives relating to this materiality. The Sustainability Committee monitors the implementation status of sustainability activities in each department within the Group, analyzes and evaluates these activities, and reports to the Board of Directors, more than

half of which are independent outside Directors, twice a year in order to obtain the Board's views.

The Sustainability Committee appoints mainly the respective executive officers to be responsible for each of the 26 materiality items, and these officers also form the Sustainability Promotion Council, which operates as a sub-committee of the Sustainability Committee. Besides implementing periodic progress monitoring, they promote effective materiality-related initiatives as part of the regular business activities that each member is responsible for.

Multilayered monitoring system utilizing two committees



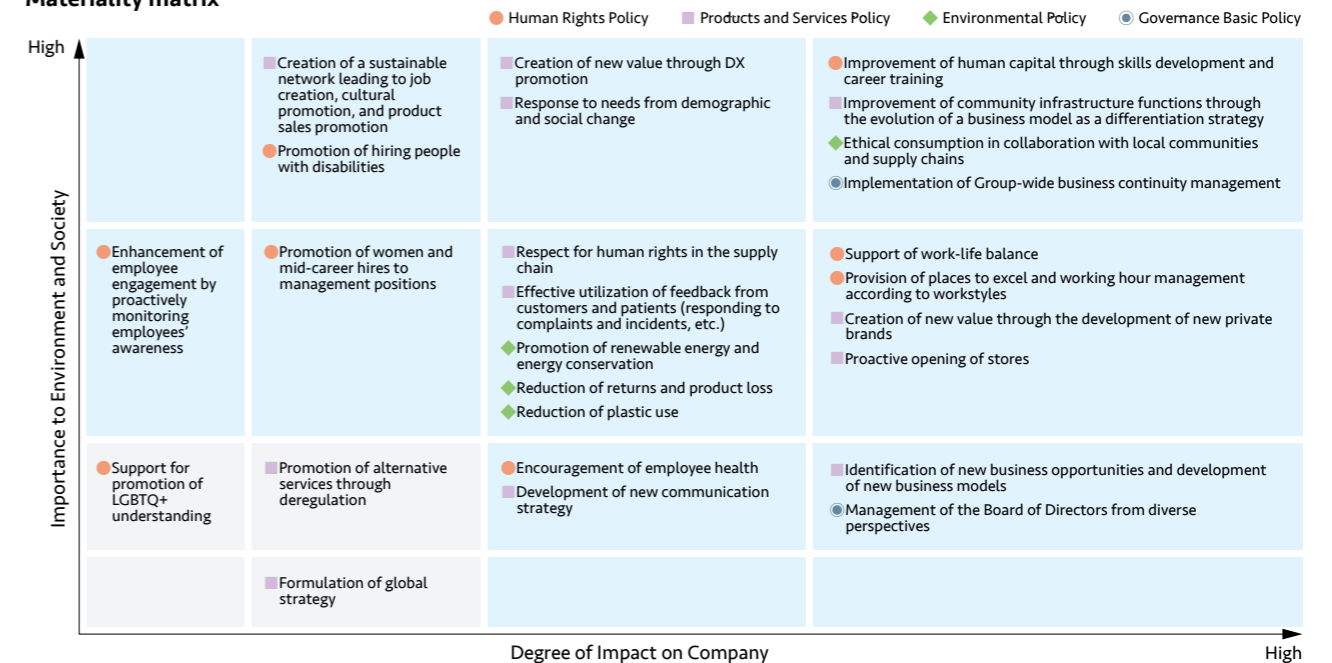
Strategy

Through communication with shareholders and institutional investors, we have identified what our stakeholders expect us to be from an ESG and sustainability perspective and have determined that human rights and the environment are the two values that we need to focus on. Linking these values with the strategic direction in our core business, we have compiled

a list of 26 materiality items. We will be ensuring that key initiatives, such as the intention to "Develop and deepen existing businesses," which is outlined in our new medium-term management plan (implementation of which began in March 2023), are all linked to the 26 materiality items.

⇒ For more details about initiatives relating to our materialities see p. 24 – 29.

Materiality matrix



Risk management

The Welcia Group's approach to risk management involves identifying existing risks that could impede the achievement of the operational objectives of each department and then, based on the anticipated frequency of occurrence and impact on business performance, evaluating the ultimate residual risk in light of the extent to which each risk can be effectively controlled at present. In this way, risk assessment in relation to the operational objectives of the Group as a whole is performed at the beginning of each fiscal year, and reports are then received from each Group company on a monthly basis regarding risk monitoring status, with the results being reported to the Board of Directors by the Group Risk Management Committee.

In addition, as noted above, matters relating to initiatives for each materiality item are reported to the

Board of Directors via the Sustainability Committee, as well as the progress status. Accordingly, while the Sustainability Committee performs progress management for each materiality initiative, as well as operational objectives (KPIs and KGIs), the overall status of control of risks that could impede the achievement of operational objectives is monitored by the individual departments responsible for each aspect of operations. The system is structured so that, ultimately, the results of monitoring are reported to the Board of Directors via the Group Risk Management Committee.

In this way, by having sustainability-related initiatives monitored from a risk management perspective, the probability of objectives being achieved is increased.

List of Materiality Issues

The Welcia Group follows a basic policy of addressing materiality issues within its core business initiatives and managing progress through a governance framework whereby operational execution is undertaken by the personnel, mainly executive officers, responsible for promotion of each materiality item while the Board of Directors performs monitoring.

Policies	Materiality	Risks	KPIs	Performance as of the end of May 31, 2023	Target for the fiscal year ending February 28, 2026
Human Rights Policy	Promotion of women and mid-career hires to management positions	Shortage of next-generation talented employees suitable for management roles	Ratio of store managers who are women	14.8%	30%
			Ratio of departmental managers who are women	18.8% * * In addition, as of May 2023, all Welcia Group companies had at least one female Director	30%
	Improvement of human capital through skills development and career training	Training of talented employees is out of sync with the changing business environment	Ratio of employees who are mid-career hires	33.8%	Not yet confirmed* *The target for the fiscal year ending February 28, 2025, is set at 42%
			Annual training hours per employee	14.8 hours (including part-time employees)	Increased by 10% compared to the previous fiscal year
Products and Services Policy	Creation of new value through DX promotion	Unsatisfactory cost-benefit ratio due to budgetary constraints in relation to IT investment	Expanding the range of product categories for which automated ordering is used	Implementing field testing for AI forecasting using historic data	Launching automated ordering supported by AI demand forecasting, aiming for a cumulative total of 500 stores where this is in full-scale operation by consolidating product categories
			Participating in proof of concept (PoC) testing of data capture precision with the aim of bringing RFID technology into full-scale commercial operation	Implemented PoC testing at Welcia Yakkyoku Akihabara Ekimae store in March 2023 at the request of Japan's Ministry of Economy, Trade and Industry (METI)	Limited commercial adoption of RFID technology
			Thorough implementation of cyber-security measures in order to properly safeguard personal data we hold	Preparations for a Zero Trust security project kickoff are underway (to be implemented starting from the second half of FY2023)	Launching implementation of Zero Trust security
	Building a new communication strategy (utilizing social media and Big Data)	Failure to realize effective utilization of accumulated data	Securing new Welcia members	Welcia members: 7.5 million	Welcia members: 10.0 million
	Generating new value through the creation of new private brands	Reaching the limits of differentiation that is possible through private-brand products (competition with non-brand products)	Share of total Welcia retail sales held by Karada Welcia and Kurashi Welcia brand products	1.4%	2.4%
			No. of product items developed through collaboration between industry, government and universities or through joint development of medicinal and food products	19 items	90 items
	Promotion of alternative services through deregulation	Intensifying competition in the alternative service markets that Welcia has entered	No. of stores offering specific health guidance	14 stores (of which 10 have installed blood pressure monitor devices with ECG recording to facilitate self-checking)	100 stores
	Improvement of community infrastructure functions through the evolution of a business model as a differentiation strategy	Reduction in the degree of differentiation that is possible through the Welcia model of having drug stores with dispensing pharmacies due to deregulation	No. of drug stores with dispensing pharmacies	2,040 stores	2,457 stores
Stores offering 24-hour services			286 stores	400 stores	
Creation of a sustainable network leading to job creation, cultural promotion, and product sales	Difficulty in reaching consensus between Welcia and the local community	No. of stores with a Welcafe area	445 stores	700 stores	
Response to needs created by demographic and social change	Continuing depopulation making it difficult to continue business in some areas that the Company operates in	No. of Uetan-go mobile sales vehicles	Three vehicles operating in three locations (Shimada City, Shizuoka Prefecture; Nagatoro Town, Saitama Prefecture; and Okazaki City, Aichi Prefecture)	Collating the Uetan-go mobile sales vehicle operation knowhow that Welcia has accumulated and establishing a business model (aiming to have a cumulative total of 200 vehicles in operation by 2030)	
Environmental Policy	Promotion of renewable energy and energy conservation	Unpredicted increase in costs due to rising inflation	Stores with solar panels installed	144 stores (cumulative total) (including 2 stores that use power generated in-store, 117 stores that are selling power to the grid, and 25 stores with an off-site power purchase agreement [PPA])	420 stores (cumulative total) *Including stores with an off-site PPA
			No. of stores with indoor LED lighting with lighting adjustment functionality	954 stores (cumulative total)	1,300 stores (cumulative total)
			No. of stores with LED lighting for the parking lot* * Switching from fluorescent lightbulbs containing mercury	Already completed at 30 stores (cumulative total)	200 stores (cumulative total)
	Reduction of returns and product loss	Corporate-level measures to address the issue of food loss are evaluated as being inadequate, causing society to lose trust in the Company, with a consequent destruction of corporate value	Returned product rate	1.99% (March - May 2023)	Under 1.00%
			Waste generation rate	0.51% (March - May 2023)	Under 0.50%
	Reduction of plastic use	Corporate-level measures to address sustainability issues are evaluated as being inadequate, preventing the Company from being properly valued by investors and leading to destruction of corporate value	No. of PET bottle recycling collection stations	514 stations (as of June 30, 2023)	1,500 stations
		Quantity of PET bottles collected for recycling* *Of the 600,000 tons of PET bottles sold in Japan each year, 70,000 tons are sold by the Welcia Group, so we aim to set a recovery target equivalent to around 10% of this figure.	20.97 tons (cumulative total as of February 28, 2023)	75 tons (cumulative total)	
Ethical consumption in collaboration with local communities and supply chains	Disparity between consumers and businesses in terms of their awareness of social issues	Ethical consumption awareness	Continued implementation of the Eco-Katsu point system and related measures	Implementation of awareness-raising activities coordinated with PR activities	

Key Initiatives Based on Our Human Rights Policy

We strive to demonstrate respect for the human rights of all people and eliminate all types of harassment. In line with our corporate culture, which emphasizes respect for diversity, we implement management that attaches great importance to human capital.

Improvement of human capital through skills development and career training

In order to achieve continued growth in the future, besides securing and cultivating talented employees capable of realizing sustained corporate value enhancement with an eye to business portfolio transformation, it is also vital to build an organization in which the right people are used in the right place, with enhanced mobility of talented employees. Starting from the fiscal year ending February 29, 2024, we are adopting the Job Challenge System. Under this system, employees working in Welcia stores can apply for posts at the headquarters and district offices. Besides providing an opportunity for employees who submit applications to play a more active role in the Company, another aim of this initiative is to invigorate the Company as a whole by enabling the participating employees to utilize, in their original departments, the experience they have gained in the departments to which they are assigned while challenging themselves.

With the trend toward a declining birthrate, an aging population, and the shrinking of the working-age population, as well as the likelihood of changes to the healthcare system in local communities, there is a growing need for drug stores that are closely integrated into the community. To make a positive contribution toward the enhancement of dispensing services and toward self-medication* as a drug store chain that has numerous staff with specialist expertise, including pharmacists and pharmaceutical sales clerks, Welcia is working to expand its education and training system. In the fiscal year ended February 28, 2023, average annual training hours per employee, including training and seminars, came to 14.8 hours (this figure includes part-time employees). In addition, recognizing its social responsibility to safeguard the safety and physical and mental health of its employees and viewing this as a management issue that is of great importance in terms of furthering the Company's growth and future development,

the Welcia Group is working actively to implement employee health management. In March 2023, Welcia was recognized as the 2023 Certified Health & Productivity Management Outstanding Organization (in the large enterprise category); Certified Health & Productivity Management Outstanding Organizations are chosen jointly by Japan's Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi. We have set the three health management promotion KPIs shown below to prevent future health risks that may result from inappropriate lifestyle habits, and we are proceeding with measures to verify the progress made and facilitate the achievement of the targets we have set.

Going forward, we are aiming to further enhance our human capital by increasing the time dedicated to, and improving the quality of, skills development and career education.

*Self-medication is the selection and use of medicines by individuals to treat self-recognized illnesses or symptoms.

Our three health management targets

- 1 Having 100% of employees undergo health examinations
- 2 Reducing the percentage of employees who smoke, with a target of 17.4% or lower for 2023
- 3 Improving the body mass index (BMI) of our employees, with a target of 5.2%* or lower for 2023

*The percentage of employees who have a BMI of 30 or higher



◀ Welcia Group Health and Productivity Management Declaration
<https://www.welcia.co.jp/ja/company/health.html>
 (Japanese only)



Recognized as the 2023 Certified Health & Productivity Management Outstanding Organization (in the large enterprise category)

Working to realize inclusive shopping

Welcia and P&G Japan Limited have launched the Inclusive Shopping Project, with the aim of building an environment in which diverse consumers, including LGBTQ+ consumers, can do their daily shopping with peace of mind in a way that suits them. The learnings and insights from the project have been compiled in the form of an Inclusive Shopping Handbook, and by making effective use of this handbook in training and in practical, in-store activities, we will be working to build and expand a shopping environment characterized by inclusive customer services and inclusive retail spaces.



Welcia O-GUARD Shinjuku store

Key Initiatives Based on Our Products and Services Policy

By rolling out the Welcia Model, we are not only providing products and services that embody a high level of specialist expertise but also taking on the challenge of creating new value to fulfil our role in providing the local community with infrastructure that offers safety and peace of mind.

Generating new value through the creation of new private brands

Our Karada Welcia and Kurashi Welcia private brands feature products that have been developed right from the basics of product specifications and ingredients to support customers' physical and mental health, with thorough quality management to ensure safety, peace of mind, and environmentally-



Combined product display

friendly manufacturing. We will continue to launch new products under these private brands, based around the concept of continuing to align ourselves with customers' Karada (physical health) and Kurashi (lifestyle).



◀ We welcome your comments regarding Karada Welcia and Kurashi Welcia.
<https://www.welcia-yakkyoku.co.jp/karadatokurashi/voice/>
 (Japanese only)

Product development through collaboration between industry, government, and universities

One of the policies adopted by the Welcia Group is to contribute toward the local community and ethical consumption through the sale and supply of fair trade and environmentally-friendly products and services and the development of new products and services by means of collaboration between industry, government, and universities. In the fiscal year ended February 28, 2023, a comprehensive agreement was signed between the village of Kitagawa in Kochi Prefecture, which is one of Japan's leading yuzu (citrus junos) production regions but which has been experiencing severe problems in terms of depopulation and the aging of the agricultural workforce, and Welcia Yakkyoku Co., Ltd., Yodoya Co., Ltd., and Utena Co., Ltd., through close collaboration between the local government and the

private sector, and based around the concept of "benefiting consumers, producers, and the local community," products have been developed that effectively utilize the unique characteristics of yuzu citrus fruit, and these products are now being sold through the Welcia Group stores throughout Japan. Going forward, with support from local communities and from producers, we will continue to develop products that leverage a wealth of food ingredients.



The signing ceremony for the comprehensive agreement

Response to needs created by demographic and social change

To contribute toward the realization of the goal of "leaving no-one behind," the Welcia Group has been collaborating with individual municipalities and other local communities by for example, creating Welcafe areas as a venue for people living in the community to strengthen ties with one another and the "Uetan-go" mobile sales vehicles, the first of which began operating in Shimada City, Shizuoka Prefecture, in May 2022. We have started operation of mobile sales vehicles which, rather than just handling product sales, are also equipped with large-sized monitors so that local residents can have online health consultations with pharmacists or pharmaceutical sales clerks. These vehicles also provide enhanced convenience for users by handling payment of

public utility bills, cashless settlements, etc. The mobile sales vehicle service is now provided not only in Shimada City but also in Nagatoro Town, Saitama Prefecture, and Okazaki City, Aichi Prefecture, and we plan to increase the number of vehicles to 20 by the fiscal year ending February 28, 2025.



Product sales from an "Uetan-go" mobile sales vehicle (in Nagatoro Town, Saitama Prefecture)

Key Initiatives Based on Our Environmental Policy

Recognizing its responsibility as a company that has 2,751 stores throughout Japan (as of February 28, 2023), the Welcia Group is implementing measures to reduce the greenhouse gas emissions associated with its stores and logistics and to collect and recycle the PET bottles sold at its stores.

Promotion of renewable energy and energy conservation

In the fiscal year ended February 28, 2023, besides making a concerted effort to save energy by switching over to LED lighting at our stores and parking lots, we also proceeded with the installation of new solar power generating facilities.

The switchover to LED lighting has already been completed at 954 stores, and the number of stores that have solar panels installed has steadily risen to 144 along with 25 stores with an off-site power purchase agreement (PPA).

Disclosure based on the TCFD recommendations

The Welcia Group believes that addressing environmental issues is vitally important for realizing its corporate philosophy and building a sustainable society, and it has been striving to help make a decarbonized, resource-circulating, and symbiotic society. As regards measures aimed at realizing a decarbonized society, as a member of the Aeon Group, the Welcia Group is working toward the goal of reducing the total volume of greenhouse gases (hereafter "CO₂ emissions") emitted by our stores to zero through both energy conservation and energy production,

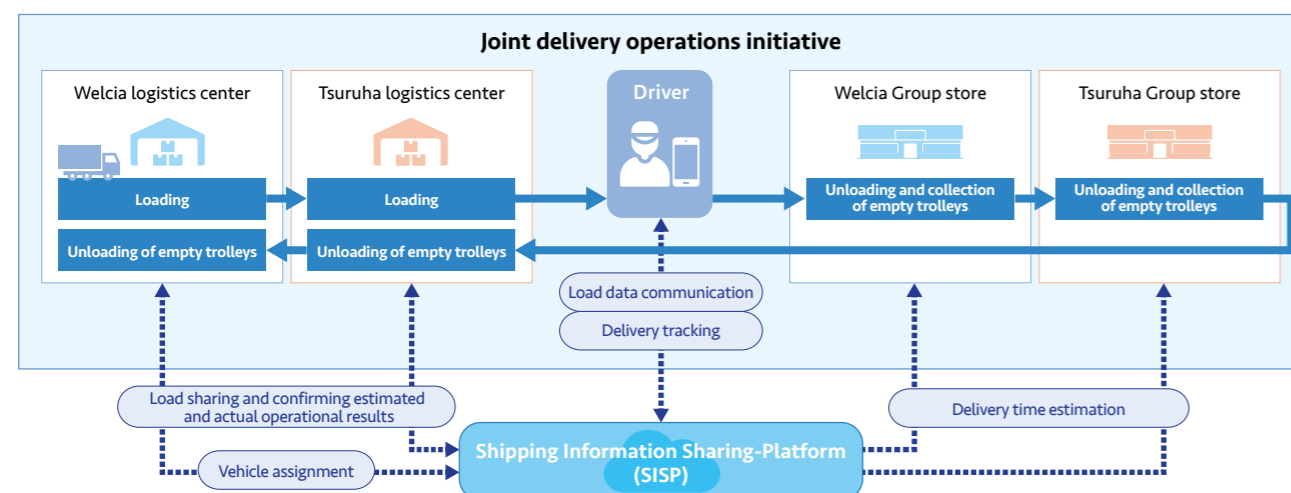
based on the Aeon Decarbonization Vision 2050. In addition, we have set sustainability KPIs and targets, including climate change related items, referencing the risk analysis conducted by the Aeon Group in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Disclosures based on the TCFD recommendations cover all the various sustainability-related items. For more details, see p. 22-25 of this report.

Joint delivery aimed at addressing logistics issues and reducing CO₂ emissions

With the aim of enhancing logistical efficiency and energy saving throughout the supply chain, Welcia is implementing joint delivery with Tsuruha Co., Ltd. in the Shimokita district of Aomori Prefecture. The Shimokita area has a low density of stores compared to other areas where Welcia and Tsuruha operate, causing problems with delivery truck loading ratios. Having delivery vehicles that carry the two companies' goods operate from a shared logistics center

makes it possible to enhance delivery efficiency and reduce logistics costs while also cutting CO₂ emissions. When performing joint deliveries, Welcia and Tsuruha use the Shipping Information Sharing-Platform (SISP)* Hitachi Digital Solution for Logistics provided by Hitachi, Ltd. as the basic platform for data sharing. By enabling various types of logistics information (including loading, estimated delivery time, and delivery tracking) to be digitalized

Joint delivery framework



and communicated seamlessly in the cloud, this system supports the sharing of data across companies. In this way, Welcia and Tsuruha are realizing the optimal utilization of delivery vehicles, responding to the labor shortage in the logistics sector, and contributing toward the building of a decarbonized society.

We are aiming to reduce the number of delivery vehicles that we use by 25% and cut CO₂ emissions by 13.6% through joint deliveries with other companies. (The above data were correct as of May 31, 2023.)

* This service platform enables consignors, delivery firms, etc. to communicate information in the cloud relating to inter-company deliveries, thereby making it possible to realize labor saving in administrative work and better visualization of delivery status, as well as achieving greater operational efficiency through joint deliveries.

Reduction of plastic use

To promote PET bottle recycling, Welcia has increased the number of stores that have PET bottle recycling collection stations, which by February 28, 2023, had risen to 439. We are also proceeding with the replacement of plastic

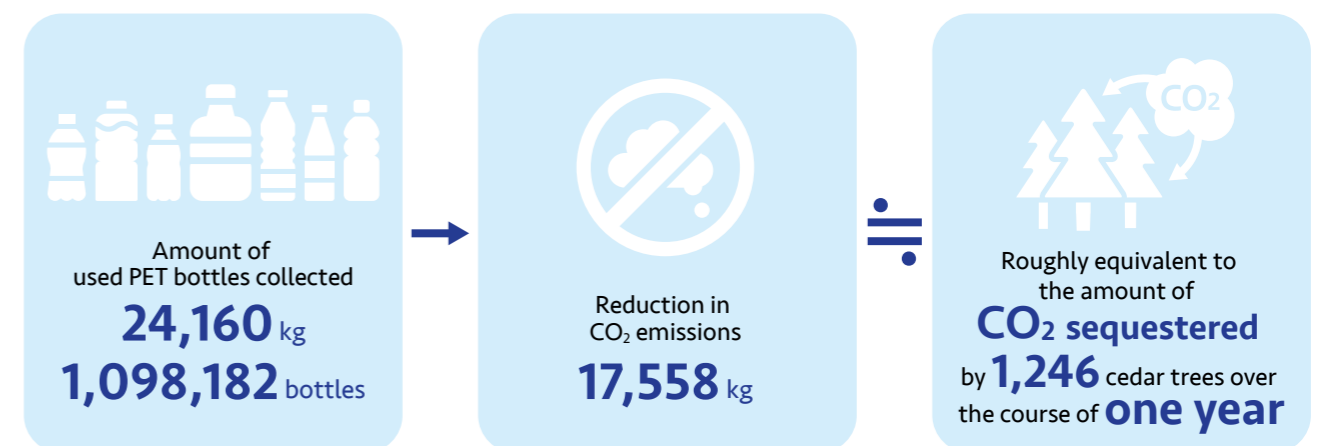
cutlery provided free of charge with certain products with cutlery made from paper, and we have already completed the transition to paper for all new procurement.

PET bottle to PET bottle (bottle-to-bottle) activities

The "bottle to bottle" movement, which seeks to ensure that 100% of used PET bottles are recycled so that the same material can be reused multiple times, is making progress. As a company that sells large quantities of beverages packaged in PET bottles, the Welcia Group aims to help make bottle to bottle an integral part of society's infrastructure. As of February 28, 2023, Welcia had realized the recycling of a total of 1,098,182 PET bottles,

representing a reduction in CO₂ emissions of 17,558 kg. This is equivalent to the amount of CO₂ sequestered by 1,246 cedar trees over a one-year period. Going forward, we will be working to increase the number of stores that have PET bottle recycling collection stations, particularly in the Kansai and Tokai regions, with the aim of bringing the total number of stores with such collection stations up to 665 by February 29, 2024.

CO₂ emissions reduction results achieved to date (September 1, 2021 – February 28, 2023)



Corporate governance system

The Welcia Group is building an organizational system for reacting quickly and making swift, highly transparent decisions with a focus on compliance. Furthermore, we aim to be a corporate group that is trusted by all stakeholders, and we are continually striving to improve our governance and maximize our corporate value.

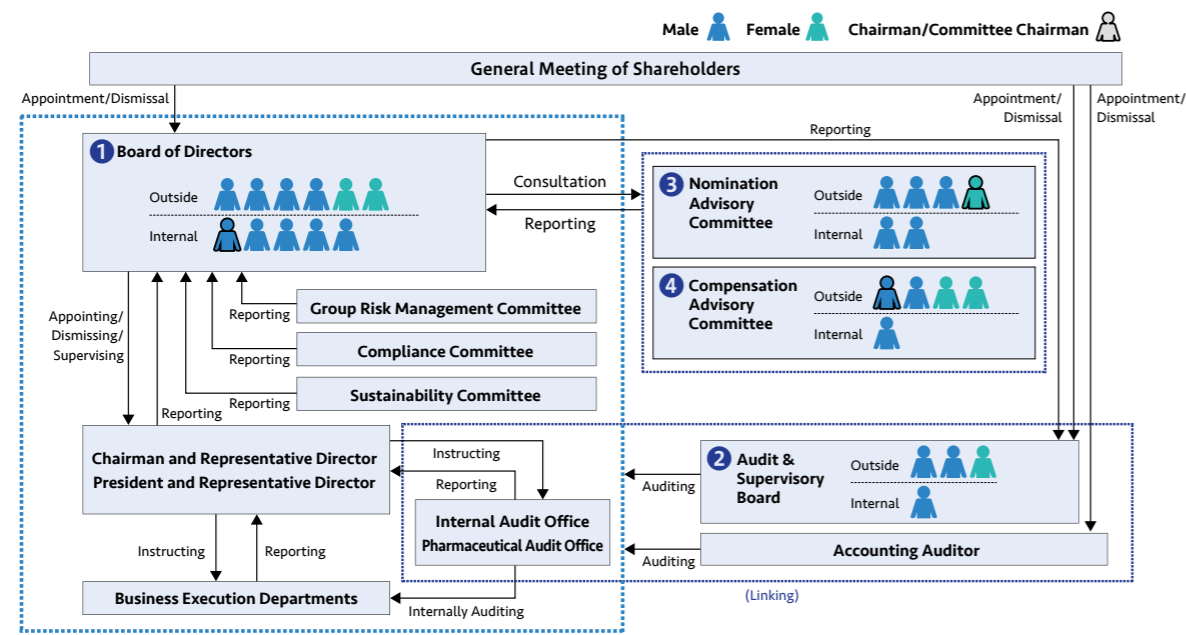
We have become a company with an Audit & Supervisory Board as the system for corporate governance, and we are building a system for implementing fairer audits. Furthermore, we are separating decision-making functionality and duty-executing functionality and are implementing an executive officer system to enable faster decision-making and clearer responsibilities. The standards for determining the independence of our

outside Directors and outside Audit & Supervisory Board Members are listed in our securities report.

⇒ For more details about our corporate governance system, please visit our website

Overview of corporate governance

Institutional design	A company with an Audit & Supervisory Board
Total no. of Directors	11 (including 6 independent outside Directors)
Total no. of Audit & Supervisory Board Members	4 (including 3 independent outside Audit & Supervisory Board Members)
Female Directors as share of total	18%
Directors' term of office	1 year
Adoption of executive officer system	Has been adopted
Voluntary consultative body for the Board of Directors	Nomination Advisory Committee/ Compensation Advisory Committee
Accounting Auditor	Deloitte Touche Tohmatsu LLC



Management of the Board of Directors from a diverse range of perspectives

Evaluating the effectiveness of the Board of Directors

The Board of Directors implements a yearly self-evaluation survey regarding its effectiveness. Based on the results of the survey, analysis and evaluation of the effectiveness of the Board of Directors are conducted, and reviews are made of operations in order to improve its effectiveness.

The self-evaluation survey of the Board of Directors in the fiscal year ended February 28, 2023, was the first to be conducted under the new system, which features a

strengthened oversight function with additional independent outside Director representation on the Monitoring Board.

With the Company welcoming new Monitoring Board Members in order to canvass frank opinions regarding the state of operation of the Board of Directors, in addition to adding a new question to the survey regarding the adequacy of the monitoring function in relation to the content of individual deliberation and reporting items, respondents were

also asked to comment freely on whether the information provided to members of the Board of Directors to support

their decision-making was sufficient. The survey analysis and evaluation results are summarized in the figure below.

Main evaluation items included in the survey

- Status of Board of Directors operations (deliberation items)
- Status of Board of Directors operations (reporting items)
- Proactive governance
- Defensive governance
- State of provision of information to outside Directors and support system
- Diversity and inclusion

FY2022 evaluation

Some respondents expressed the view that there was a need to continue with the improvement strategies for "Deepening of discussions from multiple perspectives in order to find new business opportunities" and "Strengthening of internal control and risk management systems across the whole Group," the need for which was recognized in the FY2022 survey results. However, in regard to the regular questions, which constitute "fixed-point observations," broadly speaking, the evaluation results indicated that there had been improvement since FY2022.

Issues to be addressed in the future and measures to be implemented

- 1 Monitoring of the progress made in implementation of the new medium-term management plan, etc.
- 2 Discussion of the management strategy, business strategy and talented employees strategy needed in response to a changing business environment and societal role
- 3 Oversight and management of Group companies (Group governance)

Compensation system for executives and Audit & Supervisory Board Members

Aiming to ensure transparency and objectivity in the process of determining Directors' compensation, Welcia has adopted a process whereby the Compensation Advisory Committee deliberates on the appropriateness of the compensation system, compensation levels, etc. and reports to the Board of Directors, with proposals being approved at the Shareholders Meeting. Decisions regarding the compensation for individual Directors are made by the Board of Directors following deliberation by the Compensation Advisory Committee. The compensation system features a basic salary, which is a fixed amount, and performance-based bonuses (monetary compensation), and performance-based stock options, which are both variable forms of compensation.

Additionally, at the 14th Annual General Meeting of Shareholders held in 2022, it was resolved that total monetary compensation for Directors would be no more than 400 million yen per year, including performance-based compensation (of which up to 60 million yen per year is allocated for outside Directors). In addition, at the 15th Annual General Meeting of Shareholders held in May 2023, it was resolved, regarding the amount of performance-based

stock options, that the upper limit on contributions by the Company over a period of three fiscal years would be set at 500 million yen, and the upper limit on the amount of shares that could be transferred to qualifying persons and for which payment could be made would be set at 200,000 points.

The objective of the performance-based bonuses (monetary compensation) and performance-based stock options is to raise the desire to contribute to improving business performance and increasing corporate value in the medium to long term. The amount of each type of compensation is determined based on an evaluation of the net sales of the entire Group (consolidated), ordinary income, ROE in the final fiscal year of implementation of the medium-term management plan, and net income attributable to owners of the parent, which are KPIs in the Company's medium-term management plan. The compensation framework for Audit & Supervisory Board Members comprises a fixed amount of basic salary only, with the maximum amount of compensation set at 42 million yen (covering three Audit & Supervisory Board Members), as resolved at the 1st Annual General Meeting of Shareholders held in 2009.

Type of compensation	Directors engaged in executing business duties	Target	
		Directors not engaged in executing business duties (outside Directors, etc.)	Audit & Supervisory Board Members
Fixed compensation	Basic salary	●	●
Performance-based compensation	Performance-based bonus (monetary compensation)	●	
	Performance-based stock options	●	

Succession plan

Our succession plan consists roughly of two plans: the plan for promoting general employees to management positions and promoting management employees to executive and Director positions. Moving forward, we will continue to reflect the external wisdom of outside Directors, as we work to enhance the effectiveness of each part.

Protection of minority shareholders

Aeon Co., Ltd. is our parent company, and it owns a 50.57% share of Welcia's voting rights. Welcia receives a supply of private-brand products from the Aeon Group, and roughly 2% of Welcia's purchase costs are from business dealings with companies in the Group. Regarding our transactions with Aeon, we utilize standards similar to

Directors and Audit & Supervisory Board Members

(as of May 25, 2023)

	Name	Sex	Age	Term of appointment	Independence	Current position in the Company		No. of public listed companies where serving additional role	Attendance rate* (Feb. 2023 Board of Directors)	Attendance* (Feb. 2023 Board of Directors)	Expertise											
						Nomination Advisory Committee	Compensation Advisory Committee				Position	Management	Sales/Marketing	Merchandise planning	New business/M&A	Law/Risk management	Finance/Accounting	Internationality	ESG	Digital transformation/ICT	Labor/Human resources/Human resource development	
Reappointed	Takamitsu Ikeno	Male	79	14	-	Member	Chairman and Representative Director	0	100%	17/17 times	●	●	●								●	
Reappointed	Tadahisa Matsumoto	Male	64	14	-	Member	President and Representative Director	0	100%	17/17 times	●	●	●								●	
Reappointed	Juichi Nakamura	Male	68	8	-	Member	Executive Vice President	0	100%	17/17 times				●	●							●
Reappointed	Takamune Shibazaki	Male	51	1	-		Director	0	100%	13/13 times				●		●						
Reappointed	Motoya Okada	Male	71	8	-		Director	3	100%	17/17 times	●										●	●
Reappointed	Tomoko Nakai	Female	50	4	Independent	Chairman	Outside Director	0	100%	17/17 times					●						●	●
Reappointed	Kunio Ishizuka	Male	73	2	Independent	Member	Outside Director	1	94%	16/17 times	●	●	●									
Reappointed	Tadashi Nagata	Male	71	1	Independent	Member	Outside Director	1	100%	13/13 times	●											●
Reappointed	Katsunori Nozawa	Male	64	1	Independent	Chairman	Outside Director	1	100%	13/13 times		●			●		●					
Reappointed	Shigeo Horie	Male	62	1	Independent	Member	Outside Director	0	100%	13/13 times					●						●	
Newly appointed	Noriko Ishizaka	Female	51	0	Independent	Member	Outside Director	0		-	●										●	
Reappointed	Toshio Miyamoto	Male	73	8	-		Full-time Audit & Supervisory Board Member	0	100% (100%)	17/17 times (17/17 times)					●						●	
Reappointed	Hirohisa Kagami	Male	68	10	Independent		Outside Audit & Supervisory Board Member	1	100% (100%)	17/17 times (17/17 times)					●						●	
Reappointed	Atsuko Sugiyama	Female	48	6	Independent	Member	Outside Audit & Supervisory Board Member	2	100% (100%)	17/17 times (17/17 times)						●					●	
Reappointed	Takashi Fujii	Male	68	1	Independent	Member	Outside Audit & Supervisory Board Member	0	100% (100%)	13/13 times (13/13 times)		●	●				●					

Note: Figures in parentheses indicate the attendance at the Audit & Supervisory Board

Executive Officers

(as of May 25, 2023)

Name	Position	Primary duty or responsibility	Expertise																		
			Management	Sales/Marketing	Merchandise planning	New business/M&A	Law/Risk management	Finance/Accounting	Internationality	ESG	Digital transformation/ICT	Labor/Human resources/Human resource development									
Junichi Tanaka	Executive Officers	Welcia Yakkyoku Co., Ltd.	●	●	●																
Shinji Ishida	Executive Officers	Drug business	●	●	●																
Hideaki Kirisawa	Executive Officers	Product control and logistics		●	●																
Takashi Abe	Executive Officers	Information system		●																	●
Kazuhiko Hata	Executive Officers	Development of new stores		●	●																
Masahiro Aoki	Executive Officers	Sales promotions					●				●										
Koji Takahashi	Executive Officers	Human resources, risk management, secretarial, and public relations									●										●

our normal transaction conditions, and we make decisions regarding the reasonableness of these transactions at the meetings of the Board of Directors, such that minority shareholders are not disadvantaged. Moreover, we implement business administration based on our own management policy and—as a publicly traded company—have secured sufficient independence from our parent company.

Policy-holding shares

In principle, Welcia maintains a policy of not owning policy-holding shares. In the case that policy-holding shares are owned, we will thoroughly examine and evaluate the propriety of the respective shares each year at the meetings of the Board of Directors. In the event that voting rights from listed stocks held for purposes such as obtaining information from other companies in the industry are exercised, we will recognize the motion as an exercise of voting rights and will make a determination as to its agreeableness upon comprehensive consideration of whether it improves medium- to long-term corporate value for the Group and the issuing company.

Implementation of Group-wide business continuity management

Business continuity management

When faced with a state of emergency, such as a natural disaster, the Group attempts to minimize damage to business assets and enable the resumption or quick restoration of core businesses. In order to do so, we stipulate routine actions to take when not in a state of emergency, as well as the means and methods to employ during emergencies. Also, as a member of the Aeon Group, we periodically implement training cross-sectionally across the Aeon Group and maintain a system for handling unusual events. The Group is aware of its function in society's infrastructure, and we have made "implementation of continuous management for all businesses in the Group" one of our materiality items, such that we can express our function whenever necessary. As a particularly urgent issue, we think that preparation of a system is necessary to enable a company which newly joins the Group to implement BCM immediately.

11-Year Summary

	Aug. 2013	Aug. 2014	Feb. 2015*1	Feb. 2016	Feb. 2017	Feb. 2018	Feb. 2019	Feb. 2020	Feb. 2021	Feb. 2022	Feb. 2023*5
Operating Results (Units: million yen)											
Net sales	334,393	360,797	191,991	528,402	623,163	695,268	779,148	868,280	949,652	1,025,947	1,144,278
Gross profit	99,059	107,424	57,393	149,910	183,815	209,948	236,659	267,454	296,044	320,944	349,254
Selling, general and administrative expenses	86,451	93,216	51,394	131,150	159,736	181,121	207,614	229,652	253,070	277,925	303,619
Operating income	12,607	14,207	5,999	18,759	24,078	28,826	29,045	37,801	42,974	43,018	45,635
Ordinary income	13,811	14,973	6,611	20,377	25,723	30,923	31,500	40,348	45,800	47,590	52,149
Net income attributable to owners of the parent	7,669	7,835	3,596	9,527	14,451	17,166	17,423	22,802	27,999	26,453	27,030
Net income per share (yen)*2	51.67	47.63	20.43	48.87	69.46	82.49	83.63	109.24	134.23	126.99	129.38
Net income per share (fully diluted) (yen)*2	—	47.63	20.42	48.82	69.39	82.39	83.54	109.13	134.10	126.88	129.29
Return on equity (ROE)	17.1%	13.4%	5.1%	10.7%	13.2%	14.0%	12.8%	15.0%	16.4%	13.9%	12.7%
Financial Condition (Year-end for each business) (Units: million yen)											
Net assets	50,276	70,809	74,225	103,779	116,233	130,482	143,948	162,418	180,351	207,886	232,384
Total assets	139,399	165,355	165,828	227,005	247,026	292,238	327,426	390,006	435,685	463,048	537,362
Net assets per share (yen)*2	325.92	404.44	419.46	498.31	556.88	622.06	685.88	773.95	862.82	966.66	1,078.97
Equity ratio	34.7%	41.4%	44.5%	45.6%	46.9%	44.3%	43.7%	41.5%	41.2%	43.5%	42.0%
Return on assets (ROA)	11.0%	9.8%	4.0%	10.4%	10.9%	11.5%	10.2%	11.2%	11.1%	10.6%	10.4%
Cash Flow (Units: million yen)											
Net cash provided by operating activities	30,447	16,519	3,944	15,031	33,303	35,902	34,872	70,156	46,396	16,228	60,296
Net cash provided by investing activities	-11,306	-15,183	-14,788	-4,853	-18,034	-36,726	-23,955	-27,459	-16,147	-37,088	-36,068
Net cash provided by financing activities	-9,107	6,409	-6,025	-10,018	-12,897	-1,249	-7,348	-22,241	-16,970	-7,282	-14,849
Cash and cash equivalents at end of period	18,144	25,889	9,036	13,245	15,613	13,585	17,152	37,599	50,937	22,837	32,307
Stock Information											
Number of shareholders (persons)	5,863	5,143	5,602	11,147	14,399	21,656	29,417	22,937	46,982	57,122	74,960
Number of shares issued (shares)	18,574,343	21,171,343	44,047,906	52,408,679	52,408,679	104,817,358	104,816,838	104,816,838	209,633,676	209,633,676	209,652,876
Stores / Employees											
No. of stores at end of period (stores)	874	951	992	1,472	1,535	1,693	1,878	2,012	2,217	2,468	2,763
Area of sales floor at end of period (m ²)	—	—	—	—	—	1,200,669	1,306,932	1,396,726	1,541,681	1,781,753	1,908,391
Area of average sales floor during period (m ²)	—	—	—	—	—	1,161,883	1,257,992	1,365,023	1,501,261	1,742,134	1,883,339
No. of employees (persons)*3	11,756	12,569	13,532	19,267	20,963	24,252	27,937	30,552	34,740	37,774	40,342
No. of pharmacists employed (persons)*4	2,022	2,082	2,095	3,266	3,754	4,159	4,625	5,398	6,323	6,799	7,706
No. of registered pharmaceutical sales clerks (persons)*4	4,027	4,626	5,133	7,928	8,776	10,504	11,949	13,152	14,037	16,667	18,586

*1 The fiscal year ended February 28, 2015, is a 6-month period due to a change in the accounting period.

*2 Figures are calculated retroactively for prior periods.

*3 The number of temporary employees is calculated on an 8-hour per day basis.

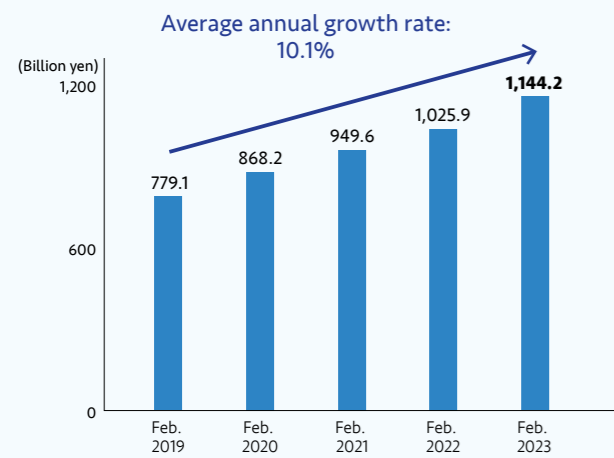
*4 The number of people who are pharmacists/registered pharmaceutical sales clerks and the number of people per store do not include people from cosmetic specialty stores (MASAYA, COLOR STUDIO, and NARCIS).

*5 The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, dated March 31, 2020), etc. has been applied starting from the beginning of the consolidated fiscal year ended February 28, 2023.

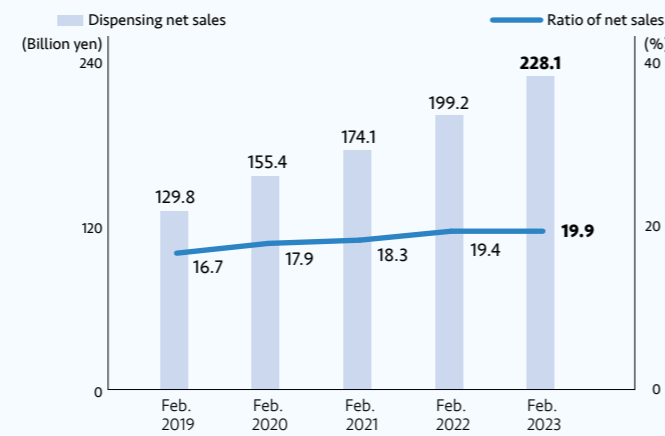
Financial information

The Accounting Standard for Revenue Recognition has been applied starting from the beginning of the consolidated fiscal year ended February 28, 2023, so the main management indicators relating to that consolidated fiscal year are the figures after application of the Accounting Standard for Revenue Recognition.

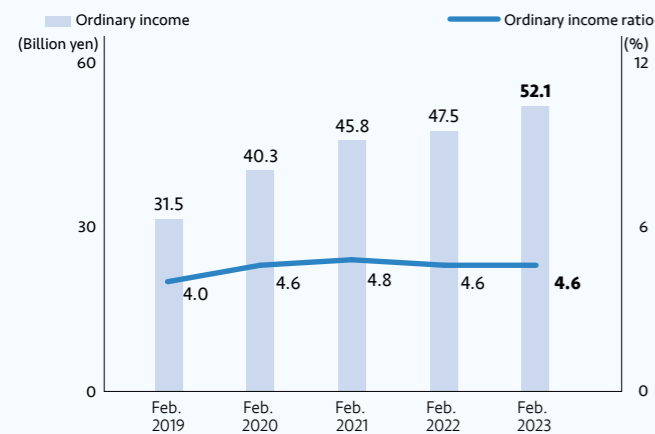
Net sales



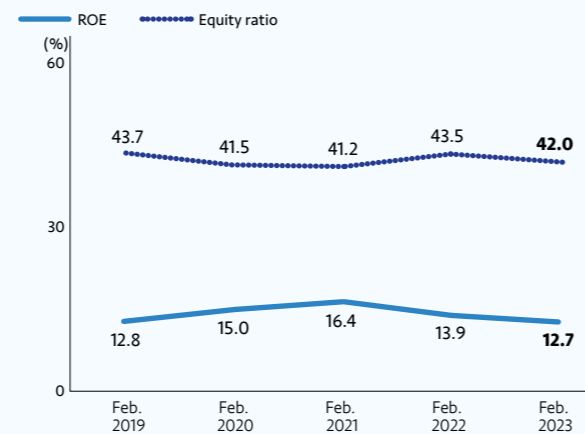
Dispensing net sales / Ratio of net sales



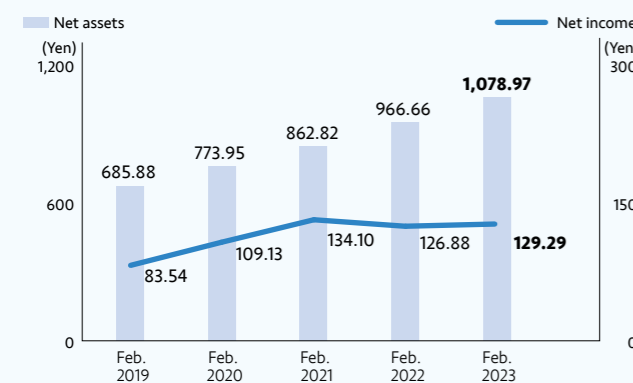
Ordinary income / Ordinary income ratio



Return on equity (ROE) / Equity ratio

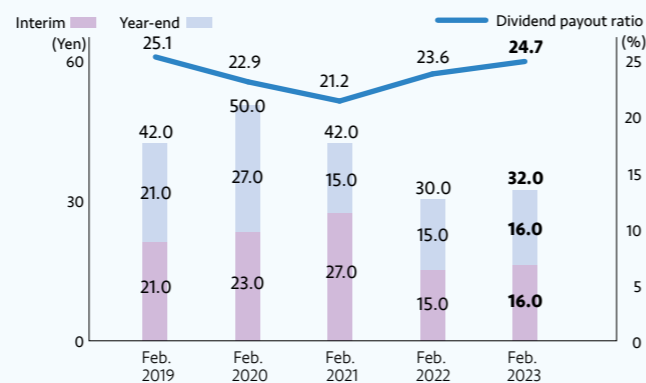


Net assets per share / Net income per share



Note: The Company implemented a 2-for-1 stock split of its common shares on September 1, 2020. Figures are calculated retroactively for prior periods.

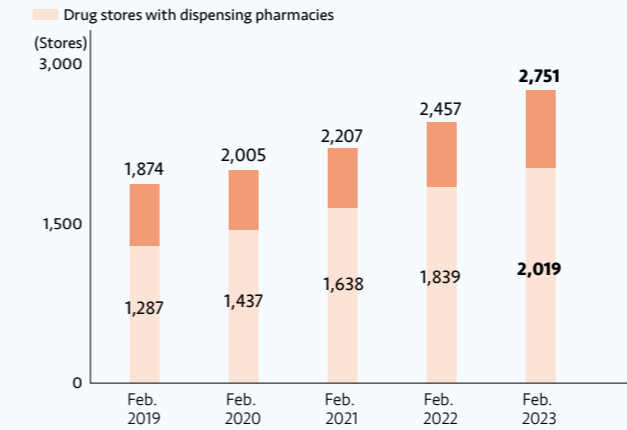
Dividend per share / Dividend payout ratio



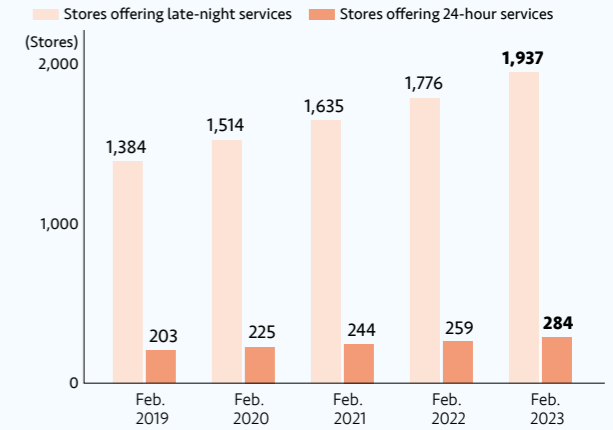
Note: The Company implemented a 2-for-1 stock split of its common shares on September 1, 2020. Figures for dividend per share are the actual amounts paid.

Non-financial information

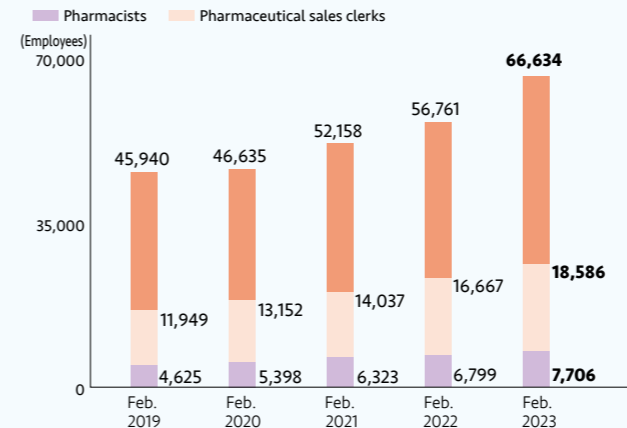
No. of stores in Japan at the end of the period (of which are drug stores with dispensing pharmacies)



No. of stores offering late-night services / 24-hour services

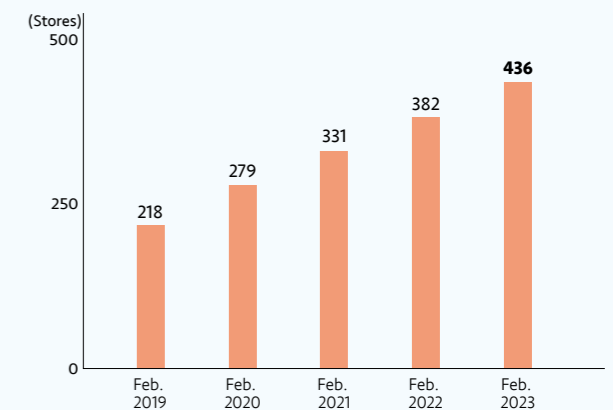


No. of employees (of which are pharmacists/pharmaceutical sales clerks)

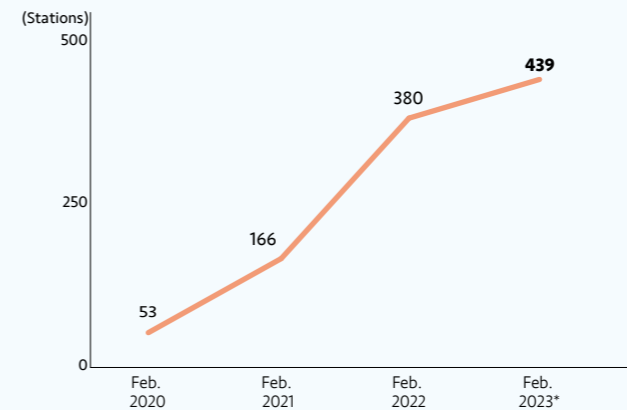


Note: The number of people who are pharmacists/registered pharmaceutical sales clerks does not include people from cosmetics specialty stores (MASAYA, COLOR STUDIO, and NARCIS).

No. of stores with a Welcfe area

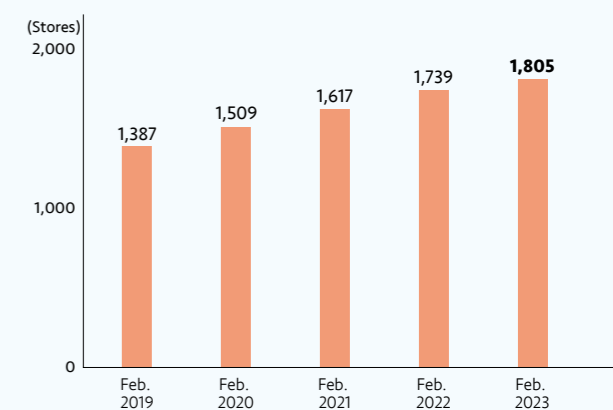


No. of PET bottle recycling stations



* The total amount of used PET bottles collected was 20.97 tons (cumulative)

No. of stores with ostomy-friendly toilets



Corporate Data

(as of February 28, 2023)

Company overview

Company Name	WELCIA HOLDINGS CO., LTD.
Established	September 1, 2008
Paid-in-Capital	7,747 million yen
Business Description	Business management of subsidiaries and Group companies that run chain drug stores with dispensing pharmacies
Head Office Location	2-2-15, Sotokanda, Chiyoda-ku, Tokyo 101-0021
Website	https://www.welcia.co.jp/en/
Telephone	+81-3-5207-5878
Number of Group Employees	66,634 (including part-time employees)

Group companies

● Consolidated subsidiaries

Welcia Yakkyoku Co., Ltd.

Established	April 1974
Paid-in-Capital	100 million yen
Business Description	Operation of a chain of drug stores with dispensing pharmacies
Head Office Location	2-2-15, Sotokanda, Chiyoda-ku, Tokyo 101-0021

Kokumin Co., Ltd.

Established	April 5, 1935
Paid-in-Capital	91.1 million yen
Business Description	Management of drug stores and drug stores with dispensing pharmacies
Head Office Location	1-12-48, Kohamanishi, Suminoe-ku, Osaka-shi, Osaka 559-0007

French Co., Ltd.

Established	August 28, 1969
Paid-in-Capital	18 million yen
Business Description	Management of drug stores and drug stores with dispensing pharmacies
Head Office Location	1-12-48, Kohamanishi, Suminoe-ku, Osaka-shi, Osaka 559-0007

Pupule Himawari Co., Ltd.

Established	November 1984
Paid-in-Capital	49 million yen
Business Description	Management of drug stores with dispensing pharmacies and beauty salons
Head Office Location	2-10-11, Nishishingai, Fukuyama-shi, Hiroshima 721-0958

Marudai Sakurai Pharmacy Limited

Established	October 1972
Paid-in-Capital	29.9 million yen
Business Description	Management of drug stores and drug stores with dispensing pharmacies
Head Office Location	2-72, Tamatsukuri, Sannai, Aomori-shi, Aomori 038-0031

Shimizu Yakuhin Co., Ltd.

Established	November 1947
Paid-in-Capital	48 million yen
Business Description	Drug store management (retail of pharmaceuticals, cosmetics, daily necessities, etc.)
Head Office Location	113, Kitahigashinocho, Nishishichijo, Shimogyoku, Kyoto-shi, Kyoto 600-8871

Marue Wellness Stores Inc.

Established	April 1973
Paid-in-Capital	48 million yen
Business Description	Operation of drug stores, a chain of drug stores with dispensing pharmacies, childcare and learning facilities, and other wellness-related businesses
Head Office Location	83, Higoshimachi, Maebashi-shi, Gunma 371-0221

Yodoya Co., Ltd.

Established	April 1981
Paid-in-Capital	50 million yen
Business Description	Retail of pharmaceuticals, health foods, cosmetics, nursing care goods, baby goods, daily necessities, foods, confectionary, alcohol, etc.
Head Office Location	1-5-30, Takasu, Kochi-shi, Kochi 781-8104

Fuku Yakuhin, K.K.

Established	April 1989
Paid-in-Capital	20 million yen
Business Description	Drug store management
Head Office Location	2-3-3 Izumizaki, Naha-shi, Okinawa 900-0021

MASAYA Co., Ltd.

Established	June 1958
Paid-in-Capital	10 million yen
Business Description	Operation of cosmetics specialty stores
Head Office Location	2-6-56, Omotecho, Kita-ku, Okayama-shi, Okayama 700-0822

Welcia Kaigo Service Co., Ltd.

Established	April 1971
Paid-in-Capital	100 million yen
Business Description	Every aspect of nursing care
Head Office Location	2F, 8-1, Inarimae, Tsukuba-shi, Ibaraki 305-0061

Welcia-BHG (Singapore) Pte. Ltd.

Established	March 2017
Paid-in-Capital	20 million Singaporean dollars
Business Description	Drug store management within Singapore
Head Office Location	29 TAI SENG AVENUE, #03-02 NATURAL COOL LIFESTYLE HUB, SINGAPORE (534119)

● Non-consolidated subsidiaries

Welcia Oasis Co., Ltd.

Established	March 2011
Paid-in-Capital	10 million yen
Business Description	Store support (display, stock replenishment, OTC product sales support, and cleaning), greenery maintenance, receipt and discharge of documentation and equipment, and disability employment management and consultation
Head Office Location	4-48-5, Higashiomiya, Minuma-ku, Saitamashi, Saitama 337-0051

Welcia Retail Solution Co., Ltd.

Established	November 2016
Paid-in-Capital	10 million yen
Business Description	Support for marketing targeting manufacturers
Head Office Location	2-2-15, Sotokanda, Chiyoda-ku, Tokyo 101-0021

Stock Information

(as of February 28, 2023)

Number of shares

Number of shares authorized	494,947,200
Number of shares issued (excluding 13,250 treasury shares)	209,639,626
Number of shareholders	74,960

Major shareholders

	Number of shares (thousands)	Shareholding ratio (%)
Aeon Co., Ltd.	105,950	50.54
The Master Trust Bank of Japan, Ltd. (trust account)	14,026	6.69
Custody Bank of Japan, Ltd. (trust account)	4,802	2.29
Welcia Holdings Employee Stock Ownership	3,793	1.81
Tsuruha Co., Ltd.	3,352	1.60
STATE STREET BANK WEST CLIENT – TREATY 505234	2,663	1.27
SMBC Nikko Securities Inc.	2,486	1.19
Ishida Co., Ltd.	1,616	0.77
Saitama Resona Bank, Limited	1,417	0.68
JP MORGAN CHASE BANK 385781	1,301	0.62

Note: In calculating the shareholding ratio, we omitted 13,250 treasury shares. The treasury shares do not include the 412,219 shares held in the Board Incentive Plan (BIP) trust for company officer compensation.

Breakdown of holdings by shareholder type

