

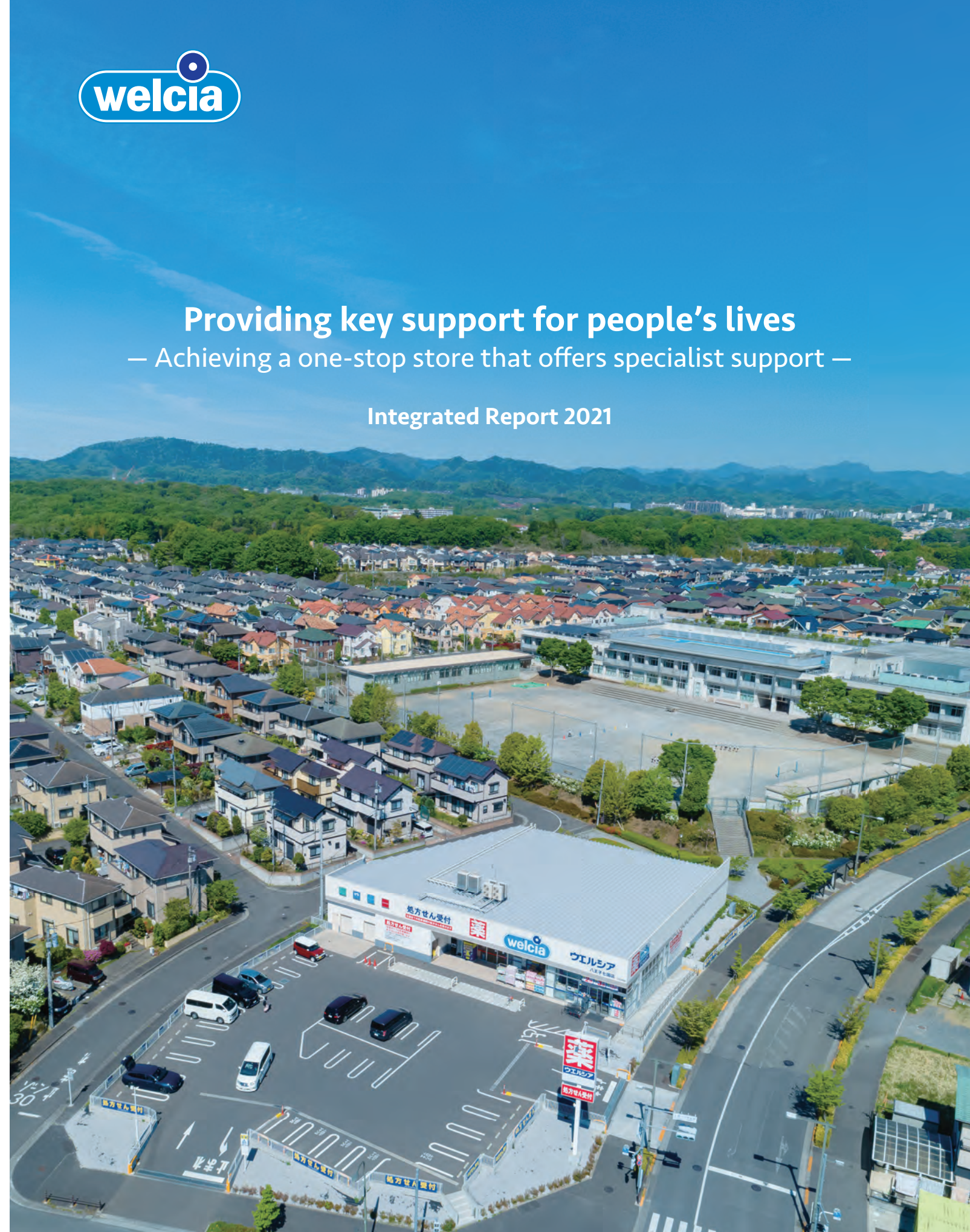


WELCIA HOLDINGS CO., LTD.
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<https://www.welcia.co.jp/en/>



Providing key support for people's lives
— Achieving a one-stop store that offers specialist support —

Integrated Report 2021



WELCIA HOLDINGS CO., LTD.

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There are things we can change and things we must not change

Takamitsu Ikeno
Chairman and Representative Director



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Our Mission

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

Our Vision

Providing key support for people's lives – Achieving a one-stop store that offers specialist support –

We, the Welcia Holdings Group, have raised corporate value by expanding business operations and advancing store development based on our mission. As people become more health-conscious and regional lifestyles change greatly amid the rapid aging of Japan's population combined with a declining birthrate, drug stores need to fulfill an increasingly important role. In this environment, our vision is to provide key support for people's lives in a way that responds to the difficulties faced by communities. By transcending the traditional drug store model, we aim to pursue the creation of new value as a one-stop store that offers specialist support and realize sustainable growth together with the various stakeholders residing in the community.



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Editorial Policy

In 2021, the Welcia Holdings Group is issuing an integrated report for the first time. The aim of this report is to communicate the 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 2020 (March 2020 to February 2021) but also contains activities carried out before and after this period. The names of organizations and officers are current as of May 25, 2021.

Scope of Report

Financial information included 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. alone.

Note on Forward-looking Statements

Forward-looking statements in this report reflect the Company's judgement 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.

Note: Measures to prevent the spread of COVID-19 were taken while making this report. Face masks were temporarily removed only during photo shoots.

There are things we can change and things we must not change



Takamitsu Ikeno

Chairman and Representative Director
WELCIA HOLDINGS CO., LTD.

Amid great change driven by the COVID-19 pandemic

We are seeing a true paradigm shift as the COVID-19 pandemic changes values and lifestyles around the world. Japan is also experiencing a significant change in buying behavior as customers adapt to the new normal and limit how much they go out. This is creating a growing need for one-stop shopping, or in other words, places where people can buy items such as food, daily necessities, drugs, and sanitary goods in a single place, especially in suburban areas.

As we fulfill our customers' needs through store operations, I feel that our value to communities is increasing.

Welcia has grown by creating value for the times and evolving

Expanding the range of products beyond just drugs and cosmetics to include household goods, general food products, and fresh foods has enabled drug stores in Japan to meet the diverse needs of customers and grow sales to the extent that the industry as a whole now records annual sales of around eight trillion yen.

Within this environment, the Welcia Group has continued to grow by constantly evolving. Since 1997, we have been absorbing drug stores in suburban areas of the Kanto region and in 2008, we established Growell Holdings Co., Ltd. (renamed WELCIA HOLDINGS CO., LTD. in 2012) as a holding company. We then actively opened new stores and pursued

M&A, managing to grow sales by a factor of 40 in just 20 years. Thanks to this effort, we are now one of the industry's top drugstore chains.

The driving force behind the many M&A projects we have carried out is a deep-rooted corporate culture of never hesitating to change. Personally, I think that this ability to change becomes greater with each company we integrate. Our motive in carrying out M&A projects is not to increase the scale of the Company in terms of capital, but to recognize and learn from our acquisitions' values as equal partners and then incorporate each other's best aspects. This has become the source of our strength, and it enables us to become flexible regarding change while accepting diversity.

By continuously embracing diversity and inclusion in this way, the Group has built a unique business model (the Welcia Model) that centers on drug stores with dispensing pharmacies, counseling services, late-night services, and long-term care services. However, we cannot become too strongly attached to our model. I believe we must continue transforming without hesitation in a way that is in line with changes in the times.

Even as No. 1, we remain focused on communities

As merchants, we made our start by raising profits while making ourselves a trusted presence within communities. No matter how big we become as a company, we must remain steadfast regarding this. I think that stores which only pursue efficiency and appeal through prices cannot win the affection and trust of communities. An approach that seeks affinities with local customers leads to value creation. If our stores and employees can inspire trust in customers, we will always be their first choice.

Also, when we think about the future of communities, we must take into account the Community-based Integrated Care System* being advanced by the Japanese government. Obviously we can participate in building this system through our main business, but we can also contribute to communities through initiatives such as Welcafe. Welcafes are community spaces that

we have established in our stores where local people can gather and carry out various activities. It will be very important that stores have these kinds of spaces in the future. This is because although it is important to support people who need healthcare and nursing care, a core part of the Community-based Integrated Care System is to also vitalize the entire community, including elderly people who are healthy. Drug stores can fulfill a unique role in this effort by providing communities with total support that covers everything from everyday life to healthcare and long-term care, and we feel it is our duty to develop stores across Japan that can make it happen.

* The Community-based Integrated Care System: A system that aims to provide integrated support regarding housing, healthcare, nursing care, disease prevention, and lifestyles to the early boomer generation, who will be 75 or older by 2025, so that they can continue to live in a way they are accustomed to in familiar neighborhoods, even if they require serious care.

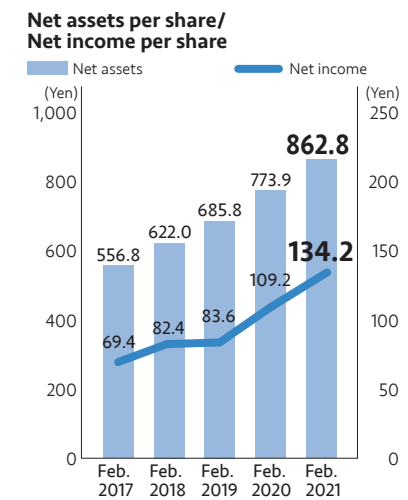
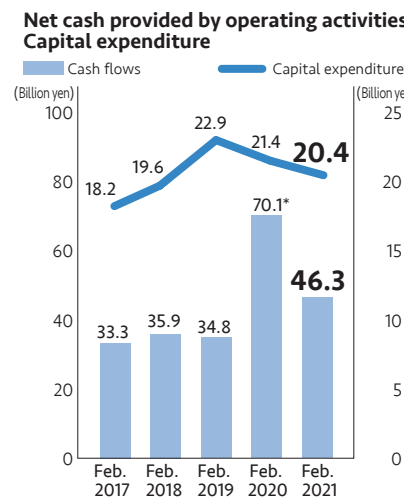
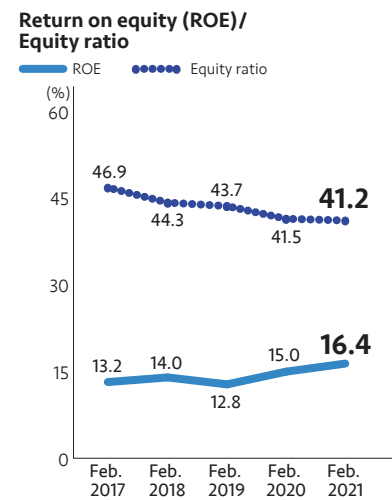
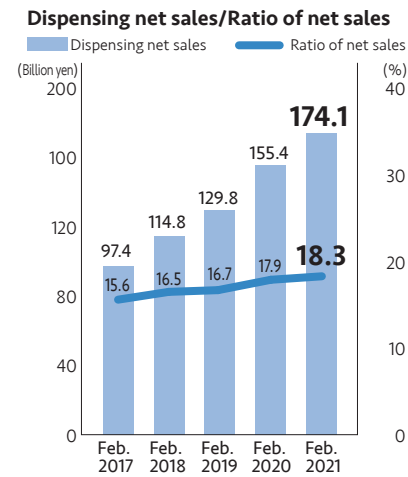
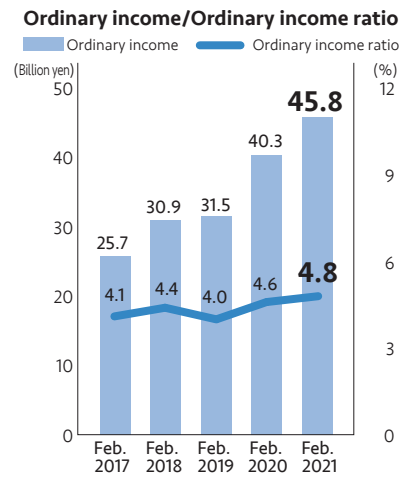
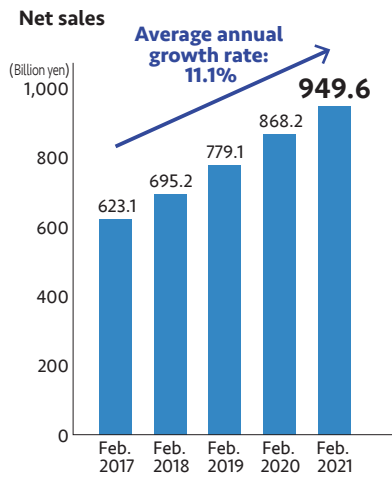
Making a deeper commitment to communities to fulfill our duties as a leading company

The Welcia Group is now within touching distance of achieving one trillion yen in sales. I firmly believe that to develop further as a retail business, we need to make a deeper commitment to communities, find out what difficulties they are facing, and then propose measures and services that will improve the local area. For example, we can cooperate with local companies and companies in different industries that are involved in health and beauty so that we can contribute to regional development. We recognize that this is one of our duties as a leading company in the drugstore industry.

Therefore, we must collaborate with even more partners and stakeholders in the future. I would be delighted if this integrated report helps us to do this. As the fiscal year ending February 28, 2022 begins, I hope we can prove that the Group has even greater potential. I hope you will continue to expect great things from the Welcia Group and look forward to your continued support.

Financial and Non-financial Highlights

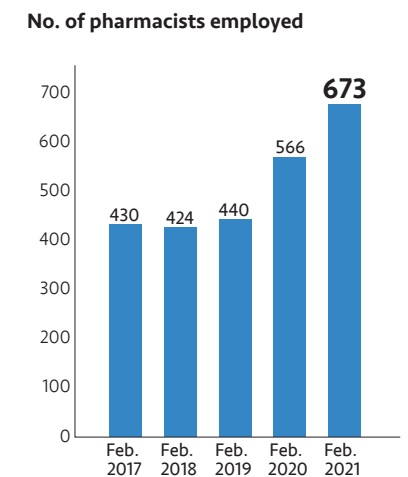
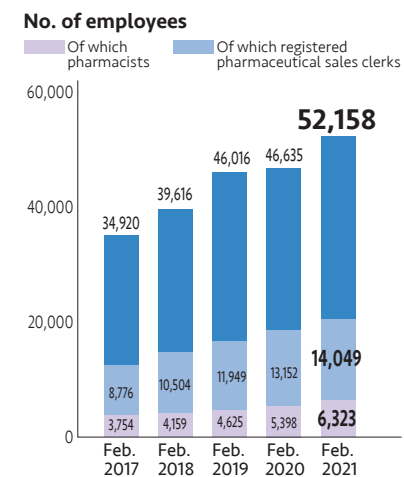
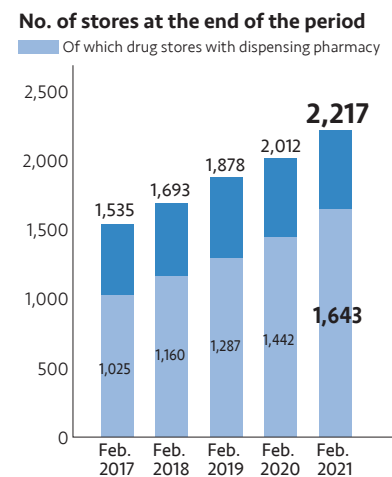
Financial information



* February 29, 2020, the final day of the fiscal year, was a holiday, so month-end payments were carried over to the following fiscal year.

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.

Non-financial information



Note: Figures cover Welcia Yakkyoku Co., Ltd.

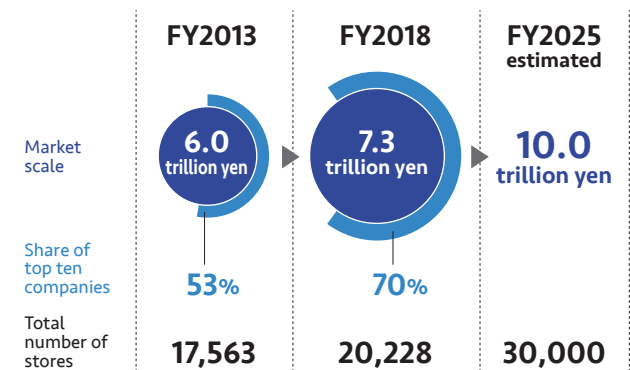
Market environment surrounding Welcia Group

Drug store industry becoming increasingly dominated by smaller number of large firms while small and medium-sized pharmacies dominate in the dispensing business

While many retailers are reaching maturity in Japan, drug stores, which combine aspects of a healthcare provider with the product sales aspect of a retailer, continue to grow as an overall industry. Moreover, against the background of the declining birthrate and aging population and other factors, controlling social security spending has become a top priority in Japan, and interest in self-medication for preventing lifestyle diseases and extending healthy life expectancy is increasing year by year. Drug stores are increasingly expected to be "personal drug stores." The size of the drug store market increased to 8 trillion yen in fiscal 2020 and is forecast to rise to 10 trillion yen in fiscal 2025.

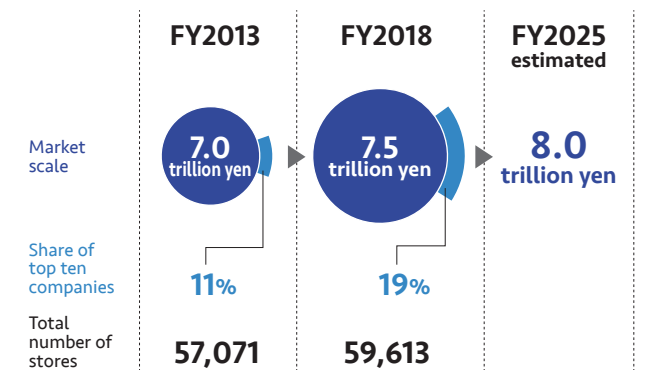
Competition between companies is also intensifying in conjunction with such significant market growth and increase in the number of stores, and domination of the market by a smaller number of large firms is rising due to the aggressive M&A strategies of the major drug store chains. On the other hand, the dispensing market is dominated by privately-run pharmacies. However, as the profits of dispensing pharmacies are forecast to shrink due to dispensing fee revisions and gradual reductions in drug prices, an increase in M&A activity is expected in the future. Looking ahead, it is anticipated that competition will intensify, including the entry of online companies into the market as well.

Trends in the drug store market



Source: Japan Association of Chain Drug Stores (JACDS) data, financial results materials of each company

Trends in the dispensing market



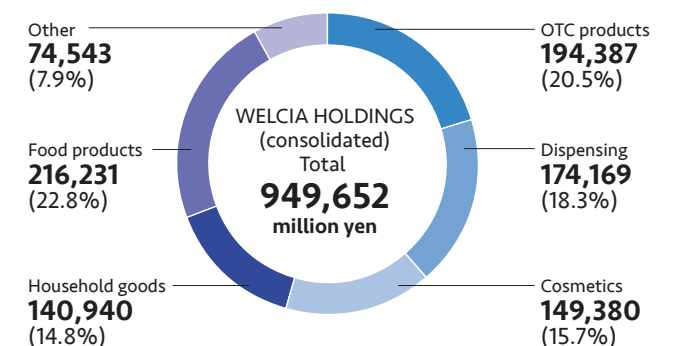
Source: Ministry of Health, Labour and Welfare, financial results materials of each company

Welcia Group's composition of sales

Achieving a well-balanced composition to meet a wide range of needs

Pharmaceutical-related sales, which are the combined sales of the dispensing sector and OTC products sector, account for 38.8% of the Welcia Group's sales. This is a high percentage compared to other drug store chains. Food products are next, accounting for 22.8% of sales, followed by our well-balanced range of cosmetics and household goods to meet the need for one-stop shopping with a focus on healthcare.

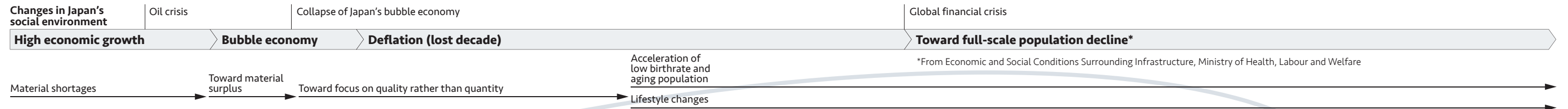
Sales composition ratio by product (Million yen)



Value Creation History

Grounded in the community and providing value that supports healthy lifestyles

The Welcia Holdings Group has expanded its business operations, services, and scale in anticipation of changes in the social environment. Going forward, we will continue to grow with a constant commitment to connecting closely with the lifestyles of local communities.



Welcia Group sales trends and value creation

Expanding product range and connecting closely with people's lifestyles

We have created stores that stock the products people want and pursued convenience for our customers by expanding our product categories.



Aiming to be a company that embraces healthy living centered on the operation of drug stores with dispensing pharmacies, counseling services, and late-night services

We have put in place a system that addresses the problems of customers and patients, allowing them to use and consult with us at any time with confidence.

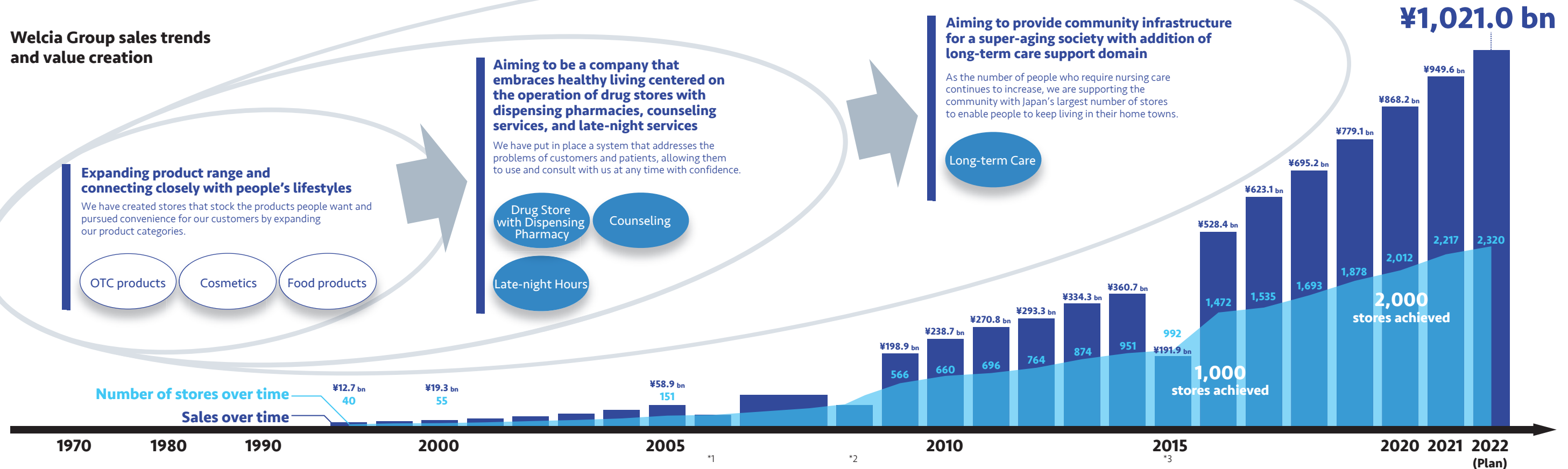


Aiming to provide community infrastructure for a super-aging society with addition of long-term care support domain

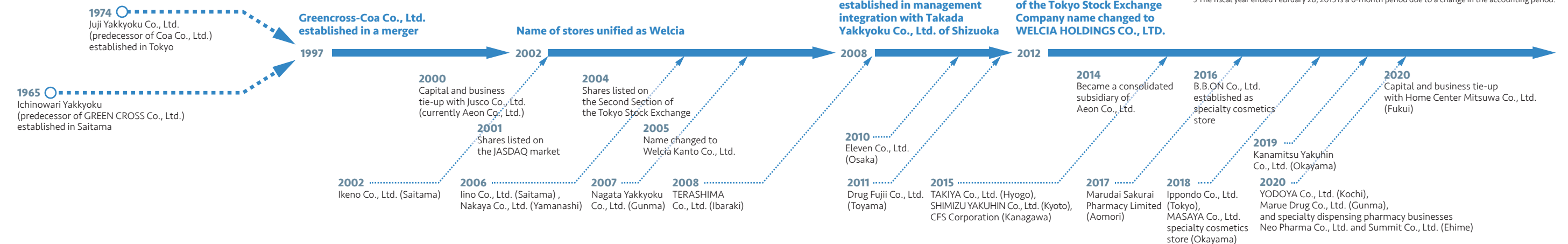
As the number of people who require nursing care continues to increase, we are supporting the community with Japan's largest number of stores to enable people to keep living in their home towns.

Long-term Care

¥1,021.0 bn



Main M&A projects in Welcia Group



Source of Value Creation

Using community connections and diverse human assets as our greatest strengths

The Welcia Holdings Group has evolved the Welcia Model, offering a product range focused on expertise and local characteristics and developing human resources with expert knowledge. This model will continue leading to the creation of value.



No. of pharmacists:

6,323

By providing extensive education and training and a comfortable working environment, we are training a large number of pharmacists who support community healthcare.

No. of drug stores with dispensing pharmacies:

1,638

We are increasing the number of drug stores with dispensing pharmacies as healthcare facilities that are closely connected to local communities and boast one of the largest numbers of such stores in Japan. We accept more than 16 million prescriptions a year (fiscal year ended February 28, 2021 results).

Japan's number one "personal drug store"

No. of registered pharmaceutical sales clerks:

14,037

We contribute to healthy lifestyles with counseling services that listen to customers. In addition, more than 530 registered dietitians and dietitians offer dietary proposals from prevention and presymptomatic perspectives.

No. of beauty care advisors:

2,386

Our expert staff and cosmetics counters provide opportunities for casual consultations on skin care and make up.

A health and beauty advisor



Supporting lifestyles that include long-term care

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

616

Our pharmacists visit homes and facilities to provide advice on medications and other services to allow local people to live in their familiar environment for as long as possible.

No. of staff who have obtained the Lifree care advisor qualification:

5,322

Our Lifree care advisors who have the correct knowledge of continence care needed for in-home care suggest products and coping methods that alleviate anxiety in nursing care.

Japan's number one "personal drug store"

Drug Store with Dispensing Pharmacy

Counseling

Welcia Model

Long-term Care

Late-night Hours

Embracing diverse lifestyles

Percentage of stores with late-night services:

74%

We are extending business hours to facilitate use as lifestyle infrastructure at any time, increasing the number of stores that offer late-night services (11:00pm and later) to 1,635. 244 of these stores offer 24-hour services with one or two such stores in each region.

Annual number of customers:

at least 30 million

We have steadily increased customer footfall with store management focused on customer needs and location. 2.15 million of these customers visit our stores late at night.



Value Creation Process

Refining the Welcia Model to provide key support for the lives of people in the 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.

Changes in the external environment

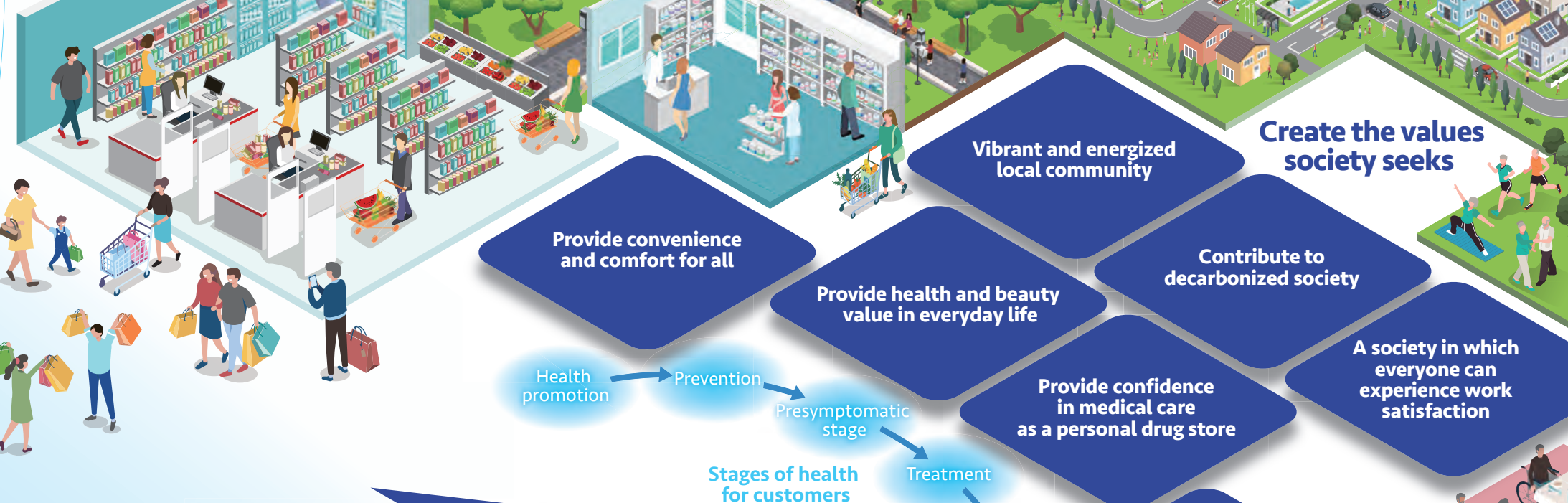
- Low birthrate with aging population/declining population
- Increasing medical expenses
- Urbanization/rural depopulation
- Lifestyle diversification
- Social change due to COVID-19 pandemic
- Acceleration of digital innovation
- Change in consciousness about employment
- Increasingly severe climate change

Welcia Model



1 Using the Welcia Model as a strength that supports healthy lifestyles for the community

The Welcia Group has developed the Welcia Model centered on the operation of drug stores with dispensing pharmacies, counseling services, late-night services, and long-term care services as a community-grounded drug store while continuing to grow side-by-side with our customers. This growth is supported by our abundance of professional human resources, diverse corporate culture, and industry-leading business scale. We are aiming for further corporate growth and value creation by strengthening the Welcia Model.



Expertise

Our Vision
Providing key support for people's lives
 Achieving a one-stop store that offers specialist support

Convenience

Medium-Term Management Plan
 (Feb. 2021 - Feb. 2023)

Increasing expertise and convenience, and building the foundations for our concept of a one-stop store that offers specialist support

- Store openings
- Dispensing sector
- Products
- Stores
- IT and logistics
- Human resources and education

3 Creating new value that embraces the stages of health

Rising awareness about health among customers accelerated further during the COVID-19 pandemic. Looking ahead to the coming aging society, the Welcia Group will make its presence felt even more than ever by providing key support for people's lives which closely support all the stages of health. At the same time, we will contribute to solving various social issues through our business activities and create new value aimed at realizing affluent lives and society.



Note: The Sustainable Development Goals (SDGs) were set up by the United Nations General Assembly as a blueprint to achieve a better and more sustainable future by the year 2030.

2 Pursuing an array of expertise and convenience based on health and beauty

The Welcia Group has continued to thoroughly pursue the functions that local customers and patients require from a drug store. We have thus been guided by expertise and convenience. With a focus on health and beauty, we create stores that allow customers to consult easily with experts and which stock the products they want. We aim to be a one-stop store that offers specialist support, combining expertise with a convenient shopping experience.

Message from the President



Aspiring to be a one-stop store that offers specialist support, in touch with the issues facing regional societies

Tadahisa Matsumoto
President and Representative Director
WELCIA HOLDINGS CO., LTD.

Business performance in the fiscal year ended February 28, 2021

Q What is your assessment of performance in the fiscal year ended February 28, 2021?

A Growth of sales and profits despite the COVID-19 pandemic has reminded me of the Group's significance.

First of all, I would like to offer my condolences to all those who have lost someone due to COVID-19 and I wish a speedy recovery to anyone suffering from the disease. I would also like to express my deep gratitude and sincere respect to the medical personnel and others who are giving their all to prevent the spread of infection.

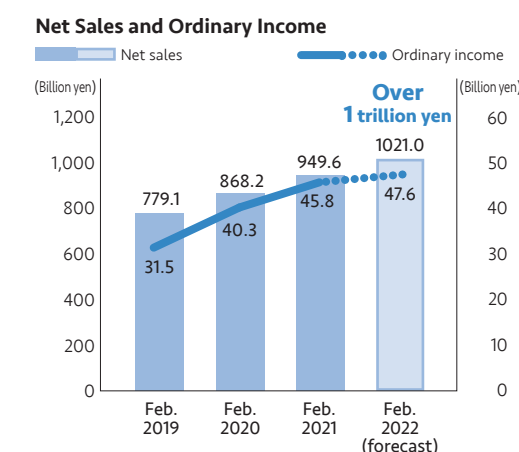
As a drug store chain that handles drugs and food products, we are also working to prevent infections. Naturally, we are thoroughly ensuring employees wear masks, monitor their body temperature, use sanitizer, and wash their hands, and we are also implementing measures such as raising awareness among customers through in-store announcements and improving ventilation in all stores. We expect the effects of the pandemic to continue throughout the fiscal year ending February 28, 2022 and based on this, we will continue taking steps to ensure the safety and peace of mind of customers.

Looking back over the fiscal year ended February 28, 2021, as people across Japan continued to refrain from going out, we were able to meet growing needs for one-stop shopping and anti-infection goods, boosting sales of products such as foods, household goods, masks, and sanitizer. The Welcia Group operates more than 2,200 stores across Japan. Most of these are located in suburban areas, so in addition to stocking goods such as drugs, prescription drugs, cosmetics, household goods, and foods, they also look to provide products that have value for local customers. This last year has reminded us that operating this kind of drug store business supports the lifestyles of communities, which gives our Group significance.

Our dispensing pharmacy business was impacted by drug price revisions enacted in Japan in April 2021, as well as factors such as a decline in prescriptions due to fewer people visiting their doctors and increases in the unit cost of prescription drugs caused by an increase in longer-term prescriptions. Despite this, we were able to grow net sales by increasing the number of stores

with dispensing pharmacies.

Our four subsidiaries (96 stores) also contributed to sales. As a result, we recorded large year-on-year increases in both sales and income, exceeding the forecasts in our business plan. Net sales increased 9.4% year on year to 949,652 million yen, operating income grew 13.7% to 42,974 million yen, ordinary income rose 13.5% to 45,800 million yen, and net income attributable to owners of the parent increased 22.8% to 27,999 million yen.



Q The Welcia Holdings Group has consistently performed well. What is the strength behind this?

A Our greatest strength is the Welcia Model, which provides a wide range of customers with expertise and convenience.

One of our most distinctive characteristics is that 75% of our stores have dispensing pharmacies, which is one of the highest ratios in the industry and is rare for drug stores offering over-the-counter drugs in Japan. Also, 74% provide late-night services. The Welcia Model is a unique business model that in addition to the two characteristics mentioned above, also covers counseling services and long-term care services. To embody this model we aim to be a one-stop store that offers specialist support, using expert knowledge to provide customers with a comprehensive range of products and services.

For example, the Group has 6,323 pharmacists working at 1,638 dispensaries in Japan (as of February 28, 2021). This workforce is on the same scale as leading major pharmacy companies which deal exclusively in dispensing and usually locate stores next to hospitals and clinics. In addition to our pharmacists, we also employ a large number of other specialists, including registered pharmaceutical sales clerks, registered dietitians, and beauty care advisors. The Welcia Model has enabled us to build an organization that can provide a wide range of customers with expertise and convenience, and it is the strength that differentiates the Group the most.

Vision and growth strategy

Q What is your assessment of risks and opportunities regarding future growth?

A We will monitor the social changes being accelerated by the COVID-19 pandemic and continue to meet customers' needs.

The spread of COVID-19 has significantly changed the behavior of customers and patients. Demand for anti-infection goods has increased, the need to refrain from going out has altered lifestyles, and the number of visits to healthcare facilities has decreased. This has also affected

Message from the President

the Group's sales, including changing our products sales mix, decreasing the number of prescriptions, and increasing prescription unit costs. Furthermore, our sales activities have also been limited by the pandemic. For example, the declaration of a state of emergency in Japan shortened store opening hours, and we also temporarily halted special sales promotions in compliance with government requests to avoid the Three Cs (closed spaces, crowded places, and close-contact settings). In addition to this, there is a danger that the discovery of an infection in an area in which we operate or in one of our stores will disrupt our ability to continue operations. We recognize that this situation will continue to affect our business for the next few years, even after vaccinations are widely carried out and begin to take effect.

On the other hand, the pandemic is also further accelerating changes in social and customer needs, which we think will create opportunities for the Group. While there is an element of risk if we cannot adapt to these changes quickly enough, we have a track record of producing results by constantly transforming through the addition of product lines and M&A. Drug stores will be required to change even more, which is a great opportunity for us. We will continue to refine the Welcia Model to further ensure sustainable growth.

Q Please tell us about the goals of your medium-term management plan and some of the key measures you are focusing on.

A We will realize a one-stop store that offers specialist support through initiatives such as strengthening customer-facing dispensing operations and making healthcare sales areas more dynamic.

The goal of our medium-term management plan, which started in fiscal year ended February 2021, is to realize a one-stop store that offers specialist support that can respond to the troubles faced by local customers. One of our key measures for achieving this is educating pharmacists in the dispensing sector. Going forward, pharmacists will need to become more familiar presences for customers and patients as "personal pharmacists." Therefore, we are focusing on providing training that strengthens customer service skills. We are also providing further support by investing in automation to make dispensing operations more efficient. In the healthcare sector, which covers things like OTC products and health foods, our registered pharmaceutical sales clerks are responding to counseling needs. We are also making sales areas more dynamic by leveraging the expertise of the Group's registered dietitians and dietitians so that we can provide counseling on a wide range of matters, including food habits. Another major theme we are tackling is making the private-brand products displayed in our sales areas more appealing, and we launched the new brands Karada Welcia and Kurashi Welcia in June.

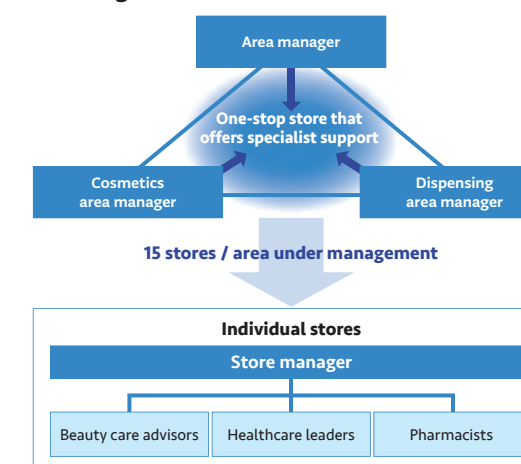
In the beauty care sector, we are using tablet computers to carry out skin diagnoses and provide information. We have also created a database of the customer information we have accumulated in paper records, which is creating more regular customers and increasing the frequency with which they visit stores. Going forward, we will use big data acquired by our customer-facing departments to discover new healthcare needs and develop products and services.

In regard to area operations, we recognize that it is important that we strengthen by integrating the three areas of area management, consisting of area managers, dispensing, and cosmetics. In March 2020, we reorganized store management into an area office system comprising five area offices. We have delegated authority, with one area manager responsible for managing

15 stores, with the aim of speeding up decision-making in each area and creating stores that are more closely aligned with their local communities.

Additionally, we will continue to grow in scale by actively opening new stores. We plan to open around 120 new stores each fiscal year, and we will increase our dominance in suburban areas and also pursue M&A projects. Considering the need to develop infrastructure in accordance with growth in scale, we will make store operations more efficient by investing in regional distribution centers to optimize logistics, as well as introducing systems like new point of sale systems.

Area-based store management through the integration of three areas



Overview of the medium-term management plan (Feb. 2021 to Feb. 2023)

Feb. 2023 quantitative targets | Net sales **¥1.08 trillion** | Ordinary income margin **5.0%** | Dividend payout ratio **20% or more**

	Feb. 2020 Result	Feb. 2021		Feb. 2022		Feb. 2023 Plan
		Plan	Result	Plan	Forecast	
Net sales	¥868.2 bn	¥935.0 bn	¥949.6 bn	¥1,005.0 bn	¥1,021.0 bn	¥1,080.0 bn
Ordinary income	¥40.3 bn	¥41.7 bn	¥45.8 bn	¥46.7 bn	¥47.6 bn	¥54.0 bn

Key initiatives

New store openings

Continue to actively open new stores

- 1) Open around 120 new stores each fiscal year
- 2) Open stores based on a model that fits local characteristics (suburban/small urban)
- 3) Increase dominance in suburban areas

Dispensing sector

Strengthen regional coordination and customer-facing operations

- 1) Collaborate with healthcare facilities and establish dispensing pharmacies in stores (target over 80% of stores)
- 2) Engage in at-home dispensing
- 3) Advance automation and systemization

Products

Develop merchandising tailored to the characteristics of the store model and local area

- 1) Improve merchandising for each store model (suburban/small urban)
- 2) Divide merchandising activities by region
- 3) Develop private-brand products that tell a story (healthy, environmentally friendly, etc.)
- 4) Carry out mobile and digital promotions

Stores

Thoroughly implement initiatives to make store operations more efficient and raise earning capabilities

- 1) Strengthen area management (management, dispensing, and cosmetics)
- 2) Standardize store operations (work schedule management, automated ordering, etc.)
- 3) Implement measures to deal with underperforming stores

IT and logistics

Develop systems to make store operations more efficient

- 1) Design systems that can adapt to various business policies and M&A
- 2) Make store operations more efficient (new registers, packing slip-free operations, etc.)
- 3) Respond to store network growth and optimize costs

Human resources and training

Create environments in which employees feel satisfied and can grow together with the Company

- 1) Reform workstyles (shorten total working hours of permanent employees by 10%, add working patterns, etc.)
- 2) Provide educational opportunities tailored to individuals (e-learning)

Message from the President



“ We will strive to grow in scale while making store management more precise ”

Environmental and social initiatives

Q Can you tell us about the important initiatives for executing your strategies?

A We think it is essential to secure and educate human resources, promote diversity, and contribute to regional sustainability.

The most important resource for executing our strategies is people. Especially, securing and training excellent pharmacists is crucial from a business continuity perspective. In the fiscal year ended February 2021, we recruited 370 new graduates and 330 mid-career employees as pharmacists. We have strong recruitment capabilities as there are many people who share our desire to contribute to communities, and we have worked hard to offer appealing employment conditions. We have also established an education and training structure for employees after they join the Company and we are focused on creating environments that encourage all employees to continue to work for us. As a result, we have been able to maintain an employee turnover rate of less than 10%. We are also engaged in training the next generation of pharmacists, and we have established an endowed Community Healthcare Pharmacy course at Gifu Pharmaceutical University to cultivate visiting pharmacists who can provide healthcare at home and in times of disaster and to advance research on various subjects.

Speaking of employees, diversity and inclusion is also a major theme for us. Our Group already has a history of continuously transforming by absorbing other companies and assimilating the best parts of each company. I think that companies boasting such a wealth of diversity are rare. We are also providing training for officers, managers, and employees on issues concerning gender and the LGBTQ community, as well as encouraging understanding of these issues. In April 2021, we switched our uniforms to a gender-free design. Although this may be a small step, this new uniform represents the start of a new stage.

Also, as a Group that is developing a nationwide chain, it is crucial that we contribute to regional sustainability. We are providing multi-faceted support to communities through Welcafe. The Welcafe initiative started with the concept of providing communities a space where casual exchanges of information can take place, but they have also become used for things like nutrition consultations, children's events, and neighborhood association meetings. We are currently carrying out support activities regarding issues that closely affect communities in areas such as end of life planning and inheritance for elderly people and children's education.

Regarding the environment, while we are obviously facing global issues such as climate change, there is also no shortage of issues that are deeply connected to retail, such as plastic waste and food loss. Quantitative targets and KPIs are currently under consideration, and we are consistently working to reduce CO₂ emissions and the amount of waste produced by stores. We have also made contribution to achieving the SDGs, including environmental goals, one of the conditions for developing new private-brand products to raise the amount we are contributing to solving issues through our business.

Message to shareholders

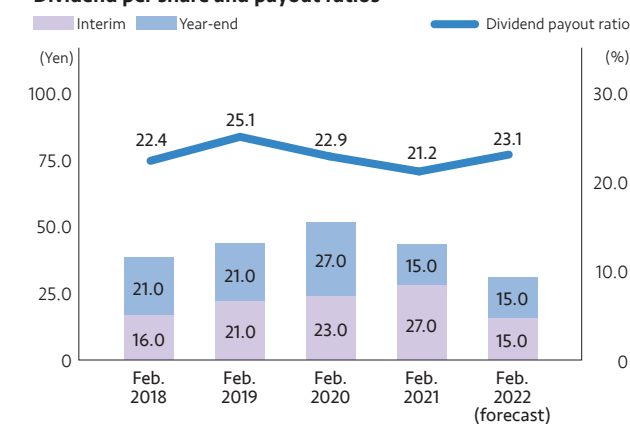
Q Please provide a message for investors and shareholders.

A We will take your feedback into account as we pursue sustainable growth and a further increase in corporate value.

Our basic policy on dividends is to secure funds for investment in growth while consistently paying stable dividends. Based on this, we are targeting a dividend payout ratio of over 20%. The year-end dividend for the fiscal year ended February 28, 2021 was 15 yen per share. Before carrying out a stock split, we paid an interim dividend comprising an ordinary dividend of 27 yen per share. Therefore, our full-year dividend, calculated based on the assumption that the stock split was executed at the beginning of the fiscal year, is 28.5 yen per share. Our dividend for the fiscal year ending February 28, 2022 is forecast as 30 yen per share (comprising an interim dividend of 15 yen and a year-end dividend of 15 yen).

Many of our shareholders are also customers. We intend to listen to the various opinions of our shareholders so that we can raise corporate value together. We remain aware that the Group's growth to date is thanks to our customers. We will continue to listen sincerely to our customers while striving to take great leaps toward becoming a one-stop store that offers specialist support.

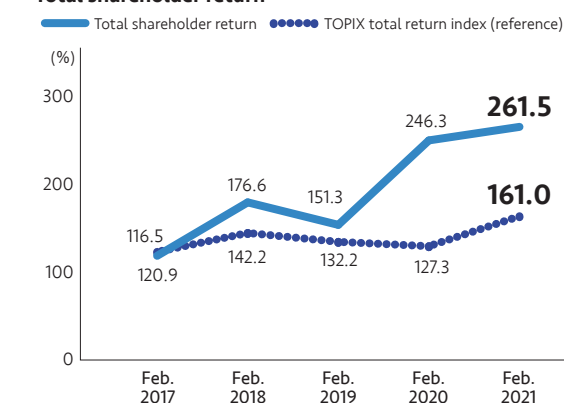
Dividend per share and payout ratios



Notes:

- Dividends shown are the amounts actually paid.
- On September 1, 2020, the Company implemented a 2-for-1 split of ordinary shares.

Total shareholder return



Note: Total shareholder return is calculated using the end of the fiscal year ended February 29, 2016 as a base.



Focus 1 Improving Pharmacist Training

Providing comprehensive, advanced support for communities through trusted “personal pharmacists.”

By 2025, Japan will have become a super-aged society in which one in every four or five of its citizens is over the age of 75.

This situation will give rise to many issues, such as coordinating regional healthcare and nursing care-related facilities and engaging in advanced medicine. The role of pharmacists will become increasingly important, so we are working to improve the skills of our pharmacists and provide them with comfortable working environments.



Drug stores with dispensing pharmacies can become important community infrastructure.

Japan is facing rising social welfare costs, and it is predicted that the aging of society will lead to an increase in cases where elderly people are required to provide nursing care to other elderly people. Within this environment, social issues concerning people's health will continue to become more pressing. Welcia aims to become a presence people can rely on when they need help, rather than a place people go to when ill. We believe we can achieve this due to our large number of drug stores with dispensing pharmacies, a characteristic that is rare among Japan's many drug stores. Furthermore, we recognize the importance of providing our employees, including pharmacists, with environments where they can flourish, so we are actively building a foundation for this by implementing workstyle reforms.

Saya Noda

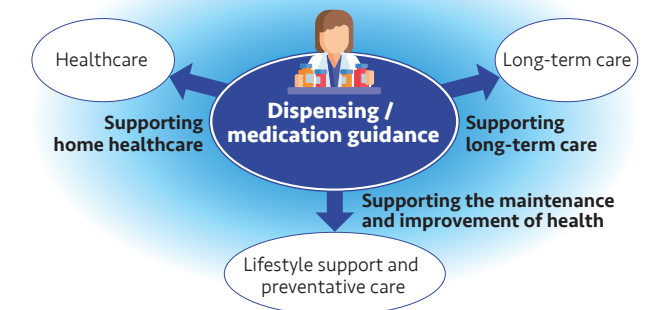
General Manager
Tokyo South Drug Store with Dispensing Pharmacy Division
Welcia Yakkyoku Co., Ltd.

Expanding the role of pharmacists as one of the pillars of the Community-based Integrated Care System

The rapid aging of Japan's population combined with a declining birthrate has led to the establishment of the Community-based Integrated Care System, a framework that aims to provide integrated habitation, healthcare, nursing care, preventative healthcare, and lifestyle support for each region by 2025. Within this, pharmacists have an important role to fulfill. This role requires them to go beyond providing pharmaceutical products and usage explanations in-store so that they become local “personal pharmacists” who can call on a network of doctors, nurses, and care managers to provide customers with reliable guidance concerning pharmaceuticals.

* Pharmacists with abundant knowledge and experience concerning health and nursing care who can provide customers with counseling not only related to pharmaceutical treatments, but also other topics they need advice on.

The expanding role of pharmacists within region



Acquiring the knowledge and skills expected of advanced healthcare providers

Welcia Yakkyoku is a chain of local “personal drug stores” with dispensing pharmacies in around 70% of stores. We are working to engage demand for advanced home healthcare by installing clean dispensing rooms and providing at-home pharmaceutical management and guidance. Our focus is on cultivating pharmacists who

can achieve this by improving the skills and knowledge of our staff by building a training structure for producing professionals who can handle every type of activity, from fundamental to advanced. Furthermore, we are currently establishing an internal accreditation system that encourages greater expertise.

Our pharmacist training curriculum

New employees Novice employees	Newly Employed Training Pharmacist Training	OTC Products / Cosmetics	At-home Care	Area-based Study Overall Training/ Support for Academic Conventions and Clinical Training	Specialist Training (Clinical Inference, Herbal Medicines, Pharmacist Guidance, etc.)
Intermediate employees Experienced employees	Drug History and Management Pharmacist Training		Advanced At-home Care		
Managers Top level specialists					

Backing up pharmacists by investing in automation and improvements to work environments

Going forward, in addition to existing dispensing duties, pharmacists will also need to focus even more on communicating with customers and patients. Therefore, our Group aims to reduce the workload of these existing duties and make processes more efficient by expanding

the introduction of robots and equipment that fully automate the dispensing process. Another important theme is recruiting and retaining excellent pharmacists, so we are putting effort into providing comfortable working environments through various initiatives. This includes reducing working hours by optimizing personnel placement and encouraging employees to take paid vacation days.



Automating the dispensing process for improving efficiency

Retention rate of pharmacist

	1st year	2nd year	3rd year
Joined April 2018	98.8%	90.2%	88.6%
Joined April 2017	95.8%	90.9%	87.5%
Joined April 2016	98.7%	96.0%	92.1%



Focus 2 Strengthening Healthcare Sales Areas

Providing counseling tailored to each stage of life to become a more familiar presence in community life

We aim to create stores that are closer to customers by improving the skills of our registered pharmaceutical sales clerks, who play a central role in healthcare sales areas, so they can provide detailed advice and information on matters ranging from OTC products to diet and nutrition.

Aiming to further raise the level of healthcare sales areas through varied support for registered pharmaceutical sales clerks on a Companywide basis.

Customers expect health and peace of mind from drug stores. Therefore, our staff strive to build up knowledge while carrying out their daily duties. In the Healthcare Promotion Department, we transcend the boundaries of organizations focused solely on sales or education to provide varied support for staff, especially registered pharmaceutical sales clerks, on a Companywide basis. We are concentrating on educating staff to improve their counseling abilities. Our aim is to create healthcare sales areas that can respond to a wide range of customer queries and concerns on topics from disease prevention and treatment to aftercare.

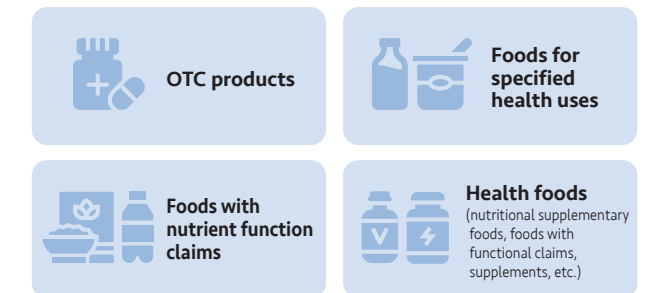
Ayae Kimura
 General Manager
 Healthcare Promotion Department, Marketing Strategy Division
 Welcia Yakkyoku Co., Ltd.



Handling customer concerns as all-rounders knowledgeable about everything from OTC products to foods

At Welcia Yakkyoku Co., Ltd. stores, counseling related to dispensing is provided by pharmacists, while counseling related to beauty is provided by beauty care advisors. Counseling concerning every aspect of healthcare, including OTC products, foods for specified health uses, and other health foods, is provided by registered pharmaceutical sales clerks. These clerks are knowledgeable about a wide range of products that are often used in everyday life and fulfill an important role as partners who work with customers to solve their issues and concerns.

Product categories handled by registered pharmaceutical sales clerks



Further enhancing counseling by coordinating registered pharmaceutical sales clerks, registered dietitians and dietitians

We employ many dietitians and registered dietitians. We have established Drug Consultation Areas in stores and we are strengthening coordination between registered pharmaceutical sales clerks, dietitians and registered dietitians so that we can meet demand for advice not only about drugs, but also nutrition and diet. Our dietitians and registered dietitians also use in-store Welcafes to provide information tailored to local customers. Through these initiatives, we are evolving activities to develop closer ties to communities, so that we can identify the issues concerning customers and create even greater new added value.



A Drug Consultation Area where customers can discuss health-related concerns

Making healthcare sales areas more dynamic by establishing a support structure, including employee education

The Healthcare Promotion Department is working with various departments within the Company to provide support for store staff, including registered pharmaceutical sales clerks. For example, for healthcare education we plan and carry out role-playing and e-learning activities that aim to improve communication skills and provide knowledge on a wide range of topics from disease prevention to aftercare. We are also working to strengthen ability to sell healthcare products and enhance Welcafe activities on a Companywide basis.

Coordination between healthcare-related departments





Focus³ Developing New Private Brands

Launching new private brands that support customers' health and lifestyles

Private-brand (PB) products are products launched under a retail company's original brand name. The Welcia Holdings Group has renewed its private brands as an important strategy to make the Group more competitive and differentiate it from its competitors, and we are working to develop PB products that offer high added value.

We want to create refined brands that make Welcia the first name that comes to mind when customers think of drug stores.

Our PB products to date have offered great value through low prices. However, customer mindsets are changing and as people become more concerned about safety and quality, demand is growing for new PB products that can offer more diverse value. As a member of the project team whose mission is to realize these products, I am involved in every step from generating ideas to negotiating with manufacturers and considering product specifications. In June 2021, we were finally able to launch our first wave of new PB products. I want to use digital technology to develop appealing products and contribute to raising brand value.

Hitomi Saitou
Product Development Department
Products Division
Welcia Yakkyoku Co., Ltd.

Creating PBs that surprise customers and offer new value

In November 2020, the Welcia Holdings Group launched a new PB project. This project is being handled by a team of five young employees led by the general manager of the Product Development Department. Our aim is to develop products that in addition to being safe, high quality, and affordable, can also surprise and impress customers by exceeding what they would naturally expect. Under the vision of "Good products and good people make good stores," we developed the two new brands Karada Welcia, comprising healthcare, beauty, and food products, and Kurashi Welcia, comprising everyday necessities. We have taken great care with product names, choosing names that clarify the product's appeal, such as "Versatile shopping bag for the eco-conscious consumer" and "Opaque plastic bag." We launched our first wave of products in June 2021 with the target of having PB products comprise 10% of the Group's net sales by the fiscal year ending February 28, 2023.

New PB concepts

からだ Welcia

Drugs, supplements, foods, skincare products, and beauty products that make every day healthy and beautiful. An original brand that can delight mind and body and that is gentle to the planet. This is Karada Welcia. Whether it is something you put in your mouth or on your skin, we bring abundance to everything that is important in life.

くらし Welcia

There are products that can make both everyday lifestyles and the months and years of a long life convenient, comfortable, and happy. Kurashi Welcia encompasses many of these kinds of daily necessities. However, Welcia's daily necessities also go the extra mile and take a broader view to offer an early response to a range of issues, such as environmental problems, regional society, and changes in the times and lifestyles.

Contributing to solving environmental and social issues through PB products

One of the characteristics of our new PB products is that the SDGs have been factored into development standards. As society pays greater attention to environmental and social issues, as represented by ethical consumption, we derived initiatives from the SDGs, such as using biomass and renewable energy, conserving and restoring ecosystems, and securing balanced nutrition, and made it

a condition that development had to be in line with one or more of these initiatives. We also worked to achieve this by collaborating with industry-government-academic partnerships and regional companies.



Selection standards focused on the SDGs

Selection standard	Item	Selection standard	Item
Resources	Use of biomass in product development	Social contribution	Development of foods that ensure balanced nutrition
	Development of FSC-certified products		Development of products that can be used safely by pregnant and breastfeeding women
	Product development that makes resource use more efficient		Development of easy-to-chew foods
	Product development using recycling and reuse technologies		Stable supply of anti-infection products
	Product development that is conscious of reducing food loss and food recycling		Development of healthcare products
	Use of renewable energy in product development		Development of preventative healthcare and immunization products
	Product development that minimizes hazardous substance emissions		Development of disaster-preparedness products
Ecosystems	Product development that conserves and restores ecosystems	Logistics	Development of products that can be produced locally and take logistics into account
	Product development that reduces chemical emissions and waste		Development of products that can be supplied to every region
	Product development that is conscious of forests, rivers, lakes, and other natural resources		Products developed in collaboration with small-scale fishing businesses
	Product development that does not degrade natural habitats		Product development using marine resources from developing countries
	Development of products with a proposed lifecycle that is in harmony with nature		
Development of products that minimize atmospheric pollution when they are disposed of			

Contributing to a sustainable society and region through environmentally-friendly products and store management

Responding to climate change



Of the many environmental and social issues ahead, climate change in particular carries enormous risks and demands a global response. In October 2020, the government of Japan announced its target of becoming carbon-neutral (essentially zero GHG emissions) by 2050. As a member of the Aeon Group, the Welcia Group will contribute to the achievement of GHG emission reduction targets for 2030 (35% reduction in overall reductions compared to 2010) as an interim goal for Aeon Decarbonization Vision 2050.

Proactively installing energy-conserving equipment

At the Welcia Group stores, we began installing LED lighting in order to reduce electricity usage and CO₂ emissions in 2012, completing installation in all stores in 2020. Furthermore, we utilized energy-conserving refrigerators/freezers and high light-reflective flooring, leading to consistent reduction of CO₂ emissions in each store.

	FY 2018	FY 2019	FY 2020
Annual CO₂ emissions (tons)	184,908	191,482	194,278

Note: Average annual CO₂ emissions for a family in Japan is 3.971 tons (as of FY 2019).



Interior of store with energy-conserving refrigerators/freezers

Solar power

The Welcia Group is pursuing solar power, as we look to take advantage of the many large, flat roofs of our stores in suburban locations. Currently, we sell the energy we generate, but we will look into utilizing carbon offset as well.

	Feb. 2020	Feb. 2021
Annual power generated (kWh)	7,286,640	7,500,433
Number of stores with solar panels installed	121	122

Note: Average annual energy consumption for a family in Japan is 4,322 kWh (as of FY 2017).



Store outfitted with solar panels

Reducing fossil fuel consumption

The Welcia Group currently has 704 company vehicles—242 hybrid vehicles, and 462 gasoline-powered vehicles. We look to increase our percentage of hybrid vehicles, and begin tentative deployment of electric vehicles (EVs) in 2021, to reduce consumption of fossil fuels.

Reducing waste



Societal concerns about waste have been increasing recently. This includes the food loss of disposing products that are still edible, as well as plastic garbage which contaminates the ocean. The Group's core business activity is handling products as a drug store—products such as food and drugs. Therefore, we consider waste reduction a critical issue and are pursuing various initiatives in waste reduction.

Reducing disposal and return of products

We are working to maintain optimal inventory quantities and order quantities, as well as to improve the efficiency of the overall supply chain in collaboration with our business partners. In order to further enhance warehouse management, minimize logistical fluctuations, and reduce burden at storefronts, we utilize an automatic order system—deployed in the second half of the fiscal year ended February 29, 2020—as we look to reduce the rate of disposal loss and the rate of returned products.

	Feb. 2020	Feb. 2021
Food loss of disposing products (%)	0.77	0.66

Reducing plastic checkout bags

In April 2020, we began charging for plastic bags handed out at the register, in advance of Japan's nationwide policy on charging for plastic checkout bags, which was enacted in July 2020. Before charging for bags, we were consuming 200 tons of plastic bags per month. After assessing charges, that number fell to 70 tons, demonstrating a significant impact.

	Feb. 2019	Feb. 2020	Feb. 2021
Amount of distributed plastic bags (tons)	2,249	2,392	1,176

Charging for plastic bags generated roughly 2.68 million yen for the whole Group as of February 2021. This money was donated to relevant environmental organizations by each company in the Group.

Recycling uniforms

In April 2021, we began switching over to newly designed uniforms. As for the obsolete uniforms, 1.2 million used uniforms will be recycled as 60 tons worth of solid refuse paper & plastic fuel (RPF). RPF is often used as a replacement for coal and coke as a fuel in paper- and steel-making industries, and has been gaining attention as an energy fuel in recent years.

Also, 27,000 never-used obsolete uniforms will be upcycled as original Welcia bags and given to customers, helping to spur creative solutions to environmental problems.



We utilized carbon offset* for a portion of the CO₂ emitted during manufacture of the uniforms we purchased in 2021.

* Carbon offset is a strategy for neutralizing the amount of CO₂ emissions which an organization cannot eliminate, often by "purchasing" that same amount from another organization that succeeded in reducing emissions or absorbing CO₂.

Utilizing waste plastics

We have adopted a highly-durable asphalt additive (NEWTLAC 5000*), which employs used plastic materials, for use in our store parking lots. This additive is expected to increase the lifespan of the pavement as well as restrict the generation of microplastics out of the pavement, as it features roughly five times the durability of normal asphalt.

* NEWTLAC 5000 is developed by Kao Corporation



Welcia at Fujisawa Yoda, which adopted NEWTLAC 5000

Collecting and recycling plastic bottles

We are engaged in Bottle-to-Bottle* initiatives to reuse plastic bottles collected at our stores as new raw plastic materials. Collection began in September 2020 in Oyama City, Tochigi Prefecture. Starting in the summer of 2021, we will expand the number of participating stores and regions.

* Collaborative operation with Coca-Cola Bottlers Japan Inc.



Creating a work environment where employees can work to their fullest potential, and developing stores that support everyone in the region

Contributing to the region through our stores

The Welcia Holdings Group has grown in concert with everyone in the local regions. We strive to support an enriching, healthy lifestyle for everyone in the region as well as providing needed value in society, as a personal drug store contributing to local communities through our stores and business operations.

Promoting Welcafe area installation

The Welcia Group has been moving forward with the installation of Welcafe areas in the Group drug stores to serve as a place of cooperation and exchange in the community.

Our first Welcafe was created in April 2015, and, as of February 2021, we have Welcafe areas in 331 stores. Welcafe offers not only a physical space but also information to everyone in the community through the Group personnel, including pharmacists, registered pharmaceutical sales clerks, registered dietitians, and beauty care advisors.

As traditional neighborhood associations and community councils decrease in number, we are contributing to the real community collaboration through Welcafe as a base. We also cooperate with community comprehensive care centers, community councils, and councils of social welfare.



Welcafe — free to use as a place of community collaboration

Introducing universally-accessible stores and facilities

The Welcia Group has established its own accessibility standards for new stores—from design to construction—based on the Building Standard Law. We are working to make our stores accessible to everyone in the community,

such that elderly people and people with disabilities can utilize our stores with peace of mind. Specifically, we provide ramps and sufficient aisle width for wheelchairs and baby strollers, and we have introduced bathrooms for people with ostomies in all of our stores.

Forming cooperate agreements with local municipalities in each community

The Welcia Group is linked with local municipalities through agreements in order to support everyone in each region. In 2021, we concluded the agreements regarding provision of supplies during a disaster with Niigata Prefecture and Kurashiki City, Okayama Prefecture. This helps us provide food, water, sundries, and other necessities during a large-scale disaster or when the risk of disaster exists.

Also, we have concluded comprehensive cooperation agreements with Sakado City, Saitama Prefecture, and Shimada City, Shizuoka Prefecture, as we move forward with activities promoting and maintaining the health of local residents and vitalizing local industries.

Responding to the COVID-19 pandemic

In order to protect the health and safety of our customers and employees, we are implementing a variety of strategies, including the following.

Supporting customers through products and services

- Receiving diagnoses by phone and prescriptions by fax at dispensing pharmacies
- Handling PCR test service kits

Preventing infection at stores

- Enforcing temperature checks, hand-washing, gargling, and mask-wearing for employees
- Utilizing cashless payment (non-contact payment)
- Installing splash guards at dispensing windows and registers
- Circulating air using ventilation equipment under a higher standard than required by law

Ensuring safety of employees

- Surveying using Aeon's Safety Confirmation System

Promoting diversity

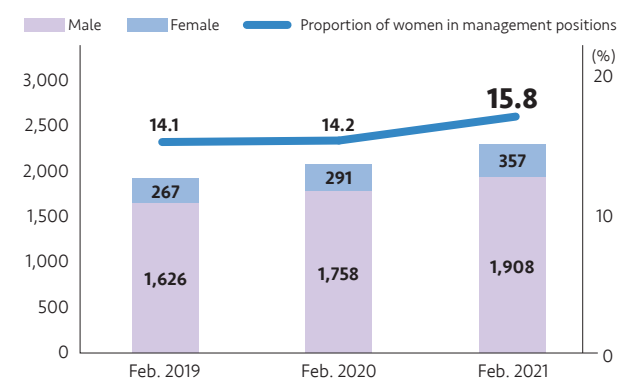
For the Welcia Group, all individuals are potentially people we can serve as customers. So, we believe that diversity in our personnel is an absolute necessity, and we promote participation by women and other groups. We strive to create an environment in which each individual employee can work with a continued sense of genuine purpose.

Strengthening systems for promoting diversity

The Welcia Group aims to promote bottom-up diversity and inclusion. As part of our medium-term three-year plan, we established a goal of having women constitute 20% of all store managers by February 2023. During the fiscal year ended February 28, 2021, we surveyed our store employees to determine the current level of diversity awareness.

Furthermore, we implement seminars for all employees in order to deepen understanding of LGBTQ, and have had over 7,000 participants in the seminars as of April 2021. The system and tangible support are moving forward. Same-sex unions not recognized by Japanese law are acknowledged as marriages by us, and are eligible to receive support under the employee benefits system since March 2021. Additionally, we introduced gender-free uniforms in April 2021.

Changes in the number of managers and the proportion of female managers



Employing people with disabilities

The Welcia Group's hiring rate of people with disabilities remains over 3.0%, above the legal requirement (2.2%). Our special subsidiary, Welcia Oasis Co., Ltd., has over 600 registered employees with disabilities. About 450 of them are in charge of preparing the sales area, stocking

and removing products in each of the Group's drug stores. Others are engaged in cleaning at the main office, stores, and distribution centers, or sorting reusable store furnishings and internal correspondences. We also provide health guidance to employees with disabilities and implement training for people in guidance positions.

Moving forward, we will continue to actively hire people with disabilities and arrange a working environment that enables all employees to work to their fullest potential.

Preparing a system for prenatal/postnatal/childcare leave

Welcia supports work-life balance for employees during child-raising years, establishing a system above and beyond the requirements of the law. For example, parental leave is set one year longer than the legal stipulation, and can be taken up until the child is three years old at the longest. It has a 100% utilization rate. Regarding our system for reduced working hours during childcare, daily work hours can be reduced by a maximum of two hours up until the April* when the child begins their first year of middle school.

*The Japanese school year begins in April.

Employee engagement

The Welcia Group distributes the Credo Capsule—a summary of our corporate ideals, vision, business policies, service guidelines, and code of conduct—such that all employees share the Group's societal purpose and desire to succeed, and can take the actions necessary for those aims. Also, we created a handbook with supplementary explanations in the hopes of further permeation of these ideals and policies throughout the Company.

Preventing harassment

In order to ensure that harassment does not occur in any of our workplaces, we prepare and distribute the Compliance Guidebook, and implement e-learning orientations. We have established a consultation line for any concerns, problems, or issues in the workplace, including harassment. With the consent of the consulter, there will be a hearing with the parties involved and any relevant third-parties, and proper response—such as internal disciplinary action or corrective measures—will be considered and implemented.

Based on a corporate culture accepting of diverse values, desiring to continually consider new needs without losing our original spirit

Welcia is continually strengthening its corporate governance. One way we achieve this is through an active exchange of opinions with various outside officers having different experiences and knowledge. This time we spoke with an outside director and an outside corporate auditor about the governance system and management issues.

Investors are keenly interested in publicly-listed parent/subsidiary companies. What are your thoughts on such companies?

Narita Welcia is a publicly-listed subsidiary company with over half of its shares held by Aeon Co., Ltd. I think responding to customers, employees, and shareholders—

including the parent company—while maintaining transparency and objectivity in the discussion for the protection of minority shareholders, is very important. And I think our positioning as a publicly-listed subsidiary company will become a key condition for growth moving forward.

Kagami The issues with publicly-listed parent/subsidiary companies are often brought up, but I think there are merits too. In particular, since the Group is still developing, we can utilize the various mature corporate systems, know-how, and management resources of Aeon. I think that is quite meaningful. We became a subsidiary company of Aeon in 2014, so the situation is a bit different than corporations which have been publicly-listed subsidiary companies for decades. But, naturally, we believe discussing issues in a forward-looking manner is absolutely necessary.

What do you focus on as outside directors and outside corporate auditors?

Kagami When I became an outside corporate auditor in 2012, I remember that we had the goal of 350 billion yen in sales. Now we are looking more at one trillion. In the middle of such rapid growth, I get the sense that the risks we need to focus on as the Group will continue evolving.

Narita As you mentioned, the Group experienced remarkable growth through mergers and acquisitions. In regard to M&A, we look at what type of synergies can be generated by our businesses in society. For that, we have to coordinate the trajectories of our ideals and visions not just across management levels, but also all the employees on site. These are facets we try to emphasize.

Kagami My position is to be an outside corporate auditor, but I also serve as a lawyer. So, I always consider compliance-related risks first and foremost. Specifically, dispensing pharmaceuticals is one aspect of the business, and it deals directly with health and life. There are a number of laws and regulations related to pharmaceuticals, so I offer my advice from the perspective of compliance.

Narita In addition to being a tax accountant and a certified public accountant, I have experience participating in volunteer activities with NPOs and in health and welfare audits with local municipalities. Through that experience, I learned that there are problems even government cannot solve. Many elderly people, pregnant women, and disabled people who live far outside of the organized infrastructure of cities are in that kind of situation. Helping those people as a contribution to a solution is considered to be one of the Group missions in the local community. So, we actively try to communicate that.

Also, as a female executive, I am always conscious of diversity issues. I approach board meetings with a mindset of considering uniquely feminine perspectives and viewpoints while maintaining independence and objectivity.

Kagami We have many female employees in the Group, so we cannot ignore the need to create a safe working environment that promotes women's participation and motivation, enabling them to continue working for future growth. In the Nomination and Dismissal Advisory Committee—which I am the chairperson for—we exchange opinions on how to foster executives for the coming generations, as well as on promoting and developing female employees.

Narita I am also a member of the Nomination and Dismissal Advisory Committee. And I serve as the chairperson for the Compensation Advisory Committee. In that committee, we primarily discuss the executive compensation system content and metrics. But, as an independent director, I am conscious of the need to explain the compensation system to stockholders and other stakeholders in order to gain their acceptance. I think all of these advisory committees are functioning effectively.

Tell us about how you evaluate the administrative performance of the Board of Directors.

Narita The Board of Directors is not just a formality with regards to acquiring approval. It involves intense



Hirohisa Kagami

Joined in 2012

KAGAMI Law Office Head
Outside Corporate Auditor,
NITTO KOHKI CO., LTD.
Outside Corporate Auditor, BML, Inc.

and lengthy debate. I feel that it involves healthy and rapid exchange of opinion whether inside or outside the Company.

Kagami I agree. In the Group, we have a history of fusing the various good qualities of the corporations involved in M&A projects. So, we've had that culture of proactively incorporating external opinions for a long time. Not only with the Board, but we have a Liaison Committee composed solely of outside officers, and hearings with management too. It's wonderful that we can have open and deep communication.

Yukari Narita

Joined in 2015

President, Yukari Narita Certified Public
Accountant Firm
Professor, Graduate School of Economics and
Management, Tohoku University
Outside Director, Cyber Solutions Inc.
Asahi Sendai Tax Corporation

Narita After discussion, our response to the issues brought up is surprisingly fast. This rapid action is probably thanks to the solid judgement criteria used under the leadership of the chairman and the president.

Kagami I think that using outside officers is really one of the positive traits of this Group. I visit stores and offices to observe everything as part of my audits. I've received requests from management to go to the stores on the Tsugaru Peninsula in Aomori. So, before the travel restrictions due to the COVID-19 pandemic, I flew around to stores in every part of the country. The things I observed and perceived during that time were discussed in the auditing committee and then communicated to management.

Narita Yes, I think it's very important to see what's happening on site. I asked to observe Welcia House—a comprehensive community care center in Shiraoka City, Saitama Prefecture—and meet with pharmacists who dealt with home medical care. I visited some stores, too, not just to see everything, but to get a tour for a glimpse into the strategies for the sales floor. This really deepened my understanding. Even in meetings, I can remember the faces of people actually doing the work, so I think that leads me to offer more considerate opinions and advice.



The Liaison Committee exclusively composed of outside executives (picture taken April 2021)

What are you looking forward to with this Group in the future?

Kagami The COVID-19 pandemic has had an impact, and changes in society are happening rapidly. But I hope we continue to adopt a posture of listening to customer wants and needs, and incorporating them as a part of the community infrastructure.

Narita The growth the Group has experienced is definitely because we have sincerely responded to the difficulties facing customers. One of our ideals is to maintain our original spirit while flexibly responding to a changing society. That helps us resolve social problems as a useful force in society, and I think it leads to sustainable growth.

Of course, we must produce a profit as a privately-owned corporation, and it isn't easy to build a business around tackling social issues. But, I expect the experience and know-how we've developed at the comprehensive community care center to be useful on multiple fronts moving into the future.

Kagami One more good thing I expect for us is greater realization of our employees' capabilities. We have a rich array of expert personnel, which enables the Group to meet demands in society—it's really a huge strength. Pharmacists, registered dietitians, registered pharmaceutical sales clerks, beauty care advisors—a team of experts, basically. In the future, as we progress towards integrating medical care, nursing care, and lifestyle through the Community-based Integrated Care System and other methods, I think it will become possible to transcend traditional boundaries through organic coordination of diverse viewpoints.

If we keep asking ourselves what we can do to improve our society and community, I think we will find further growth both as individuals and as an organization. I firmly believe the Group can achieve that.

Aiming to be a corporate group trusted by stakeholders and continually strengthening our corporate governance

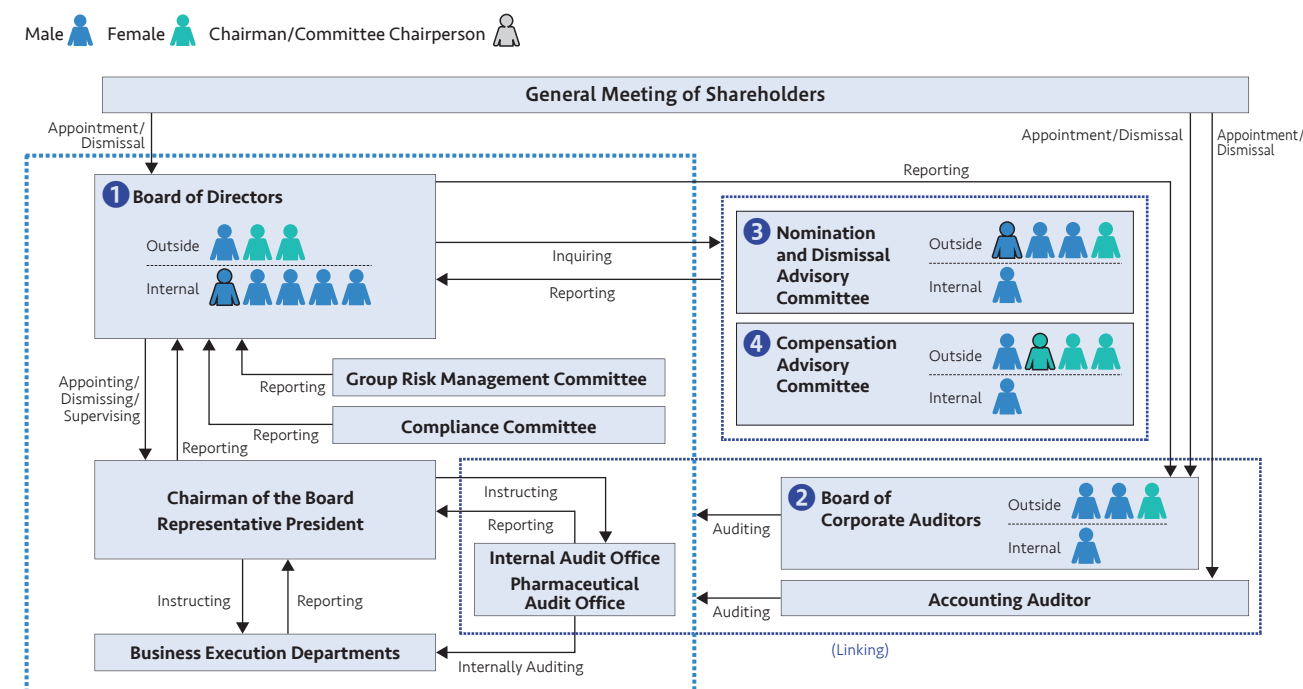
Basic policy (on institutional design)

Welcia has become a company that maintains a Board of Corporate Auditors, which enables implementation of fairer audits. Welcia has also introduced an executive officer system for separating the function of making decisions from executing work duties and for improving decision-making speed and clarifying responsibility.

We have established a General Meeting of Shareholders, a Board of Directors and a Board of

Corporate Auditors as company bodies. In addition, we installed a Nomination and Dismissal Advisory Committee of Directors, and a Compensation Advisory Committee—composed primarily of independent executives—as advisory bodies to the CEO with regard to the selection of potential directors and director compensation. We are constantly working to maintain high transparency and fairness in our operations.

Corporate governance system



1 Board of Directors

The Board of Directors supervises the directors' performance of work duties in addition to resolving critical issues relevant to the execution of work duties. In order for the Group to make bold and rapid decisions on business activities and accommodate a diversity of opinions, the Board of Directors is composed of internally promoted directors who possess professional expertise and knowledge regarding execution of business duties, as well as multiple outside executives who have independence and can speak their mind regarding growth strategy and corporate governance from the perspective of various stakeholders and local communities.

2 Board of Corporate Auditors

The Board of Corporate Auditors monitors whether the supervision of the Board of Directors is encouraging sustainable growth and medium- to long-term increases in corporate value, and is being demonstrated appropriately for improved profitability and resource efficiency. It is also responsible for a part of those oversight duties.

They implement audits across all business duties performed by the directors, and peruse the information at a meeting of the Board of Corporate Auditors held once a month.

3 Nomination and Dismissal Advisory Committee

We have established a Nomination and Dismissal Advisory Committee, composed primarily of independent executives. The committee deliberates and reports on potential candidates for executive positions and on appointment and dismissal of key administrators.

The selection criteria for inclusion in the Board of Directors or the Board of Corporate Auditors are as follows:

- 1) Maintains high popularity and dignity, has a high ethical standard, and fully desirous to abide by the law.
- 2) Has the qualities, experience, and past performance necessary for participating in management.
- 3) Has extremely high expert knowledge, technical ability and skills.
- 4) Has vast knowledge, broad vision, and profound insight.
- 5) Is able to guide and nurture managers and employees from a long-term perspective to accomplish management goals, and can move beyond precedent and habit to revolutionize business duties and the organizational landscape.

The procedures for appointing a candidate as a director involve holistically considering the knowledge, experience, and capabilities of the candidate, making a decision in a meeting of the Board of Directors based on the report by the Nomination and Dismissal Advisory Committee, and then engaging in further discussion about the potential appointment at the General Meeting of Shareholders.

4 Compensation Advisory Committee

From the perspective of transparency and objectivity in the process of determining compensation, we have established a Compensation Advisory Committee. It is composed primarily of independent executives and they discuss proposals for compensating directors and then report on those proposals.

The amount of compensation to be offered to directors is examined by this advisory committee in terms of the reasonableness of the system and its standards. The conclusions are transferred to the Board of Directors to undergo necessary procedures, and resolved through approval at the General Meeting of Shareholders. The compensation system features a basic salary, which is a fixed amount, and performance-based bonuses (money) and performance-based stock options, which are both fluctuating forms of compensation. Performance-based bonuses (money) and performance-based stock options are linked to performance evaluation in terms of the Group's overall sales, ordinary profit margins and the net income attributable to owners of the parent. Furthermore, directors and auditors who do not engage in the performance of business duties—such as outside directors—only receive a basic salary.

Primary expertise we expect

	Name	Independence	Positions	Areas of expertise								
				Management	Sales	Merchandise	M&A	Law	Accounting	Internationality	ESG	
Directors	Takamitsu Ikeno		Chairman and Representative Director	●	●	●						●
	Tadahisa Matsumoto		President and Representative Director	●	●	●					●	
	Norimasa Sato		Executive vice president				●			●		
	Juichi Nakamura		Executive vice president				●	●				
	Motoya Okada		Director	●							●	●
	Yukari Narita	Independent	Outside Director							●		●
	Tomoko Nakai	Independent	Outside Director					●				●
	Kunio Ishizuka	Independent	Outside Director	●	●	●						
Corporate Auditors	Toshio Miyamoto		Corporate Auditor					●				●
	Hirohisa Kagami	Independent	Outside Corporate Auditor					●				●
	Atsuko Sugiyama	Independent	Outside Corporate Auditor						●			●
	Yasuo Ichikawa	Independent	Outside Corporate Auditor	●						●	●	

Reason for appointment and Board meeting attendance rate of independent executives

Name	Reason for Appointment	Term of Appointment	Nomination and Dismissal Advisory Committee	Compensation Advisory Committee	Board of Directors
Outside directors					
Yukari Narita	Ms. Yukari Narita has extensive knowledge and experience as a professor of a university's graduate school, expertise and insight as a certified public accountant and a tax accountant as well as a perspective of women invaluable for the business decision making of the Company. Ms. Narita has served as Director of the Company since May 2015. We nominate her as a candidate for Outside Director because we believe that the function of the Board of Directors will be strengthened with her continued supervision of the execution of duties from an independent standpoint. Welcia does not have business dealings with Cyber Solutions, Inc., where Ms. Narita works as an outside director.	6 years	4/4 times	3/3 times (chairperson)	17/17 times
Tomoko Nakai	Ms. Tomoko Nakai has expertise and insight as an attorney in the judicial world as well as a perspective of women invaluable for increasing the corporate value of the Company. We nominate her as a candidate for Outside Director because we believe that she will continue to enhance the effectiveness of the decision-making function and the supervisory function of the Board of Directors as an expert in law from an independent standpoint.	2 years	4/4 times	3/3 times	17/17 times
Kunio Ishizuka	Mr. Kunio Ishizuka has experience, as the head of the management team of Isetan Mitsukoshi Holdings Ltd. at the time of its establishment, in getting its business on track after the management integration by merging the corporate cultures of the relevant companies. In addition, he possesses a wealth of experience in and knowledge of corporate management accumulated through his career as a corporate manager in the retail service industry. We nominate him as a candidate for Outside Director because we believe that the function of the Board of Directors will be strengthened with his supervision of the execution of duties from an independent standpoint, on the basis of his experience and knowledge accumulated as he devoted himself to facilitating corporate governance and served as a corporate manager in the retail service industry over the years.	New appointee	—	—	—
Outside corporate auditors					
Hirohisa Kagami	In addition to his expertise as a judge and lawyer, Mr. Kagami has been active in judicial affairs for many years. We nominate him as director as we expect him to serve well as a Welcia auditor and have substantially useful opinions on management in general. Welcia does not have any business dealings with NITTO KOHKI CO., LTD. or BML, INC.—where Mr. Kagami serves as an outside auditor.	8 years	4/4 times (chairperson)	3/3 times	17/17 times
Atsuko Sugiyama	Ms. Sugiyama has expert knowledge and viewpoints as a public accountant and tax accountant. Through auditing the performance of business duties from an independent standpoint, she offers useful opinions regarding the promotion of diversity, including the encouragement of women's participation at Welcia. We nominate her with an expectation that she will strengthen the functioning of the Board of Directors. Welcia does not have business dealings with FUJI KOSAN COMPANY, LTD., where she works as an outside director/audit and supervisory committee member.	4 years	—	3/3 times	17/17 times
Yasuo Ichikawa	In addition to various experiences and expertise through many years at a financial institution, Mr. Ichikawa has discerning insights into practical duties and management in the real estate and construction industries. We nominate him in the hopes of strengthening the functioning of Welcia's Board of Directors due to his broad knowledge base and supervision of our business execution from an independent perspective.	3 years	4/4 times	—	16/17 times

Criteria for appointing independent executives

When we appoint outside directors or outside corporate auditors, we primarily base our decision on whether there is no risk of conflict of interest with normal shareholders and whether we can expect them to conduct objective and proper supervision or auditing based on their expert knowledge. The people we appoint are those who fulfill

the requirements of our standards for independent judgement—which adheres to the independence standards of the Tokyo Stock Exchange—and who we expect to actively serve a role in securing growth strategies and corporate governance in consideration of all stakeholders and the local community.

Improving efficacy of the Board of Directors

Evaluating efficacy through questionnaires

We had directors and auditors fill out questionnaires regarding the efficacy of the Board of Directors. The results of analysis and evaluations confirmed that a support system for outside directors and outside corporate auditors is helping them to decide on the critical issues for the execution of business duties. Additionally, a system for supervision over the execution of business duties by directors has been properly constructed in order to ensure effective and practical decisions by the Board.

Establishment of Outside Directors Liaison Committee

We are strengthening links between outside directors and outside corporate auditors, and has established an Outside Directors Liaison Committee for the purpose of guaranteeing access to information and the independence of outside executives.

Protection of minority shareholders

Aeon Co., Ltd. is our parent company, and it owns a 50.58% share of Welcia's voting rights. Welcia receives a supply of private-brand products from the Aeon Group, and roughly 3% of Welcia's purchase costs are from business dealings with companies in the Group. Regarding our transactions with Aeon, we utilize standards similar to our normal transaction conditions, and we make decisions regarding the reasonableness of these transactions at the meeting 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 respective shares each year at the meeting 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 make recognize the motion as an exercise a 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.

Risk management

Risk management and compliance system

At the Group, we devise measures for risk reduction, risk avoidance, and other forms of risk alleviation as we attempt to accurately grasp and evaluate various risks. When any issue involving risk arises, we engage in rapid organization-wide response.

As part of risk management, we stipulate risk management provisions in relation to our basic policy and system for risk management. We organize and structure our system accordingly. Also, we established an in-house Group Risk Management Committee, and hold bi-monthly meetings. At the Group Risk Management Committee meetings, we promote comprehensive risk management for the Group, share information and evaluate risks.

Regarding compliance risks, we established a Compliance Committee to work on maintaining and improving overall internal control and compliance structure of the Group. Additionally, we are building a Group-wide compliance system, as we aim for strategic, efficient preparedness and response, including for amendments of rules, laws, and regulations pertinent to our business duties in pharmaceuticals, food products, and alcohol among other things.

Business Continuation Plan (BCP)

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 business. In order to do so, we stipulate routine actions to take when not in a state of emergency, as well as 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.

Executives

Directors



Takamitsu Ikeno
Chairman and Representative Director



Tadahisa Matsumoto
President and Representative Director



Norimasa Sato
Executive vice president



Juichi Nakamura
Executive vice president



Motoya Okada
Director



Yukari Narita
Outside Director



Tomoko Nakai
Outside Director



Kunio Ishizuka
Outside Director

Corporate Auditors



Toshio Miyamoto
Corporate Auditor



Hirohisa Kagami
Outside Corporate Auditor



Atsuko Sugiyama
Outside Corporate Auditor



Yasuo Ichikawa
Outside Corporate Auditor

Company overview

Company Name	WELCIA HOLDINGS CO., LTD.
Established	September 2008
Paid-in-Capital	7,736 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	52,158 (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

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, Shimogyo-ku, Kyoto-shi, Kyoto 600-8871

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 038-0031

Kanamitsu Yakuhin Co., Ltd.

Established	May 1949
Paid-in-Capital	45 million yen
Business Description	Management of drug stores and drug stores with dispensing pharmacies
Head Office Location	1-2-25, Tsurugata, Kurashiki, Okayama 710-0056

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, Kochi 781-8104

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 business
Head Office Location	83, Higoshimachi, Maebashi, Gunma 371-0221

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, 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, Ibaraki 305-0061

Welcia-BHG (Singapore) Pte. Ltd.

Established	March 2017
Paid-in-Capital	20 million Singapore dollar
Business Description	Drug store management within Singapore
Head Office Location	73 Bukit Timah Rd, #06-01 Rex House, Singapore 229832

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, 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, Saitama, Saitama 337-0051

Welcia Retail Solution Co., Ltd.

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

Number of shares

Number of shares authorized	494,947,200
Number of shares issued (including treasury shares)	209,633,676
Number of shareholders	46,982

Major shareholders

	Number of shares (Thousands)	Shareholding ratio (%)
Aeon Co., Ltd.	105,940	50.55
The Master Trust Bank of Japan, Ltd. (trust account)	7,427	3.54
Custody Bank of Japan, Ltd. (trust account)	4,220	2.01
Tsuruha Co., Ltd.	3,352	1.60
Welcia Holdings Employee Stock Ownership	3,207	1.53
STATE STREET BANK WEST CLIENT - TREATY 505234	2,757	1.32
THE CHASE MANHATTAN BANK 385036	1,967	0.94
Custody Bank of Japan, Ltd. (trust account 5)	1,652	0.79
Ishida Co., Ltd.	1,616	0.77
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1,553	0.74

Note: In calculating shareholding ratio, we omitted 54,334 shares of treasury shares. The treasury shares do not include the 1,050,200 shares held in the ESOP Trust or the 502,238 shares held in the BIP Trust.

Breakdown of holdings by shareholder type

