# Corporate Governance Report

Last Update: July, 2 2019

TOHO HOLDINGS CO., LTD.
Chairman of the Board and Chief Executive Officer (CEO), Representative Director: Norio Hamada
Contact: Public and Investor Relations Department 03-6838-2803
Securities Code: 8129
https://www.tohohd.co.jp/en/

The corporate governance of TOHO HOLDINGS CO., LTD. (the "Company") is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

The Company and the Group are committed to enhancing the corporate governance as one of the most important managerial tasks, because we recognize that it is important to enhance the auditing and supervisory functions concerning corporate management, achieve full compliance, and improve the transparency of management so that we can sincerely fulfill our responsibilities towards various stakeholders, including customers, business partners, shareholders, employees, and government entities, and enhance our corporate value as sustainable companies.

**[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

[Supplementary Principle 4-10(1)]
When the Company makes decisions on the submission of proposals regarding the appointment, etc., of directors (excluding those who are the Audit and Supervisory Committee members) to the General Meeting of Shareholders, as well as when making decisions on or amendments to the compensation system for officers and compensation standards, they are deliberated at meetings of the Board of Directors, in which the Audit and Supervisory Committee members and several independent outside directors are present, in an effort to enhance the independence, objectivity and accountability of the Board of Directors' functions. For this reason, the Company believes that voluntary advisory committees are not necessary, and that the current mechanism is functioning properly.

**[Disclosure Based on the Principles of the Corporate Governance Code]**

[Principle 1-4 Cross-shareholdings]
Based on comprehensive consideration of management strategy and of establishing, maintaining, and strengthening relationships with business partners, the Company holds stocks which are considered to contribute to the enhancement of the Group's corporate value over the medium to long term.
Regarding these stocks, the Company reviews them regularly, while taking measures such as reducing the number of the stocks when it is deemed that the appropriateness of holdings cannot be recognized according to changes in situations. In verifying the appropriateness of holding such cross-shareholdings, the Company carefully reviews whether the benefits, etc., associated with holdings are in line with the above policy for each stock held, and sells them as necessary.
The Company exercises its voting rights after comprehensively judging various viewpoints including impacts on the Company, while taking into account whether exercising such voting rights will lead to

the enhancement of the corporate value of the invested companies over the medium to long term and conducting dialogues with counterparties in cases where it is deemed that there is sluggish business performance or serious compliance violation, etc.

[Principle 1-7 Related Party Transactions]
Based on the Board of Directors rules, the Company obtains approval from the Board of Directors concerning competing transactions by a director and transactions involving any conflict of interest between the Company and a director. The Board of Directors conducts appropriate supervision in accordance with relevant laws and regulations.

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]
The Company's pension fund is entrusted to, and managed and exercised by the Tokyo Pharmaceutical Industry Corporate Pension Fund established in the industry. Policies and plans, etc. related to the management of pension assets are decided after submission of proposals to and deliberations by several conference bodies such as the governing board and the delegation board, which are the executive bodies, and the appropriateness of asset management is secured.
Board member of the Company who has knowledge related to asset management assumes office as a member of the governing board of the said fund, which guarantees that the monitoring of the asset management will be implemented, and personnel with appropriate qualifications are allocated to the secretariat of the fund.

[Principle 3-1 Enhancing Information Disclosure]
(i) Management Philosophy, Management Strategy, etc.
The Management Philosophy and Management Strategy are disclosed on the Company's website and in its CSR Report, and specific business strategies and management plans are disclosed in its Financial Results Briefing Documents.
The Management Philosophy "Mission Statement" is posted on the Company's website.
https://www.tohohd.co.jp/en/company/policy/
The Management Strategy is posted on the Company's website.
https://ir.tohohd.co.jp/en/Management/Strategy.html
The CSR Report is posted on the Company's website (Japanese only).
https://www.tohohd.co.jp/csr/03/
The Financial Results Briefing Documents are posted on the Company's website.
https://ir.tohohd.co.jp/en/IRFiling/Presentation.html

(ii) Policy on Corporate Governance
The basic policy on corporate governance is disclosed on the Company's website, and in the report concerning corporate governance and the CSR report.
The Company's basic policy on corporate governance and the report concerning corporate governance are posted on the Company's website
https://ir.tohohd.co.jp/en/Management/CorporateGovernance.html
The CSR report is posted on the Company's website as described in the above 3-1(i) (Japanese only).

(iii) Policy and Procedure on Compensation for the Senior Management and Directors
Compensation for the senior management and directors of the Company (excluding directors who are outside directors and the Audit and Supervisory Committee members) comprises monthly compensation, bonuses, stock options, and a restricted stock compensation. The amount paid is calculated based on evaluation of the responsibilities and performance of individual directors, the Company's operating results and economic situation, trends among other companies, medium- to long-term results, and past payment results, etc.
Compensation for directors (excluding those who are the Audit and Supervisory Committee members) is decided by the board within the limited compensation amount resolved at the General Meeting of Shareholders.
The Company obtains approval from outside directors by presenting the policy and procedure in advance.

Compensation for directors who are the Audit and Supervisory Committee members is decided upon consultation of the directors who are the Audit and Supervisory Committee members within the limited compensation amount resolved at the General Meeting of Shareholders.

(iv) Policy and Procedure on Appointment of the Senior Management and Director
The Company expects senior management and director candidates to take advantage of their extensive experiences to contribute to the sustainable growth and the enhancement of corporate value of the Company and appoints them at the Board of Directors after taking into consideration whether they have sufficient knowledge on the Company business and consulting with the Group's Management Committee.
The Company appoints candidates for directors who are the Audit and Supervisory Committee members at the Board of Directors in principle after taking into consideration whether they have sufficient knowledge on financing and accounting and on the Company business, consulting with the Group's Management Committee and gaining the consent of the Board of Audit and Supervisory Committee in advance.
The Company obtains approval from outside directors by presenting the policy and procedure in advance.

(v) The Company discloses the reason for the appointment of director candidates and candidates for directors who are the Audit and Supervisory Committee members in the Notice of Convocation of General Meeting of Shareholders. Upon the nomination of director candidates and candidates for directors who are the Audit and Supervisory Committee members, explanations for each appointment and nomination are disclosed in the Notice of Convocation of General Meeting of Shareholders. The appointment and dismissal of directors is determined at the General Meeting of Shareholders in accordance with the Articles of Incorporation of the Company.
The Notice of Convocation of General Meeting of Shareholders is posted on the Company's website.
https://ir.tohohd.co.jp/en/Stock/Meeting.html

[Supplementary Principle 4-1(1)]
The Company, according to the Board of Directors rules, specifies matters to be decided and those to be reported at the Board of Directors concerning legally required matters or important management matters. The Company also specifies matters to be decided and those to be reported by executive persons from Representative Director down, according to the authority rules and the decision-making rules.

[Principle 4-9 Independence Standards and Qualification for Independent Outside Directors]
The Company appoints independent outside directors according to the requirements for outside directors as prescribed in the regulation and to the Independence Standards stipulated by the financial instruments exchanges. The independent outside directors make comments at meetings of the Board of Directors from their respective professional positions, and active discussions, which contribute to the enhancement of the Company's corporate value over the medium to long term, are being held.

[Supplementary Principle 4-11(1)]
In order to achieve efficient and prompt Group operations, the Company appoints as its directors the representative directors of major subsidiaries and appoints outside directors with different viewpoints, including those managing a business, experiences, and high-level skills.
At the Board of Directors, these members hold discussions based on their individual knowledge, experiences, and abilities, make legal and managerial decisions, and supervise business execution.

[Supplementary Principle 4-11(2)]
The information on the Company's directors with concurrent duties at other companies is included in the Business Report and Reference Documents attached to Notices of Convocation of General Meeting of Shareholders and in the Annual Securities Reports, and is disclosed every year.
Notices of Convocation of General Meeting of Shareholders are posted on the Company's website.
https://ir.tohohd.co.jp/en/Stock/Meeting.html
Annual Securities Reports are posted on the Company's website (Japanese only).
https://ir.tohohd.co.jp/ja/IRFiling/SecuritiesReport.html

[Supplementary Principle 4-11(3)]
The Company implemented a questionnaire survey, targeting all directors (including Audit and Supervisory Committee members) on compositions, operations, tasks and structures of the Board of Directors in order to analyze and evaluate the effectiveness of the Board of Directors as a whole.
The Company reported the evaluation and results of analysis at the meeting of Board of Directors which was held in June 2019 and confirmed the effectiveness was ensured in general.
On the other hand, the Company also identified some challenges, so that it will strive to improve them for further effectiveness.

[Supplementary Principle 4-14(2)]
The Company gives newly appointed directors the opportunity to participate in external seminars in order to acquire knowledge mainly concerning the statutory duties and responsibilities of directors as stipulated by law. Members of the Board of Directors, including outside directors, visit the Company's facilities such as distribution centers and showrooms in order to enhance their understanding of the Company's business activities. In addition, the Company holds external experts' lectures or information exchange meetings for all the board members in order to timely offer opportunities for them to obtain information and knowledge about industry trends and the management environment surrounding the Company.

[Principle 5-1 Policy on Constructive Dialogues with Shareholders]
The Company responds positively to dialogue (or interview) requests from shareholders, which is specifically done by the Public and Investor Relations Department. Also, the representative director and the directors responsible for information disclosure respond as often as possible to some demands from shareholders or investors in the form of interview.
The Company has adopted the following policies in order to enhance constructive dialogues with shareholders:
(i) Appoints a director as a person responsible for information disclosure and establishes the Public and Investor Relations Department under the direction of the person as the department in charge of investor relations.
(ii) Makes efforts to enhance organic coordination under the direction of the person by sharing information more effectively between the Public and Investor Relations Department and other related departments.
(iii) Holds biannual financial results briefings for investors and analysts to offer direct explanations from top management and the person responsible for information disclosure. Furthermore, the Company holds tours of facilities to offer a deeper understanding of the Company's management strategy. In addition, based on the Company's shareholder composition and capital policy, the Company arranges visits for foreign investors two or three times a year mainly by using the opportunity to attend the conference sessions held by securities companies in North America, Europe, and Asian regions.
(iv) Properly feeds investor relations activities and opinions from investors back to the senior management and the Board of Directors.
(v) Stringently manages information in accordance with internal regulations concerning those involved in handling insider information in order to prevent selective disclosure of insider information only to some market participants, and in dialogue with investors, tries hard to make into dialogue topics the Company's sustainable growth and the matters contributing to corporate value enhancement over the medium to long term.

## 2. Capital Structure

| | |
|---|---|
| Foreign Shareholding Ratio | From 20% to less than 30% |

**[Status of Major Shareholders]**

| Name / Company Name | Number of Shares Owned | Percentage (%) |
|---|---|---|
| Shionogi & Co., Ltd. | 4,650,112 | 6.82 |
| Mitsubishi Tanabe Pharma Corporation | 3,573,456 | 5.24 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 1,961,900 | 2.88 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 1,679,200 | 2.46 |
| Trust & Custody Services Bank, Ltd. as trustee for Daiichi Sankyo Company, Limited Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | 1,637,000 | 2.40 |
| TOHO HOLDINGS Employees Shareholders' Association | 1,427,415 | 2.09 |
| SSBTC CLIENT OMNIBUS ACCOUNT | 1,352,603 | 1.98 |
| Hiroyuki Kono | 1,332,660 | 1.96 |
| J. P. MORGAN BANK LUXEMBOURG S. A. 1300000 | 1,195,659 | 1.75 |
| Japan Trustee Services Bank, Ltd. (Trust account 5) | 1,141,100 | 1.67 |

| | |
|---|---|
| Controlling Shareholder (except for Parent Company) | - |
| Parent Company | None |

Supplementary Explanation

-

## 3. Corporate Attributes

| | |
|---|---|
| Listed Stock Market and Market Section | Tokyo Stock Exchange First Section |
| Fiscal Year-End | March |
| Type of Business | Wholesale Trade |
| Number of Employees (consolidated) as of the End of the Previous Fiscal Year | More than 1000 |
| Sales (consolidated) as of the End of the Previous Fiscal Year | More than ¥1 trillion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | From 10 to less than 50 |

**4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

| |
|---|
| - |

**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

| |
|---|
| - |

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

**1. Organizational Composition and Operation**

| | |
|---|---|
| Organization Form | Company with Audit and Supervisory Committee |

**[Directors]**

| | |
|---|---|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 30 |
| Term of Office Stipulated in Articles of Incorporation | 1 year |
| Chairperson of the Board | Chairman of the Board |
| Number of Directors | 19 |
| Appointment of Outside Directors | Appointed |
| Number of Outside Directors | 5 |
| Number of Independent Directors | 5 |

Outside Directors' Relationship with the Company (1)

| Name | Attribute | Relationship with the Company* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Shunsuke Watanabe | Other | | | | | | | | ○ | | | |
| Shosaku Murayama | From another company | | | | | | | | | | | ○ |
| Toru Nagasawa | Lawyer | | | | | | | | | | | ○ |
| Sachio Tokaji | From another company | | | | | | | | △ | | | |
| Koji Nakamura | From another company | | | | | | | | △ | | | |

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

| Name | Audit and Supervisory Committee Member | Designation as Independent Director | Supplementary Explanation of the Relationship | Reasons of Appointment |
|---|---|---|---|---|
| Shunsuke Watanabe | | ○ | Mr. Watanabe is appointed as a visiting professor at the Graduate School at the International University of Health and Welfare, a customer of one of the Company's consolidated subsidiaries. | (Reasons for being appointed as an outside director)<br>Mr. Watanabe worked as a reporter for Nikkei Inc., covering issues of medicine, social welfare, and pension and was appointed as a member of medicine-related councils of various organizations, such as the Ministry of Health, Labour and Welfare and Japan Medical Association. The Company has appointed Mr. Watanabe as an outside director because the Company judges that he is able to reflect in the Company's business his abundant experience gained in his career and broad expertise as a university professor.<br>In addition, although he has no experience in being directly involved in corporate management other than by being an outside director, the Company judges that he can carry out his duty as an outside director properly because of the above reasons. |

| | | | | |
|---|---|---|---|---|
| | | | | (Reasons for being appointed as an independent director)<br>Transactions between the Consolidated Company and the Graduate School at the International University of Health and Welfare are not so conspicuously numerous as those between the Company and other customers because the ratio of amounts of such transactions is less than 1% of the Company group's annual consolidated net sales, and do not significantly affect the Company's business. In addition, persons from the University have not constantly been appointed as directors of the Company and there is little human interaction.<br>Based on the above reasons, Mr. Watanabe has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders. |
| Shosaku Murayama | | ○ | Mr. Murayama is appointed President and Representative Director at iPS PORTAL, Inc. There is no business transaction between the Company and iPS PORTAL. | (Reasons for being appointed as an outside director)<br>Mr. Murayama has acquired broad expertise at the Bank of Japan concerning fiscal and monetary policies and the general state of the economy. He currently serves as President and Representative Director at another company. The Company judges that he will be able to contribute to the Company's management with his abundant knowledge and experience. Therefore, the Company has appointed Mr. Murayama as an outside director.<br><br>(Reasons for being appointed as an independent director)<br>The Company conducts no business transaction with iPS PORTAL, Inc., which holds |

| | | | | |
|---|---|---|---|---|
| | | | | no stock in the Company. In addition, persons from iPS PORTAL, Inc. have not constantly been appointed as directors of the Company and there is little human interaction.<br>Based on the above reasons, Mr. Murayama has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders. |
| Toru Nagasawa | | ○ | Mr. Nagasawa holds the post of representative lawyer of Nagasawa Law Offices.<br>There is no business transaction between the Company and Nagasawa Law Offices. | (Reasons for being appointed as an outside director)<br>Mr. Nagasawa has a high level of legal knowledge and abundant experience he accumulated as a lawyer and the Company judges that he will be able to contribute to the Company's management with his knowledge and experience concerning corporate legal work. Therefore, the Company has appointed him as an outside director.<br>Moreover, he has been involved in corporate management as a corporate reorganization trustee and the Company judges that he can carry out his duties as an outside director properly.<br><br>(Reasons for being appointed as an independent director)<br>The Company conducts no business transaction with Nagasawa Law Offices.<br>In addition, persons from Nagasawa Law Offices have not constantly been appointed as directors of the Company and there is little human interaction.<br>Based on the above reasons, Mr. Nagasawa has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders. |

| | | | | |
|---|---|---|---|---|
| Sachio Tokaji | ○ | ○ | Mr. Tokaji is from Shionogi & Co., Ltd., a customer of one of the Company's consolidated subsidiaries. He left Shionogi & Co., Ltd. in June 2016. | (Reasons for being appointed as an outside director)<br>Mr. Tokaji has abundant knowledge about the pharmaceutical industry and experience in corporate activities. He participated in the management of Shionogi & Co., Ltd., and the Company expects that he will contribute to the Company's audit and supervisory function as an expert on business management that he has accumulated through his career. Therefore, the Company has appointed him as an outside director.<br><br>(Reasons for being appointed as an independent director)<br>Transactions between the Company's consolidated subsidiary and Shionogi & Co., Ltd. are not so conspicuously numerous as those between the Company and other customers, and do not significantly affect the Company's business.<br>In addition, persons from Shionogi & Co., Ltd. have not constantly been appointed as directors of the Company and there is little human interaction.<br>Based on the above reasons, Mr. Tokaji has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders. |
| Koji Nakamura | ○ | ○ | Mr. Nakamura is from Mitsubishi Tanabe Pharma Corporation, a customer of one of the Company's consolidated subsidiaries. He left Mitsubishi Tanabe Pharma Corporation in June 2016. | (Reasons for being appointed as an outside director)<br>Mr. Nakamura has abundant knowledge about the pharmaceutical industry and experience in corporate activities. He participated in the management of Mitsubishi Tanabe Pharma Corporation and Mitsubishi Tanabe Pharma Factory Ltd., and the Company expects that he will contribute to the |

| | | | | |
|---|---|---|---|---|
| | | | | Company's audit and supervisory function as an expert on business management that he has accumulated through his career. Therefore, the Company has appointed him as an outside director.<br><br>(Reasons for being appointed as an independent director)<br>Transactions between the Company's consolidated subsidiary and Mitsubishi Tanabe Pharma Corporation are not so conspicuously numerous as those between the Company and other customers, and do not significantly affect the Company's business.<br>In addition, persons from Mitsubishi Tanabe Pharma Corporation have not constantly been appointed as directors of the Company and there is little human interaction.<br>Based on the above reasons, Mr. Nakamura has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders. |

**[Audit and Supervisory Committee]**

Committee's Composition and Attributes of Chairperson

| | Total Committee Members | Full-time Committee Members | Inside Directors | Outside Directors | Chairperson |
|---|---|---|---|---|---|
| Audit and Supervisory Committee | 3 | 1 | 1 | 2 | Inside Director |

| | |
|---|---|
| Appointment of Directors and Employees to Support the Execution of Duties by Audit and Supervisory Committee | Not Appointed |

Cooperation among Audit and Supervisory Committee, Accounting Auditor, and Internal Audit Division

The representative director regularly meets with an Audit and Supervisory Committee and exchanges opinions on issues to be tackled by the Company, the progress in developing an environment for the Committee to conduct audits, and crucial auditing issues, in an effort to deepen mutual understanding.
The Audit and Supervisory Committee members regularly receive reports on audit plans, methods, and results from the accounting auditor and exchange information to conduct efficient auditing.
The Group Audit Office as the Internal Audit Division submits internal audit information and other necessary information to the Audit and Supervisory Committee members to maintain close contact with the Committee members.
The Company ensures that the Audit and Supervisory Committee concludes an advisory contract not with a corporate lawyer but with a lawyer working only for the Audit and Supervisory Committee, and use the services of such lawyer.

**[Voluntary Committee]**

| | |
|---|---|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Not Established |

**[Independent Directors]**

| | |
|---|---|
| Number of Independent Directors | 5 |

Other Matters relating to Independent Directors

All of five outside directors, including two outside directors who are the Audit and Supervisory Committee members, that qualify as independent directors have been designated as independent directors.

**[Incentives]**

| | |
|---|---|
| Incentive Policies for Directors | Others |

Supplementary Explanation

A resolution was passed at the 69th Annual General Meeting of Shareholders held on June 29, 2017, to newly introduce a restricted stock compensation plan in place of the current stock-based compensation stock options for the Company's directors (excluding those who are Audit and Supervisory Committee Members) in order to give even more incentive for the directors to undertake sustainable enhancement of the Company's corporate value and to further promote value-sharing with shareholders. The total amount of such compensation shall be no more than 55 million JPY.

**[Director Remuneration]**

| | |
|---|---|
| Disclosure of Individual Directors' Remuneration | No Individual Disclosure |

Supplementary Explanation

No single officer was awarded consolidated compensation of 100 million JPY or more in total and therefore nothing is listed. Total compensation for each director is disclosed in the Annual Securities Report and Business Report.

| | |
|---|---|
| Policy on Determining Remuneration Amounts and Calculation Methods | Established |

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Compensation for officers consists of base salary, officers' bonus, and the "officers' compensation linked to operating performance and stock price performance," which is introduced as a part of the overall compensation for officers within the limited compensation amount resolved at the General Meeting of Shareholders. The "officers' compensation linked to operating performance and stock price performance" also includes a "stock-linked compensation plan" and a "restricted stock compensation". Base salary is calculated based on the position and role of each director, in consideration of the management environment surrounding the Company. The "officers' compensation linked to operating performance and stock price performance" is based on the payment by results corresponding to the Company's business performance. "Stock-linked compensation plan" is intended to enhance willingness to contribute to raising stock prices and increasing corporate value by sharing the benefits and risks of stock price fluctuation with shareholders.
Moreover, officers' bonus is decided upon according mainly to their contribution to the Company's performance.

**[Supporting System for Outside Directors]**

Relevant departments timely provide outside directors with information and materials needed for them to carry out their duties, and do so promptly if asked.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

-The Company changed to a Company with an Audit and Supervisory Committee after amendments of the Company's Articles of Incorporation at the 68th Annual General Meeting of Shareholders held on June 29, 2016.
-In line with the transition to a Company with the Audit and Supervisory Committee, the Company proposes that the number of directors (excluding those who are the Audit and Supervisory Committee members) be changed from three more but not exceeding forty to not exceeding thirty and the number of the directors who are the Audit and Supervisory Committee members be set to not exceeding five, in order to keep the number of directors (excluding those who are the Audit and Supervisory Committee members) and directors who are the Audit and Supervisory Committee members to an appropriate level.
- The Company has sixteen directors (excluding those who are the Audit and Supervisory Committee members) and three directors who are the Audit and Supervisory Committee members. The Company has adapted a corporate officer system and appointed two corporate officers.
- The Company has appointed five outside directors (including those who are the Audit and Supervisory Committee members) in order to further enhance the system for supervising and monitoring the execution of operation by directors and also enhance the system for reflecting the opinions of external experts.
- The Company has set the terms of directors (excluding those who are the Audit and Supervisory Committee members) at one year and directors who are the Committee Members at two years to establish a flexible management system for responding swiftly to changes in business environments and to clarify the responsibility and evaluation of each director.
- As a general rule, the Company holds regular meetings of the Board of Directors each month, and by holding special meetings of the Board of Directors as needed, the Company ensures the proper execution of operations and makes swift decisions.
In order to realize efficient decision making at meetings of the Board of Directors, the Company has established the "Group Management Committee" consisting of directors and corporate officers as well as directors and corporate officers of the Group companies, as an organization tasked with deliberating in advance the proposals that are to be submitted to the Board of Directors, and has introduced a system for holding regular meetings of the "Group Management Committee" twice per month, in principle. The Company ensures the proper execution of operations by thoroughly deliberating on relevant issues at this "Group Management Committee."

Moreover, with the shift to a holding company structure, the Company carried out an absorption-type company split whereby Toho Pharmaceutical Co., Ltd. succeeded to the Company's pharmaceutical wholesaling business and PharmaCluster Co., Ltd. to the Company's management operations of the dispensing pharmacy business. By providing Toho Pharmaceutical Co., Ltd. and PharmaCluster Co., Ltd. with the functions of the intermediary holding company, respectively, the "Group Management Committee" thoroughly deliberates the proposals and the relevant important matters to be submitted to each Board of Directors of the three companies in total; that is, the Company, Toho Pharmaceutical Co., Ltd., and PharmaCluster Co., Ltd.
- The Company ensures the proper execution of operations by proactively utilizing its corporate lawyers and following advice from more than one lawyer for each specialized area.
- The Audit and Supervisory Committee Members conforming to the auditing policies and the allocation of duties, etc., conduct strict audits by attending the Board of Directors, receiving reports mainly from directors concerning the execution of operations, reading important decision-making documents, and inspecting the state of business and assets.
- The Company ensures that, aside from the Company's corporate lawyers, the Audit and Supervisory Committee has its own legal advisors and takes legal counsels needed in the position of the Committee Members.
- The Company establishes the "Group Audit Office" independent of business operations in order to secure sound management and proper business operations, and conducts regular audits based on the annual auditing plan and conducts irregular special audits in order to enhance and implement internal audits thoroughly.

### 3. Reasons for Adoption of Current Corporate Governance System

The Company has adopted an Audit and Supervisory Committee governance structure from the perspective of further enhancing corporate governance by strengthening the supervisory functions of the Board of Directors, thereby promoting the improvement of the corporate value on a mid-to long-term basis through the enhancement of the functions of outside directors who do not execute operations by themselves.
Among nineteen directors the Company appointed five directors as outside directors (including two Audit and Supervisory Committee members), who aim to strengthen the management supervision function.

## III. Implementation of Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

| | Supplementary Explanations |
|---|---|
| Early Notification of General Shareholder Meeting | The Company is working to send notices of convocation of General Meeting of Shareholders a week prior to the date of the Statutory General Meeting of Shareholders (two weeks before the meeting).<br>In 2019, the date for sending notices of convocation was June 6, and the date of the General Meeting of Shareholders was June 27. |
| Allowing Electronic Exercise of Voting Rights | The Company has adopted the system for the exercise of voting rights by electromagnetic means since the 63rd Annual General Meeting of Shareholders held on June 28, 2011. |
| Participation in Electronic Voting Platform | The Company has participated in the platform for electronic exercise of voting rights since the 63rd Annual General Meeting of Shareholders held on June 28, 2011, and has prepared an environment that provides institutional investors at home and abroad with a wide range of opportunities to exercise their voting rights. |
| Providing Convocation Notice in English | The Company has created the Notice of Convocation of General Meeting of Shareholders in English and has posted on the website of the Company and the platform. |
| Other | The Company has posted the Notice of Convocation both in Japanese and English on the website of the Company before sending it. |

### 2. IR Activities

| | Supplementary Explanations |
|---|---|
| Regular Investor Briefings for Analysts and Institutional Investors | The Company, after disclosing the final financial statements and the interim financial statements, continuously holds financial results briefings for securities analysts and institutional investors.<br>Moreover, the Company holds meetings individually with institutional investors when needed. |
| Regular Investor Briefings for Overseas Investors | The Representative Director and the Director in Charge of Investor Relations conduct individual visits to institutional investors abroad. |
| Posting of IR Materials on Website | The Company posts its consolidated financial statements, annual securities reports, timely disclosure of information, notices of convocation of General Meeting of Shareholders, etc. on its website and provides audio recordings of presentations at the financial results briefings. |
| Establishment of Department and/or Manager in Charge of IR | The department that specializes in investor relations includes the Public and Investor Relations Department. |

### 3. Measures to Ensure Due Respect for Stakeholders

| | Supplementary Explanations |
|---|---|
| Stipulation of Internal Rules for Respecting the Position of Stakeholders | The "Code of Ethics of the Kyoso Mirai Group" common to the Group companies specifically stipulates that it is necessary to establish a relationship of "trust and sympathy" with stakeholders in order for the Group to survive and grow. |
| Implementation of Environmental Activities, CSR Activities etc. | The Company sets "Total Commitment to Good Health" as its group slogan and promotes various CSR activities in order to contribute to the medical care and health of people. The Company creates "TOHO HOLDINGS CSR Report" each year as a rule and communicates its CSR activities to all its stakeholders. |

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

According to the provisions of the Companies Act, the Company has set up its "Basic Policy on Internal Control System" as described below, and faithfully carries out this policy in order to ensure the legality and efficiency of the Company's business operations and undertake risk management practices. Moreover, the Company reviews its Basic Policy in a timely manner, according to changes in the socioeconomic climate and other aspects of the environment surrounding the Company, and further improves and enhances its Basic Policy.

[1] System for Ensuring that Directors' Execution of their Duties is in Compliance with Laws and Regulations and the Articles of Incorporation

(1) In the "Code of Ethics of the Kyoso Mirai Group" (hereinafter referred to as the "Code of Ethics"), the Company has set up the Code of Ethics and the Code of Conduct which are to be followed according to social norms as well as laws and regulations. All personnel (directors, corporate officers and employees) of the Kyoso Mirai Group conduct themselves according to this Code of Ethics.

(2) The Board of Directors makes decisions on the business execution of the Company and supervises and monitors the business execution of the Group, according to laws and regulations, the Articles of Incorporation, and the Board of Directors rules.

(3) In order to ensure that the Board of Directors supervises the directors' execution of their duties, each director accurately reports the business execution of the Company and the Group to the Board of Directors, and supervises and monitors the execution of duties by other directors.

(4) Directors execute their duties according to laws and regulations, the Articles of Incorporation, the Board of Directors rules, and the decision-making rules in order to ensure that decision making procedures are properly implemented and that business operations are properly executed.

(5) Based on the Financial Instruments and Exchange Act, directors are continuously engaged in preparing, managing, and evaluating a system for implementing effective and proper internal control related to the Group's financial reporting in order to ensure the reliability and appropriateness of the contents of the Group's financial reports.

(6) In order to ensure that directors execute their duties in compliance with laws and regulations, the Articles of Incorporation, and other rules, the Company provides an internal contact office (TOHO Hotline) and an external contact office that receive reports, and rigorously protects informants against retaliatory actions for filing such reports.

[2] System for Ensuring that Employees' Execution of their Duties is in Compliance with Laws and Regulations and the Articles of Incorporation

(1) In order to ensure that employees always execute their duties consciously in relation to compliance, the Company puts the Code of Ethics into practice and makes employees fully aware of it, under the control and supervision of the Group Management Committee. The Company ensures that the compliance system is maintained and reinforced, especially concerning the Pharmaceutical Affairs Act and related laws and regulations, the Antimonopoly Law and other laws and regulations for establishing fair competition, and the strict management of corporate information and personal information. The Company is also focused on providing education and raising awareness about the importance of the compliance system.

(2) The Company ensures that business operations are properly executed and managed through their reporting line. If a problem arises, it must be dealt with properly and strictly according to the rules of employment, and measures must be promptly taken to prevent the recurrence of similar cases.

(3) In order to ensure that employees execute their duties in compliance with laws and regulations, the Articles of Incorporation, and other rules, the Company provides an internal contact office (TOHO Hotline) and an external contact office that receive reports, and rigorously protects informants against retaliatory actions for filing such reports. Through these, the Company ensures the smooth operation of an effective internal reporting system.

(4) By conducting periodic internal audits, the Company confirms whether employees execute their duties in compliance with law and regulations, the Articles of Incorporation, and other rules, and ensures that the proper execution of their duties is maintained and reinforced properly.

[3] System for the Storage and Management of Information in Relation to the Execution of Duties by Directors

(1) In accordance with the laws and regulations as well as the "Rules for the Management of Documents," the Company properly stores and manages documents related to the execution of duties by directors (including electromagnetic records), and other important information.
(2) The Company ensures the appropriateness of the contents concerning the creation, storage, and management of information in relation to the execution of duties by directors by having them audited by the Audit and Supervisory Committee members.

[4] Regulations for Management of Risk of Loss and Other Systems
(1) The Company reinforces the risk-management system of the Group in accordance with the "Basic Rules on Risk Management" and deals with risks properly by early detecting and grasping those risks which emerged or may emerge in the Group.
(2) The Company reports risk information to the Group Management Committee through the Group Compliance Risk Management Committee and the Group Disaster Prevention Committee, etc. in order to take appropriate actions and maintain and enhance the risk management system.
(3) Upon the occurrence of an unexpected event within the Group, the Company establishes a special headquarters led by the President (or those assigned by the President) in-house or in other companies conducting business to take prompt actions, thereby organizing a system which will keep loss to a minimum, along with establishing and maintaining the delivery system of prescription pharmaceuticals.
(4) In order to maintain the normal operation of its computer processing system, the Company locates multiple data centers and launches a backup system to properly build up a robust framework for accidents.

[5] System for Ensuring that the Duties of Directors are Exercised Efficiently
(1) As a basis of the system for ensuring that the duties of directors are exercised efficiently, the Board of Directors meeting is normally held on a monthly basis, and an extraordinary meeting is held when necessary. In these meetings, important matters concerning the management are deliberated and voted, and the business execution by the directors is supervised.
(2) The Company leaves it to the Group Management Committee in advance to take into full consideration the items referred to or reported to the Board of Directors in order to maintain the effective and substantial operation of the Board of Directors.
(3) In order to ensure that the duties of directors are exercised efficiently, the Company establishes the "Organization Regulations," the "Regulation Concerning the Division of Duties," and "Regulations for Authority of Duties," designating a responsible party for each regulation and defining the details of responsibilities and execution procedures.
(4) The Company holds the Board of Directors periodically to confirm the progress of business activities of the Group based on the Mid-term Management Plan and the Annual Management Plan.

[6] System for Ensuring Proper Operations within the Corporate Group
(1) System for reporting to the Company on matters relating to the execution of duties by Directors of subsidiaries
- The Company establishes the criteria for decision making relating to the execution of business operations by subsidiaries, whereby the execution of important business operations is discussed at and reported to the Group Management Committee, and referred to and reported to the Board of Directors if necessary. The Company manages its subsidiaries by requiring its subsidiaries to report to the Company important matters related to management in accordance with the "Management Rules of the Affiliated Companies."
(2) Regulations and other systems with regard to managing the risk of loss for subsidiaries
- The Company establishes a Group Compliance Risk Management Committee and promotes risk management across the entire Group in order to deal properly with "Management Risks" described in the "Basic Policy of Risk Management."
(3) System for ensuring that the duties of directors of subsidiaries are exercised efficiently
- The Company, based on the basic policy on the "Management Rules of the Affiliated Companies," develops a reporting system and manages its subsidiaries. Major items are discussed in the Group Management Committee.
(4) System for ensuring that the duties of directors and employees of subsidiaries are executed in compliance with laws and regulations and the Articles of Incorporation.
- The Company requires its subsidiaries to strictly follow the Code of Conduct based on the ethical standards defined in the Code of Ethics, in order to ensure the proper business operations.
- The Company conducts periodic internal audits of the Company to perform operating audits for its subsidiaries, and ensure the appropriate execution of duties.

[7] Matters Relating to an employee to support the duties of Audit and Supervisory Committee
(1) The Company designates an employee to support the duties of the Audit and Supervisory Committee if necessary.
(2) The Company, if it designates an employee to support the duties of the Audit and Supervisory Committee, makes decisions regarding the appointment, transfer, and other personnel issues after consultation with the Audit and Supervisory Committee or the Full-time Committee Member.

[8] Matters Relating to Reporting to Audit and Supervisory Committee
(1) The Audit and Supervisory Committee members attend important decision making meetings such as the Board of Directors or inspect meeting minutes when necessary to receive reports on important matters from directors and the Group's employees.
(2) Directors and employees with the same authority report to the Audit and Supervisory Committee or the Full-time Committee Member immediately after occurrence of important facts such as violation of laws and regulations and the Articles of Incorporation that may result in significant damage to the Company.
(3) The decision-making document is submitted to the Audit and Supervisory Committee members immediately after approval.

[9] System for Ensuring that the Informants who Submit Reports to Audit and Supervisory Committee are Protected against Retaliatory Actions for Filing Such Reports
The Company prohibits the Group's officers and employees who submit reports to the Audit and Supervisory Committee or the Full-time Committee Member from being treated unfairly for filing such reports, and the Company makes the Group's officers and employees fully aware of this.

[10] Matters Relating to the Policy for Settlement of Expenses or Debts Arising from the Execution of Audit and Supervisory Committee Members' Duties, such as the Advancement or Indemnification of Expenses Arising from the Execution of the Audit and Supervisory Committee Members' Duties
(1) The Company shall bear the expenses needed for audits by the Audit and Supervisory Committee members such as the expenses of lawyers, certified public accountants, and consultants working only for the Audit and Supervisory Committee.
(2) In addition to the measures mentioned above, the Company shall also bear the expenses needed by the Audit and Supervisory Committee members when executing their duties.

[11] Other Systems for Ensuring the Effective Execution of Audits by Audit and Supervisory Committee Members
(1) The Representative Director regularly meets with the Audit and Supervisory Committee and exchanges opinions on issues to be tackled by the Company, the progress in developing an environment for the Audit and Supervisory Committee to conduct audits, and crucial auditing issues, in an effort to deepen mutual understanding.
(2) The Audit and Supervisory Committee regularly receive reports on audit plans, methods, and results from the accounting auditor and exchange information to conduct efficient auditing.
(3) The Internal Audit Division submits internal audit results and information and other necessary information to the Audit and Supervisory Committee to maintain close contact with the Committee. Besides, the Committee can ask for survey on audit matters to the Internal Audit Division if necessary.
(4) The Company ensures that the Audit and Supervisory Committee concludes an advisory contract not with a corporate lawyer but with a lawyer working only for the Audit and Supervisory Committee, and uses the services of such lawyer.

## 2. Basic Views on Eliminating Anti-Social Forces

[1] Basic Policy for Eliminating Antisocial Forces
The Company recognizes that one of the most important management issues is to contribute to ensuring the order and safety of society in terms of promoting compliance management with an awareness of responsibility for all stakeholders.

Therefore, it is the Company's basic policy to decisively reject any inappropriate demands from or any false business transaction proposed by antisocial forces, to refuse to offer any money or other economic benefits, and to carry out business activities with transparency.

[2] Current State of the Company's Preparedness for Elimination of Antisocial Forces
(1) In the "Code of Ethics" defining the code of conduct with which the Company and all its employees must comply and in its "Commentary," the Company declares that it will never respond to any demands for an unusual deal or money from antisocial individuals or organizations, and it has defined countermeasures.
(2) The Company has established the "Group Compliance Risk Management Committee" with the aim to build up and maintain the Company's risk management system, and makes efforts to reply to the demands from society and to develop a workable system for eliminating antisocial forces.
(3) The Company, when contacted by antisocial forces, builds a close cooperation system with the police to swiftly cope with the situation.

## V. Other

### 1. Adoption of Anti-Takeover Measures

| | |
|---|---|
| Adoption of Anti-Takeover Measures | Not Adopted |

| Supplementary Explanation |
|---|
| - |

### 2. Other Matters Concerning to Corporate Governance System

Outline of the Setup for Timely Disclosure

1. Basic Policy on Timely Disclosure
The Company regards the timely and appropriate disclosure of information as one of the most important responsibilities of a listed company, and makes constant efforts to improve the Company's internal system to ensure the prompt and accurate disclosure of corporate information to investors in accordance with the Financial Instruments and Exchange Act and other laws and regulations and relevant rules of the stock exchange on which shares of the Company are listed.

2. Internal System for Ensuring the Timely Disclosure
Important matters of the Company are approved at ordinary meetings of the Board of Directors held once a month, as a rule, and at the Group Management Committee held twice a month, and also at extraordinary meetings of the Board of Directors when necessary.
Disclosure procedures for those information and other important information reported by each department of the Group are executed by:
1) A General Manager of the Public and Investor Relations Department, who is responsible for disclosing information, and the Administration Division, in case related to financial results, or
2) The General Manager of the Public and Investor Relations Department who is responsible for disclosing, and each relevant division in disclosing corporate information other than information related to financial results. They examine whether to disclose information, what to disclose, and when to disclose, and if disclosure is judged to be necessary, they prepare the disclosure materials concerning corporate information and disclose those in a timely and appropriate manner under the instruction of Chairman of the Board and Representative Director.