H.U.GROUP

Healthcare for You

H.U. Group Holdings, Inc.

Integrated Report 2020



Healthcare for You

We face each and every person to provide the best healthcare to everyone.

Japan's medical care sector faces a rapidly changing environment. Given the urgent need to limit medical care costs, we expect to see further increased demand for in-home healthcare services and preventive medicine. At the same time, the very concept of medical care seems likely to evolve with the application of artificial intelligence (AI) and big data, together with the development of personalized medicine, regenerative medicine and other advanced medical care technologies.

To carry on meeting the needs of society by supporting medical care and protecting human wellbeing, we have decided to adopt the approach of expanding our business domain into the wider field of healthcare. We have accordingly changed our company name to H.U. Group Holdings, Inc., which embodies the future profile to which we aspire (H.U. in the name expresses "healthcare for you").

The spread of COVID-19 infection has changed our lives at a stroke. Research and development aimed at countering its threat is in progress worldwide, and our Group was one of the first to start commissioned polymerase chain reaction (PCR) testing. We went on to develop and market Japan's first rapid antigen test kit, ESPLINE® SARS-CoV-2, and the world's first high-sensitivity quantitative antigen test reagent, Lumipulse® SARS-CoV-2 Ag, as part of our concerted efforts to help bring the COVID-19 pandemic to an end.

We are committed to further enhancing our contribution to medical care, and to continuing to create new value through innovations in healthcare.



Shigekazu Takeuchi

Director, President and Group CEO
H.U. Group Holdings, Inc.

Group Mission, Vision

Mission

Create new value in healthcare and thereby contribute to human health and the future of medical care.

Vision

With our deep involvement in human health, we aim to be a group that contributes to the development of healthcare through trust and innovation.

Values and Traits

Customer Centricity

- Respond to medical care and healthcare needs, exceed customer expectations

Creation of New Value

- Strive for global value creation first and foremost; take risks to challenge and innovate
- Think and execute with global perspective
- Lead with result-orientation, speed and efficiency

Sincerity and Trust

- Be sincere and trustworthy, act with transparency
- Communicate openly and constructively, beyond the boundaries
- Gain and maintain trust from all stakeholders

Mutual Respect

- Respect diverse values, experience, expertise and teamwork
- Praise and celebrate challenges and successes
- Grow and help others to grow

The Statement of H.U. Group

Healthcare for You

What we hold dear is
the starting point for the creation of a prosperous future.
That is, the health of each and every person.

Because we have been watching over people's health for many decades,
we are able to change the future of medical care
and create new possibilities in healthcare.

We will continue the challenge
to deliver optimal healthcare to each individual.

We will move forward, unceasingly.
Healthcare for You
For your health, for your future happiness.

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Part I

Overview of the H.U. Group

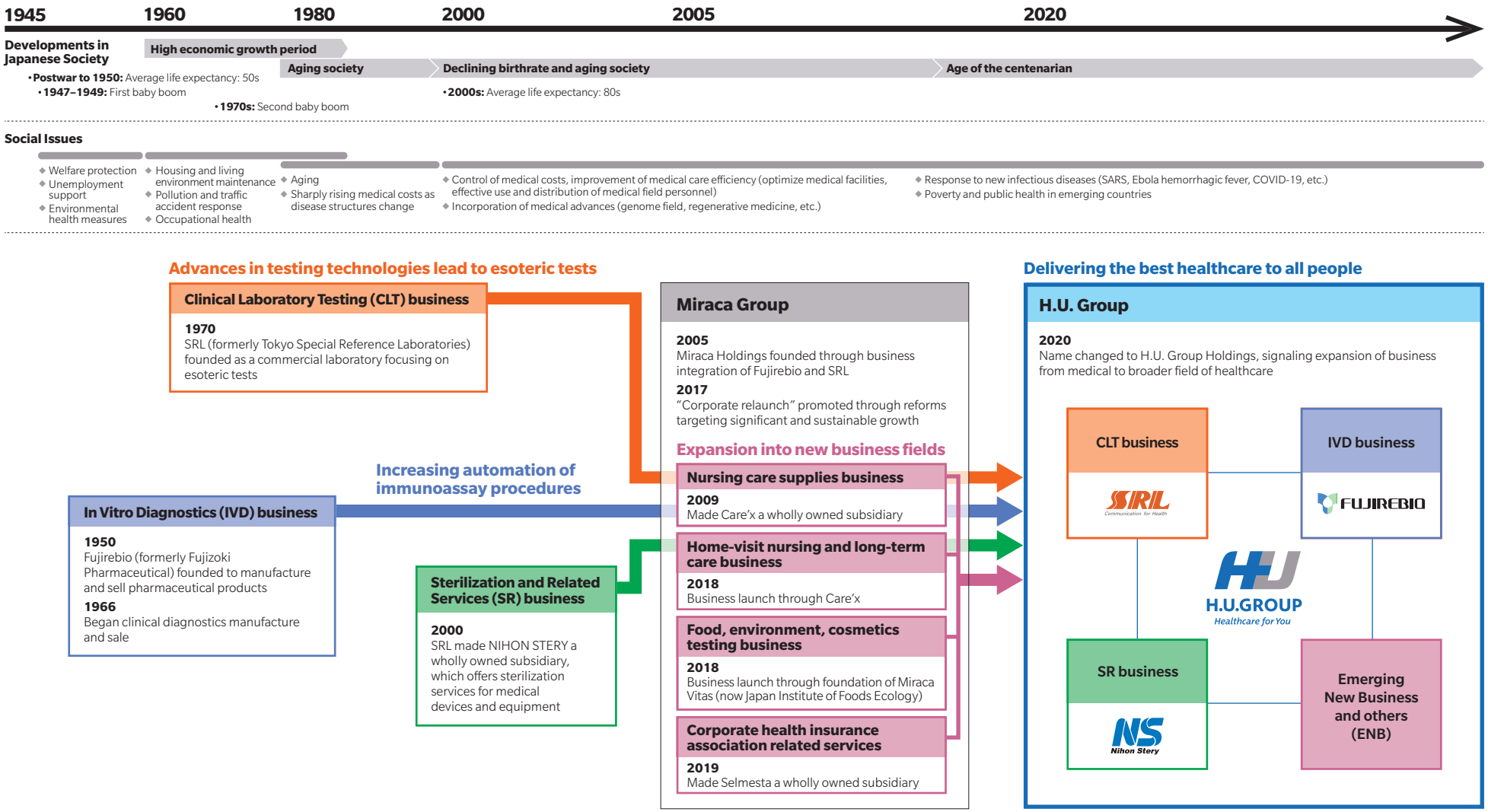
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The Evolution of the H.U. Group

Value Creation Story of Our Core Business

Business Expansion as a Group

The Evolution of the H.U. Group



Value Creation Story of Our Core Business

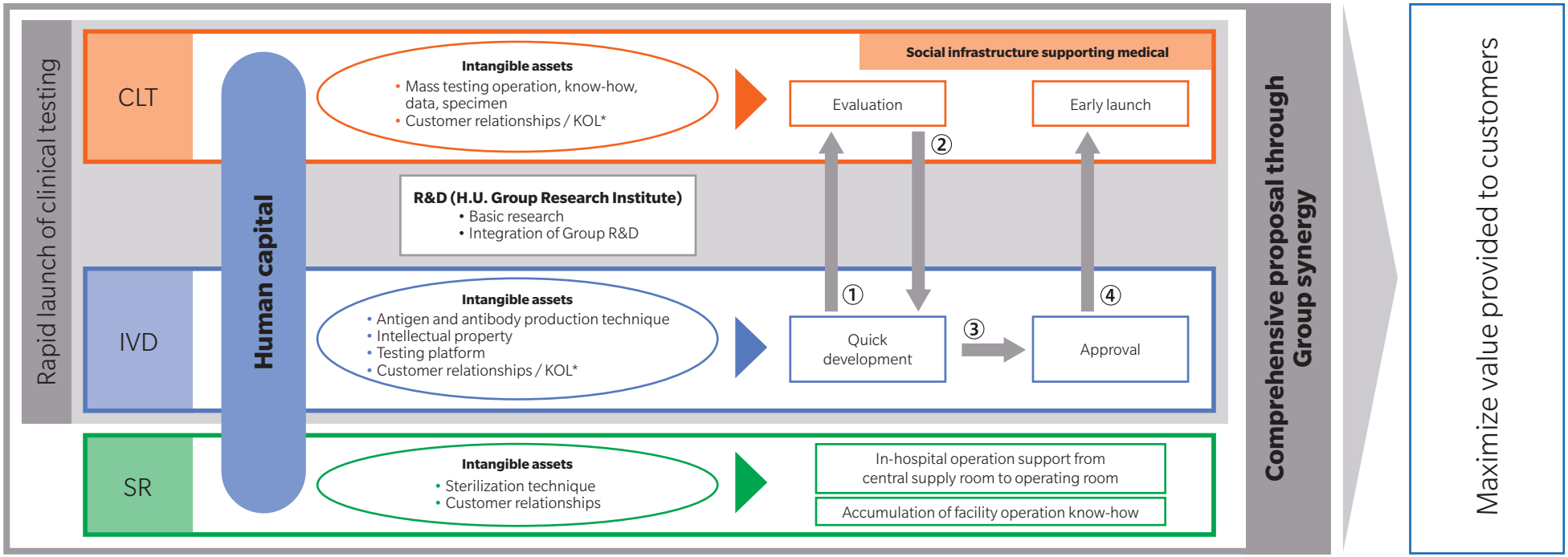
With its CLT and IVD business operations, the H.U. Group is a unique enterprise even in world terms. In addition to our existing core business, consisting of these two plus the SR business, we are working to develop across a broad front by expanding and strengthening the home-visiting, welfare business and other emerging new businesses (ENB). We believe that continuously generating high added value and new value through these business activities will increase the corporate value of the H.U. Group.

Value Creation Story of Our Core Business

Building on the foundation of the intangible assets held by our existing core business, we will work to maximize value provided to the customer by exploiting Group synergies to the full.

In the CLT and IVD businesses, we will launch new clinical tests with short lead times by coordinating activities across the Group, including its R&D functions, to swiftly develop, evaluate and gain regulatory approval for such tests. We believe that the effectiveness of our value creation model in the CLT and IVD businesses has been demonstrated once again by our recent rapid launch of the novel coronavirus (SARS-CoV-2) antigen test and the resulting contribution to profit. We are also confident that the spread of COVID-19 infection has led to widespread public appreciation of the importance of testing and wide recognition of our CLT business as part of the social infrastructure that supports medical care.

Going forward, we will coordinate with the SR business, which provides sterilization services to central supply rooms and operating rooms, to offer total solutions as a Group, thereby maximizing value provided to the customer and increasing the Group's corporate value.

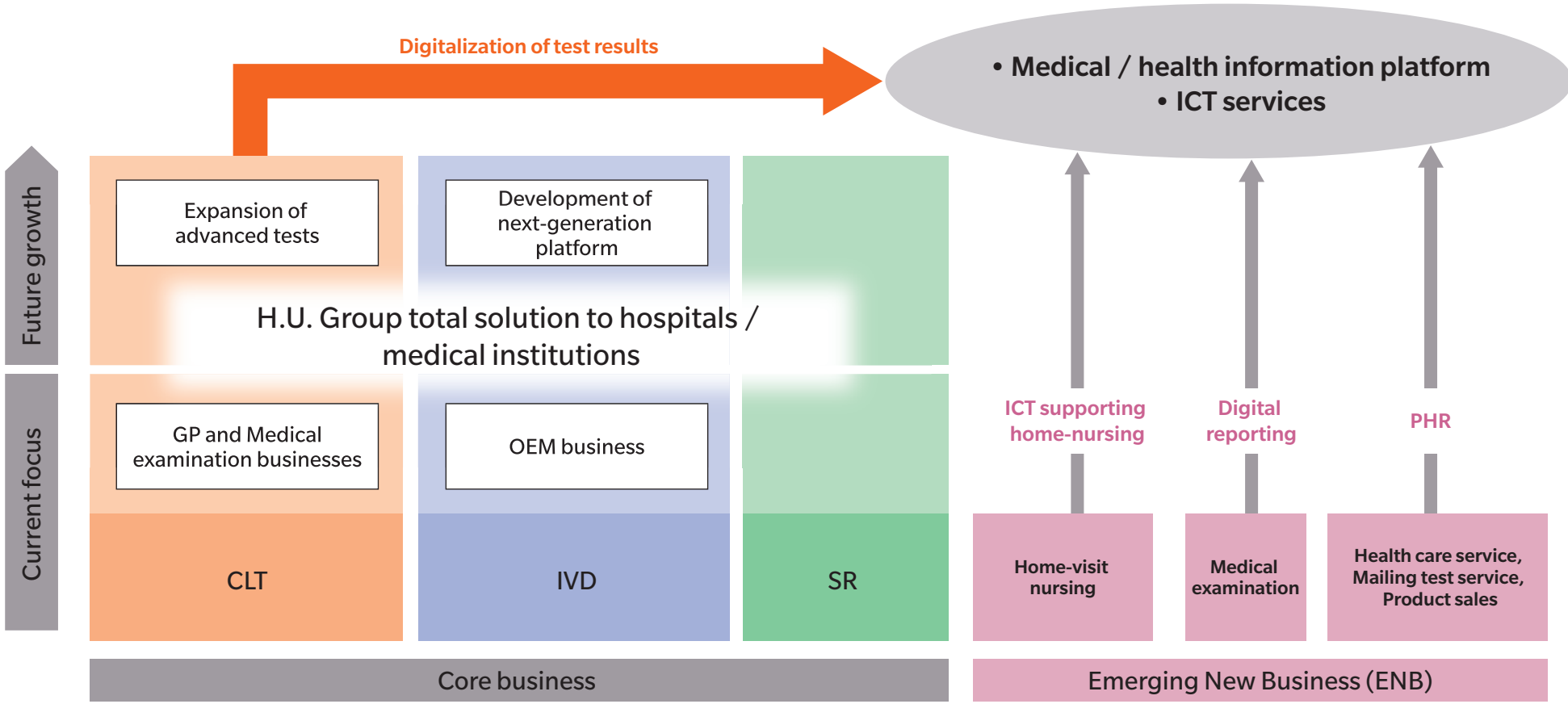


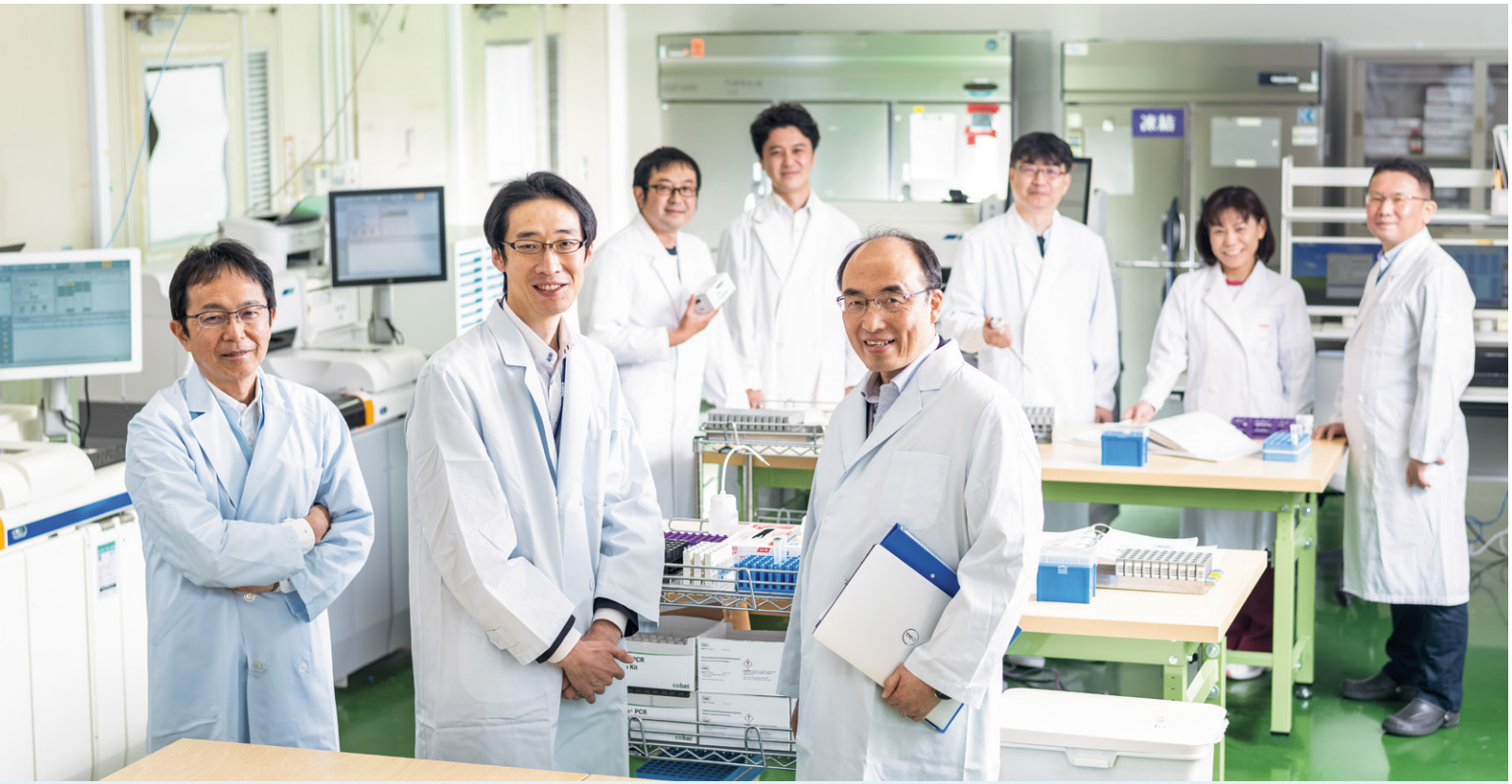
* KOL: Key opinion leaders

Business Expansion as a Group

In our existing core business, we are achieving steady growth, notably by offering total solutions as a Group to hospitals and other medical institutions. Among measures to target further growth, we will work to expand advanced tests and develop next-generation platforms.

Meanwhile, in addition to progressing with the digitalization of test results in our existing core business, we will introduce and deploy ICT-based service tools, including personal health records (PHRs), which will enable us to utilize the wide range of data obtained through business activities and build a medical/health information platform to support business expansion into the Healthcare × ICT field.





Core members of our R&D team (with Kazuya Omi at front center)

Special Feature

On the COVID-19 Frontline

**The H.U. Group has responded to COVID-19 with action coordinated across the Group.
Benefiting from our nationwide test processing system and our expertise in esoteric tests, we were the first business operator to start commissioned PCR testing. On the strength of our long track record in infectious disease testing, we also succeeded in developing an antigen test reagent at an early stage.
In this feature, we present an account of how these activities progressed by Executive Officer Kazuya Omi, who is in charge of the H.U. Group's R&D activities.**

Timeline of the H.U. Group's COVID-19 Response (As of November 30, 2020)

January 31, 2020
Supply of COVID-19-related support materials to Chinese city of Wuhan, Hubei Province

February 12, 2020
Start of PCR testing (commissioned by government)

March 2, 2020
Participation in research sponsored by the Japan Agency for Medical Research and Development (AMED) to support the development of a COVID-19 diagnostic method

April 28, 2020
Application filed for approval to manufacture and sell rapid antigen test kit

May 13, 2020
Approval received to manufacture and sell rapid antigen test kit, ESPLINE® SARS-CoV-2

May 18, 2020
Operation begun of a PCR testing system within the Kobe Biomedical Innovation Cluster (partnering with Kobe City, Sysmex)

June 2, 2020
Start of commissioned saliva-based PCR testing

June 5, 2020
Decision taken to construct Fujirebio Asahikawa Factory in Japan as new production base for ESPLINE® SARS-CoV-2

June 8, 2020
Application filed for approval to manufacture and sell high-sensitivity quantitative antigen test reagent

June 19, 2020
Approval received to manufacture and sell high-sensitivity quantitative antigen test reagent, Lumipulse® SARS-CoV-2 Ag

August 3, 2020
Start of commissioned environmental swab testing

August 6, 2020
Start of clinical trials of high-sensitivity quantitative antigen test reagent at U.S. subsidiary

August 6, 2020
Announcement of start of high-sensitivity quantitative antigen testing service using LUMIPULSE instruments and reagents for mass-screening at airport quarantine stations in Japan

October 30, 2020
Sales launch of Lumipulse® Presto SARS-CoV-2 Ag, high-sensitivity quantitative antigen test reagent for high-throughput processing instruments in Japan

November 9, 2020
Start of commissioned saliva-based PCR testing at Haneda Airport Terminal 3 Clinic with test result notification service via a personal health record app

November 10, 2020
Agreement with Centogene N.V. to begin high-sensitivity quantitative antigen testing at major German airports

November 18, 2020
Testing for of COVID-19 antigen and influenza virus antigen using a single specimen becomes possible with LUMIPULSE products

Special Feature

On the COVID-19 Frontline

Creation from Scratch with the Combined Strength of All Group Company Research Staff

Until around February 2020, the novel coronavirus (SARS-CoV-2) was not a particular focus of attention within the H.U. Group and many people took the optimistic view that it would be over by the summer. I remember rushing around to persuade the different corporate departments that the H.U. Group needed to put together a solid response to the virus and explaining this to my staff. The big change came in February 2020, when it was reported in public that infection was spreading aboard a cruise ship which had recently arrived in the port of Yokohama.

When tackling a new infectious disease, the most difficult thing is that there is almost no scientific information available at the initial stage. It is great when there is an established set of findings on a virus or pathogen that you can present to R&D staff, to tell them how dangerous it is or to show that it is harmless, but with SARS-CoV-2 we simply did not know. I might have been going beyond my role as an executive officer, but I decided this time to join the frontline operation and gather information on the ground for myself.

When it comes to R&D, H.U. Group Research Institute G.K. (HRI) is responsible for basic research and research coordination, while SRL and Fujirebio take charge of development in areas relevant to their respective business operations. The project started off with a handful of staff at HRI, but ultimately almost all of the institute's other R&D operations were suspended while we devoted resources to SARS-CoV-2. In the end, the project also took over as a priority for the research teams at SRL and Fujirebio. We were asking our research staff to take on a work burden that really was exceptional in terms of both quantity and quality, and I am very grateful for their enthusiastic response.

Factual Reports from Wuhan in China: Why We Were Able to Start Testing Ahead of Competitors

As to why the H.U. Group led the field with its COVID-19 response, it is clear to me that it was partly because we had direct access to information on the situation in Wuhan. The H.U. Group has developed a network of test laboratories in China through a joint venture with the Ping An Insurance Group, and one of the laboratories is in Wuhan. Around the middle of January, we learned through our colleagues in Wuhan that the spread of the infection was more serious than the impression we were getting from media reports in Japan and that this was a disease with a major social and medical impact. I realized the scale of the challenge before any cases were picked up in Japan and, as the executive responsible for R&D, took the decision to prepare.

I immediately called an urgent meeting of all my team at HRI and gave a basic policy briefing and specific instructions on the response to SARS-CoV-2 that we needed to launch. I think this early decision gave us something of a head start at least. Our frontline staff were quick off the mark in sourcing the necessary instruments and reagents. On February 12, we became the first private-sector testing company in Japan to start commissioned PCR testing. Given the short preparation time, not everything went smoothly, and we faced a range of issues from day one of testing. Nevertheless, thanks to the tireless efforts of the team on the ground, we were able to overcome the difficulties and continue progressing with the task that we had set.

Accelerating Development by Mobilizing Top-Class Researchers

Following the launch of our commissioned PCR testing operation, we also led the field in the development of a range of antigen test reagents for COVID-19. We succeeded at this because the Group was able to draw from its ranks a set of human resources with a wide range of backgrounds and specializations. In this way, we were able to mobilize outstanding experience and expertise in both the leadership teams of our different Group companies and in our frontline staff, and I believe it was their united action that brought results.



PCR testing at our laboratory

Throughout the related product and service development, a factor in our success was that we had top-class researchers with abundant expertise in clinical testing in their respective fields who were able to team up and collaborate very flexibly. If there had been organizational boundaries, individual priorities would have taken precedence and it would have been difficult to frame a flexible response from the perspective of total optimization. Because of the integrated R&D structure across the Group, we were able to flexibly deploy the Group's full range of research resources and human assets.

Decision-Making under Exceptional Circumstances Becomes Management's Daily Routine

In terms of both work flow and internal and external procedures, normal

Special Feature

On the COVID-19 Frontline

assumptions no longer applied and nothing progressed as expected, which made things very difficult. Given the rapid developments in the external environment, one of the things we needed in order to put in place a stable testing system was to secure a reliable supply of reagents and consumables in preparation for the sharp rise in the number of tests. HRI took the lead in acting to swiftly establish a stable procurement chain. As demand for PCR test reagent surged worldwide and a short supply was experienced at the national level, we responded to the situation by proposing alternative testing methods and by working together with other departments to take measures to keep the test system running.

With these unprecedented situations developing at an unprecedented pace, it was by establishing priorities and making swift decisions that we in the management team were able to maintain our response.

Focusing Group Synergies on the Key Area: Adapting Previous Research Findings

Fujirebio, which commercialized the world's first test reagent for syphilis in 1966, has a long track record in testing for infectious diseases. Within the last 20 years, it carried out R&D for test reagents following the outbreaks of severe acute respiratory syndrome (SARS) and Zika fever, although the reagents were not commercialized because fortunately these diseases did not develop into pandemics in Japan.

In mid-January, after China published the results of its SARS-CoV-2 genome analysis, I noticed that the sequence was almost identical with the SARS coronavirus (SARS-CoV) that had emerged in 2002. I immediately re-read an article published by Fujirebio on SARS test reagent development and realized that it was highly likely that the two viruses had an identical epitope, which is the site on an antigen that is recognized by antibodies. I became very excited because this meant it would be possible for us to use parts of the antibodies we had created before.

Fujirebio designed a reagent, and HRI and SRL immediately evaluated it and fed the results back to Fujirebio for further improvement. Through this process, the Fujirebio researchers made successive modifications to the composition of the antibodies and reagents, seeking the optimal formula from among an infinite number of permutations. Even within a short period of time, they came up with a commercial reagent.

We had also formed a technology and product evaluation team drawn from across the Group six months before the emergence of COVID-19, and this setup proved very effective. Its members are still engaged in COVID-19 operations at airport quarantine stations and in customer relations.

Reaffirmed: The Meaning of Work and the Combined Strength of the Group

I think the staff involved in the project will find that it has made them rethink the meaning of work in their lives.

This is certainly true in my case. Ever since January, I have felt an unprecedented sense of pressure and responsibility, but the experience of being able to deliver a set of products and services to society by taking



Special Feature

On the COVID-19 Frontline

on this project has been extremely important for me both as a scientist and as a business manager. Working alongside my colleagues on a daily basis, I have felt the pride and self-confidence that comes from making a direct contribution to society and medical science.

I am sure the other members of the team will also have been confirmed in their strong motivation to contribute to medical science and society, and I believe that having been able to deliver real value to society will have a very positive impact on their individual lives.

One thing we must not forget is that we benefited greatly from organizational support to help sustain the frontline operation. For instance, we organized our staff flexibly into a team working from home and a team working in the laboratory, thus ensuring that we would have a backup system in place in the event of staff members becoming infected. It was thanks to the project's backing by the organization as a whole that we were able to achieve a successful result.

Starting a project from scratch is the task of the R&D departments, but building beyond that is the work of the relevant business departments. This project has confirmed for me that SRL is the world's No. 1 in clinical laboratory testing. Seeing how our Group's combined strength can take R&D results and shape them into a business has given me a real sense of our Group synergy and how strong we are when that synergy is given full play.



Rapid antigen test kit
ESPLINE® SARS-CoV-2

Promoting a Wider Understanding of the Potential and the Limitations of Testing: Our Ongoing Mission as Professionals

The words "PCR testing" have become completely familiar to the public. However, I think we have not yet achieved an accurate public understanding of what testing is and what its limitations are, with different people having a range of different conceptions.

As testing professionals, I believe that we should work to explain testing to the public and establish a more accurate understanding of its purpose and limitations. PCR testing has recently come to be offered in a range of settings, but a growing number of questions that society needs to address are being raised. For example, is it enough simply to assemble the right set of tools before you start testing? Is the level of quality assurance truly adequate? And should certification not be required? I recognize that tackling these questions is an important task for the future.



High-sensitivity quantitative antigen test reagent
Lumipulse® Presto SARS-CoV-2 Ag (left)
Lumipulse® SARS-CoV-2 Ag (right)

Aspiring to Be an Engine for Innovation Together with a Wide Range of Human Resources

I am confident that our Group will develop increasingly advanced R&D capabilities. At HRI, we are engaged in joint research with more than 20 external organizations through open innovation. We are also progressing with R&D in collaboration with our overseas bases, adding a truly global dimension to our activities.

Through our response to COVID-19, our researchers have taken great strides forward in ability. In the post-COVID era, I want to support them to develop their abilities further and to play more active roles. In this process, I will of course continue to stand with them, serving as an engine to drive innovation.



Part II

Growth Strategies

On September 18, 2020, the H.U. Group announced its new medium-term plan. This section presents the plan in more detail.

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New Medium-term Plan

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Financial Strategy
Report (MD&A)

Capital Procurement through Social Finance

R&D and Intellectual Property

Message from the CEO

New Medium-term Plan

Working for a sustainable increase in corporate value through new value creation as an integrated Group

Our Last Medium-term Plan Has Laid the Growth Foundation for the Future

Under the previous medium-term plan, "Transform! 2020," which concluded with fiscal 2019, ended March 31, 2020, the H.U. Group announced the "relaunch" of its business with a range of key measures designed and implemented to pave the way for significant and sustainable growth in the future. The plan's numerical targets were missed by a considerable margin, and we in management share a very serious view of this result. Nevertheless, based on our policy of Group integration, including integration of our personnel systems and IT functions, we took determined measures to expand our market share in the Clinical Laboratory Testing (CLT) business, strengthen R&D, proceed with the New Central Lab construction project, and achieve entry into new business fields. We believe that these measures have enabled us to lay the necessary growth foundation for the future. We now see it as an ongoing task to build profitability on this foundation.

"Transform! 2020" Recap

Execution of key measures and plans

Established foundation for significant and sustainable growth beyond 2020

Implementation of the Group integration

- Revision of our corporate philosophy
- Unification of personnel system
- Promotion of the Group procurement
- Efficiency through integration of IT function
- Unification of IT platform

Sales growth

CLT Japan

- Net sales (¥ billion)
  FY2016: 104.1 → FY2019: 117.5
- Market share
  FY2016: 18.9% → FY2019: 20.4%
- Enhancement of genetic related tests

SR

- Established total support service and launched deposit inventory business of medical items

Investment for future growth

- New Central Lab
- Entry to new business fields
- Strengthening of R&D (Establishment of H.U. Group Research Institute)
- Joint Venture with Ping An Insurance Group of China

Realizing profitability improvement from the established growth foundation is a remaining challenge

Our Response to the COVID-19 Crisis Demonstrated Our Strength as an Integrated Group

In our response to COVID-19 infection, we were not only able to start commissioned PCR testing at an early stage, but also achieved in a short time the development and market release of the ESPLINE® SARS-CoV-2 rapid antigen test kit and the Lumipulse® SARS-CoV-2 Ag high-sensitivity quantitative antigen test reagent. Starting in August, when the test reagent was adopted by quarantine stations at major international airports in Japan, we have provided comprehensive support to Haneda Airport, Narita International Airport, and Kansai International Airport to start and maintain testing operations. Our achievement in rolling out a COVID-19 antigen test at an early stage demonstrates the success of the Group integration implemented as a particular focus of our previous medium-term plan. We see it as a significant result illustrating our strengths as a Group.

Test products and technologies are management assets and a form of intellectual property specific to our operations. Indeed, our greatest strength as a company is the ability to exploit the management assets of the In Vitro Diagnostics (IVD) and CLT businesses. Our swift development of a COVID-19 antigen test reagent was made possible by two factors in particular: First, in an operation coordinated by the H.U. Group Research

Message from the CEO
New Medium-term Plan

Institute, we were able to utilize an antibody from biological sources developed by the IVD business following the outbreak of severe acute respiratory syndrome (SARS) in 2003; and second, we were able to make an early start on reagent evaluation and measurement through the CLT business, which had been engaged in commissioned COVID-19 testing. This was a concrete demonstration of how we maximized delivered value by achieving within the Group an organic fusion of the tangible assets of antibodies and testing infrastructure with the intangible asset of expertise in reagent development and testing technology.

In addition to our Sterilization and Related Services (SR) business, we boast a wide range of other services and products in the healthcare field that sits alongside the medical care field. We therefore believe that we can generate significant added value by further driving Group integration. October 1, 2020 saw the start of operations at H.U. Frontier, Inc., formed through the integration of the domestic sales divisions and marketing divisions of our core companies. By creating new value from the combined strength of the H.U. Group and using it to offer new solutions, we aim to further enhance the value provided to the customer.

Launching "H.U. 2025," a New Medium-term Plan Designed to Match the Business Environment

In the business environment where the H.U. Group operates, demographic aging and the introduction of advanced medical treatments are among the factors driving a projected increase in medical care costs. On the other hand, the worsening financial position of medical institutions and declining specimen testing fees, together with pressure to limit medical care costs, are expected to lead to continued difficult conditions for the Japanese CLT market. We expect from this that we will be required to achieve further cost reduction in general testing while nevertheless maintaining quality.

Elsewhere however, reorganization resulting in a reduction in the number of hospitals and hospital beds has led to increased demand for in-home healthcare services and preventive medicine, while advances in medical and IT technologies are driving constant evolution in the business environment, with a greater need for advanced testing. We therefore envisage an increasingly polarized market. On top of these overall trends, we also need to react appropriately to changes in the immediate environment brought about by COVID-19, such as changes in consumer behavior and a reduction in patient footfall.

The overseas CLT market is experiencing growth, mainly in emerging countries, but in developed countries the effort to limit social security costs continues to result in stagnant growth. Moreover, regulatory changes in individual countries have led to increased registration costs, contributing to a continuing challenging environment for business.

In response to these trends in the business environment, we have announced our new medium-term plan, "H.U. 2025—*Hiyaku* (significant growth) & United," which will carry us through to the end of fiscal 2024. Building on the growth foundation we laid under the previous medium-term plan, we will create a sustainable business and profit structure that looks as much as 10 years into the future. We have identified the three following themes as key to achieving this goal:

1) Opening of the New Central Lab

2) Enhancement of the OEM business

3) Healthcare × ICT

Opening of the New Central Lab (CLT)

The first of the three themes is to start the operation of the New Central Lab.

We plan to build a central testing laboratory at Akiruno, Tokyo, that will combine efficiency with high-powered technology and be among the largest facilities of its kind in Japan. Due to start operation in January

Average COS reduction per ID* in FY2024
(vs FY2019, the New Central Lab only)

General tests: –15%

Esoteric tests: –7%

* ID: Code identifying the commissioned specimen

Our Business Environment Japan Global

Japanese CLT market
- Increasing medical expenses under consecutive containment pressure
- Declining specimen testing fees
- Growing advanced yet costly medical treatment

Hospitals
- Reorganization resulting in fewer hospitals and hospital beds

Home care
- Increasing needs for in-home healthcare services

Self-medication
- Increasing needs for preventive medicine

COVID-19
- Behavior change of consumers
- Reduced number of outpatient visits

Global CLT market
- Growth continues in emerging countries
- Low growth in developed countries under suppressing social security costs

Reagent development
- Increase of registration costs triggered by regulation changes in each country

Testing instruments
- Increasing needs for comprehensively systemized testing instrument platform from single supplier
- Modularization of testing instruments

Message from the CEO

New Medium-term Plan

2022, this facility will effect a radical improvement in our cost structure for a dramatic boost in productivity and possess cutting-edge R&D functions, thereby allowing us to adapt appropriately to changes in the CLT market.

Through stable operation of the New Central Lab and the resulting reduction in average cost of sales (COS), we envisage entering a profit expansion phase from fiscal 2023 (ending March 31, 2024). With the opening of the New Fukuoka Lab in fiscal 2020 and the New Kansai Lab in fiscal 2023, we will thus establish a tri-axis lab network offering a complementary range of test items that will concurrently optimize logistics costs.

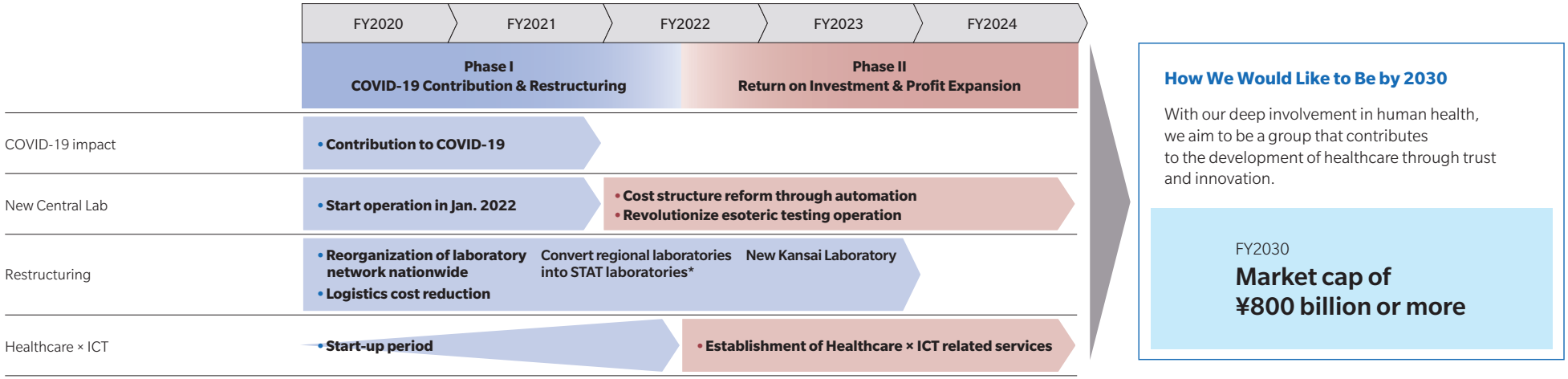


The New Central Lab with Testing Laboratory Building (rear left) and R&D Building (right)

Fulfilling Our Social Mission by Ensuring the Continuity of Our Test System at All Times

One more reason why the New Central Lab is required is to fulfill our social mission by ensuring the continuity of our test system at all times. Even in the wake of a major natural disaster, we need to maintain an environment in which testing can be maintained. Accordingly, the project has been subject to comprehensive risk assessment, which covers everything from the selection of the site and the adoption of an earthquake-resistant structure to transport and logistics access and the securing of vital supplies and services under emergency conditions. For us the New Central Lab, which will provide outstanding performance from the perspective of our business continuity plan, symbolizes the fulfillment of our social mission.

Medium-term Plan H.U. 2025 —***Hiyaku*** **(significant growth) & United**



* STAT laboratory: A laboratory engaged mainly in urgent tests

Message from the CEO

New Medium-term Plan

Enhancement of the OEM Business (IVD)

The overseas strategy of the IVD business has hitherto been focused on expanding sales of LUMIPULSE products, but it has proven extremely difficult as a late market entrant to expand profit in the face of competition from major global enterprises. Moreover, registration costs are rising mainly due to regulatory changes in individual countries. We will respond to these conditions with a policy of selection and concentration regarding the product items and regions targeted in our overseas LUMIPULSE strategy. Meanwhile, we will work to enhance and expand the OEM business by leveraging the reliability and reputational advantage based on our successful track record for LUMIPULSE products in the Japanese CLT sector, and by utilizing our high-quality material and reagent development abilities in the immunoassay field, which is a strength of the IVD business.

The OEM business will be driven by the tripolar system of Fujirebio Diagnostics, Inc. (FDI) in the United States, Fujirebio Europe N.V. (FRE), and Fujirebio Diagnostics Japan, Inc. (FDJ).

Promoting Healthcare × ICT Services

Until now, testing has been used largely in the medical care field, mainly to detect and identify diseases. Going forward, however, wider use is envisaged for preventive purposes. At the same time, digitization has meant that ICT-based tools and services have become familiar to us in everyday life and medical treatment, opening up potential for new services that integrate these tools into healthcare. Moreover, the COVID-19 pandemic has normalized non-contact services in a wide range of settings, and it seems likely that the changes in consumer behavior arising from efforts to avoid infection will further accelerate the introduction of online medical consultation through ICT.

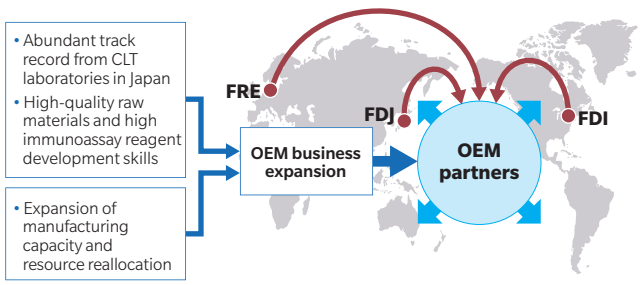
Having identified these changes in the medical care environment and the trend toward digitization, we will aim to deliver new added value by integrating healthcare with ICT, not only by offering personal health records (PHRs) to consumers, but also in ways that increase user convenience such as online booking of medical appointments and online receipt of test results.

Aiming for Market Cap of ¥800 Billion in Fiscal 2030

For the year 2030, the H.U. Group aspires to realize its vision: "with our deep involvement in human health, we aim to be a group that contributes to the development of healthcare through trust and innovation." As the first step toward that, we will progress with the implementation of our "H.U. 2025" plan. From 2025 onward, with the major growth that will result from uniting as an integrated Group, we hope to enhance the reputational standing of the H.U. Group. As a result, we aim to attain a Group market capitalization of at least ¥800 billion 10 years from now in fiscal 2030.

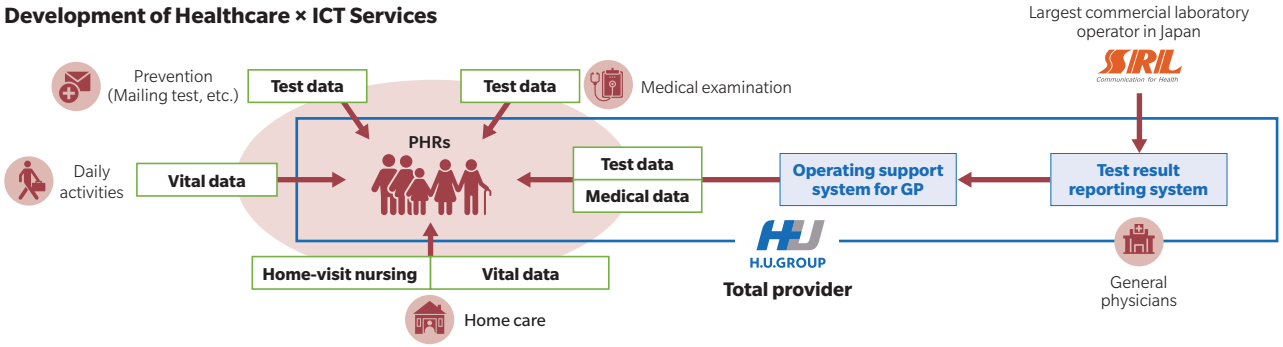
Instead of fearing change, we welcome it as a chance to start anew and will embrace the challenge of continuing to create new value in medical care. Committed to delivering optimal healthcare to all people, the H.U. Group is confident of fulfilling this mission by drawing on its accumulated experience and trust. We look forward to your continued support as we take on this journey.

OEM Business Expansion



FDJ: Fujirebio Diagnostics Japan, Inc. /
FDI: Fujirebio Diagnostics, Inc. / FRE: Fujirebio Europe N.V.

Development of Healthcare × ICT Services



Message from the CFO
Financial Strategy Report (MD&A)

In the next five years, we will drive value creation through Group integration while strengthening our financial foundation.

My Goals as CFO in the New Medium-term Plan

Numerical Targets of the Medium-term Plan

FY2024

Net sales CAGR*1	6% or more
EBITDA margin	18% or more
Operating profit margin	10% or more
ROE	12% or more
ROIC	8% or more

For five years cumulative

Operating cash flow	¥150 billion or more
Free cash flow*2	¥50 billion or more

Annual free cash flow to turn positive in FY2022

*1 Five-year CAGR during FY2019–FY2024 *2 Lease is not included in investing cash flow

My responsibility as CFO is to achieve a sustainable increase in corporate value and to support the realization of the CEO's vision from the financial side. My basic policy will be steady investment to contribute to higher corporate value while maintaining financial discipline to balance the currently rising level of interest-bearing debt. In the first half of fiscal 2020 (ending March 31, 2021), I have emphasized securing cash while monitoring trends in the COVID-19 pandemic.

It was against this background that we launched our new medium-term plan, H.U. 2025, which was formulated through a process of "backcasting" from our target profile for the year 2030 to identify the action required over the next five years. Besides promoting action as a Group to create value, the plan emphasizes a group-wide growth strategy transcending individual business segments to reap the benefits of the Group integration initiatives that formed a key part of the previous medium-term plan, Transform! 2020. We believe that the result is a clearly defined plan for the development of the Group's businesses, including promoting the value creation strategies of our core businesses and cultivating Healthcare × ICT services.

It is vital that we progress steadily toward the goals of H.U. 2025, and as CFO I will focus fully on its execution.

Three Key Issues for Our Financial Strategy

H.U. 2025 focuses on three key points in its numerical targets.

The first of these is an emphasis on profit margin, which is reflected in the choice of percentage values rather than figures to express the plan's targets. This indicates a determination to meet the goals for operating profit margin and EBITDA margin even if we end up falling short of the net sales target. Accordingly, our policy under H.U. 2025 will be to pursue the profit margin targets regardless of net sales performance. We believe that fixed cost reduction is vitally important as part of this.

The second point concerns cash flow. For the first time, we have set five-year cumulative numerical targets for operating cash flow and free cash flow. Under H.U. 2025, it is important to improve not only operating profit but also operating cash flow, which makes the generation of cash an important management issue. The plan also sets the target of turning free cash flow positive in fiscal 2022. This means keeping investment cash flow to within the range of operating cash flow.



Naoki Kitamura
Director, Executive Officer and CFO
H.U. Group Holdings, Inc.

As a result, we believe that starting from fiscal 2022, we will be able to cover investing cash flow and dividend payments from operating cash flow, including on an individual fiscal year basis. To maximize operating cash flow, we will also deploy a range of measures to improve the cash conversion cycle (CCC).

The third point is related to financial discipline. Here, we have again identified indicators to serve as targets. Up to now, we have used

Message from the CFO
Financial Strategy Report (MD&A)

financial leveraging based on increasing interest-bearing debt with the additional aim of reducing weighted average cost of capital (WACC). We assess the current level of liabilities as appropriate in terms of the balance sheet. Given the uncertainty about the impact of the COVID-19 pandemic, however, during the five years of H.U. 2025, we do not envisage expanding interest-bearing debt to the same major extent as we did in the previous three years. It is imperative that we meet the financially disciplined target values announced for fiscal 2024, and while maintaining the financial discipline we will work to increase corporate value.

The fiscal 2019 result for return on invested capital (ROIC) was 3.7%. Expanding interest-bearing debt had the additional effect of further reducing WACC, so that ROIC for fiscal 2019 was only very slightly above our provisional forecast for WACC. Although corporate value has not been impaired, we must recognize that it has also not been greatly expanded. In fiscal 2020, we aim to achieve ROIC well in excess of WACC and to generate a positive level of economic value added (EVA*).

* EVA®: An indicator of the amount of economic value generated by an enterprise in the relevant business developed by the U.S. consulting firm Stern Stewart & Co.

Financial Strategy and Financial Discipline

1. **Operating cash flow improvement**
   ✓ **Improving CCC**
2. **Finance lease and real estate financing**
3. **Sale of real estate, e.g., emptied old lab sites**

Financial discipline

Net interest-bearing debt to EBITDA (excl. lease obligations)
1.3x or less*
(2.5x or less during the medium-term plan)

Equity ratio (%) (excl. real estate finance)
40% or more

* At the end of FY2024

My Response as CFO to the COVID-19 Pandemic

My basic approach was to guard against long-term risk by limiting expenditure and to secure short-term liquidity, following a highly selective investment policy and exercising tight control of expenses. Particularly from April into May 2020, the reduction in outpatient consultations had a severe impact on our performance and we used short-term borrowings to secure cash on hand.

In contrast, my response to COVID-19 included providing solid support in the form of funding. In addition to upgrading PCR testing instruments, we invested the necessary funds where required to fulfill our social mission.

We also made ensuring employee safety and health our foremost priority. In terms of workplace staffing, back-office functions were transferred to teleworking as far as possible, but many of our activities involve visiting frontline healthcare settings, so we had to carefully devise systems to enable employees to work safely without health worries. Accordingly, we put in place stringent safety measures in testing, specimen collection, sterilization and all other operations to create an environment allowing employees to work with peace of mind.

Meanwhile, it would be inexcusable if testing were halted due to lack of the necessary materials. We therefore enhanced the procurement system for masks, sanitizers, rubber gloves, protective clothing and other materials required for testing and distributed them systematically. An important point here was speedy assessment of the situation. In practice, when the first wave reached its peak in April, in some cases we were told items were in stock one day only to find they had been bought up by another company the next day. Looking back on how I responded as CFO, I believe the most important things were securing cash and procuring materials to ensure operational continuity.

Toward Long-Term Growth

I emphasize a diverse range of funding sources. In the last three years, with maintenance of our credit rating as a precondition, we have used procurement methods including short- and long-term borrowing, real estate loans, and issuance of corporate bonds. For the specific purposes of installation of equipment and IT systems at the New Central Lab and R&D aimed at enhancing testing quality and developing innovative technology, we have engaged in fund procurement through our social finance framework. In October 2019 we issued unsecured bonds (social bonds), and in March 2020 we procured funds through an SDGs social loan, which allowed us to promote our brand to a wide range of investors. The New Central Lab is scheduled to begin operation in January 2022, with full automation of general testing and other features providing a major boost to productivity. We envisage that this development will set profit on a major growth curve from 2023.

Our newly launched medium-term plan, H.U. 2025, marks a major turning point on the way to our target profile for the year 2030. As CFO, my task will be to strengthen our financial foundation to support our operations and to steadily meet the targets set out in H.U. 2025. Meanwhile, as an enterprise supporting medical treatment and providing healthcare to all, we will continue with unstinting efforts to fulfill the role expected of us.

I would like to ask for the continued understanding and support of our shareholders.

Capital Procurement through Social Finance

Social Finance

The Company is building the New Central Lab at Akiruno in Tokyo to serve as a core facility (Akiruno Project). To provide funding for installation of equipment and IT systems under this project, and additionally to fund research and development aimed at enhancing testing quality and developing innovative technologies, we issued unsecured bonds (social bonds) in October 2019 and undertook long-term borrowing (SDGs social loan) in March 2020.

These financing packages were created under the social finance framework formulated on July 18, 2019. The framework, based on the Social Bond Principles of the International Capital Market Association, provides a structure for procuring funds to be used for projects seeking to provide solutions to social issues. In addition, the Company received a third-party assessment to verify the appropriateness of the social finance framework by Rating & Investment Information, Inc., in what is referred to as the R&I Social Bond Opinion.

Outline of Social Bonds

• Third, fourth and fifth unsecured bond issues: Total value ¥20 billion

Title	Date of issue	Balance as of the fiscal year-end (¥ million)	Interest rate (%)	Security	Redemption date
Third unsecured bond issue	October 25, 2019	10,000	0.150	None	October 25, 2024
Fourth unsecured bond issue	October 25, 2019	5,000	0.200	None	October 23, 2026
Fifth unsecured bond issue	October 25, 2019	5,000	0.300	None	October 25, 2029

Outline of Social Loan

- Date of loan contract: March 26, 2020
- Amount of loan: ¥5 billion
- Loan period: 10 years

Utilization of Funds

- Installation of equipment and IT systems at the New Central Lab under the Akiruno Project
- Enhancement of test quality and R&D for innovative technology development

Allocation of Procured Funds

Item	New Central Lab (¥ million)
Amount procured (after deduction of expenses from social bonds and loans)	24,926
Expenditure for New Central Lab in FY2019 (actual)	
IT Systems	5,289
Equipment	740
Total	6,029
Balance as of the end of FY2019	18,897

Note: We plan to disclose reports on output, outcome and impact indicators after the operational start of the New Central Lab.



The New Central Lab with Welfare Building (left), Testing Laboratory Building (rear center), and R&D Building (right)

R&D and Intellectual Property

The rapidly changing medical and healthcare environment is making it increasingly vital to produce innovation that can contribute to realizing more effective medicines and treatments. The H.U. Group is constantly looking ahead to the medical and healthcare needs of the future and engaged in R&D to provide new value.

Group R&D Structure

Integration of Group R&D functions and sharing of knowledge resources

The integration of Group R&D functions enable the R&D activities of the H.U. Group Research Institute G.K. (HRI) and of the Group companies to operate in a coordinated fashion, promoting an optimal R&D strategy at Group level and stimulating knowledge sharing within the Group.

HRI is the center of the Group's R&D activities. Aiming for growth in the medium-to-long term, HRI conducts the basic research needed to generate a steady stream of ideas for future business. HRI also collaborates with enterprises, medical institutions, universities and other bodies both inside and outside the Group to stimulate innovation that will create the new businesses and technologies to drive the Group's next-generation growth.

The R&D departments of the Group companies are continuing to advance the technologies they have cultivated to improve and enhance their products and services. Integrating R&D activities with the HRI will promote flexible introduction of new technology and accelerated development of highly competitive products and services.

H.U. Group Research Institute G.K.

Value creation hub with collaboration inside and outside the Group

Through collaboration with organizations inside and outside the Group and the introduction of technology, HRI focuses on the fields indicated below to build new technical bases, create new businesses and conduct pilot studies, while cultivating the development of diverse human resources with advanced expertise.

(1) Construction of innovative analysis platforms

We aim to create a technology base supporting advanced medical care by exploring the use of exosomes[*1] and other minimally or non-invasive new testing technologies and by establishing detection principles that enable rapid analysis in compact formats.

(2) Creation of next-generation healthcare businesses

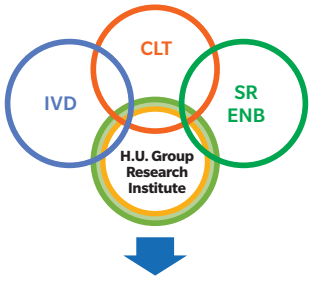
We aim to create businesses contributing to next-generation healthcare (preventive medicine, personalized medicine, etc.) by opening up new research fields in areas such as immunology, microbiome studies[*2] and next-generation treatment modalities.

(3) Constructing data utilization platforms and exploring applications

We are progressing with the creation of unique research platforms by conducting AI, bioinformatics and robotics research using medical information from joint research with medical institutions, and big data accumulated from Group services. These research platforms will drive the automation and streamlining of our test procedures and allow us to deliver new value and new services to the medical care environment.

*1 Exosomes are vesicles as small as 100 nanometers produced by cells and that hold various liquid substances, such as urine, sweat, and saliva. The protein, nucleic acid, metabolites, and other biological materials in these substances can be used as biomarkers of physiological activity of the vesicle, cell, and the patient. Exosomes are currently the subject of much research as a potential therapeutic target and treatment material.

*2 A microbiota is the microorganisms that make up the micro ora living inside all animals, including humans. The full purpose of the microbiota in mucous membranes and the intestinal tract is not yet known, but research indicates that these microbiomes are a significant factor in the health or sickness of living organisms. The human microbiome is currently the subject of much research as a potential therapeutic target and treatment material.



Integration of R&D function

Develop a base to become new "social/medical infrastructure"

Actions for SARS-CoV-2 and preparation for new infectious disease
- SARS-CoV-2 related technology/infrastructure, e.g., tests, infection control, etc.

Evolve CLT business
- Automation and utilization of AI for esoteric tests, etc.

Extensive usage of core technologies
- Implementation of new technologies and exploration of bio-marker, etc.

Nurturing next generation experts

R&D and Intellectual Property

CLT Business

Early introduction of new test items and technology

Led by SRL, we are pursuing early introduction and development of technology focusing on new and unique test items to meet the steadily growing demand for more sophisticated and complex testing technologies, such as for genome and DNA analysis.

Having put in place a system that can deal with pandemics including the COVID-19 outbreak, in fiscal 2020, ending March 31, 2021, we became the first private-sector testing company to launch a commissioned PCR testing operation for detection of SARS-CoV-2.

Through strengthened collaboration with the R&D departments of Group companies, we are progressing with the development and introduction of state-of-the-art clinical tests to respond to the continuously evolving medical care needs and to the advent of personalized medicine. It was through partnership with Fujirebio that we were able to introduce SARS-CoV-2 antigen testing at an early stage. We will further strengthen this kind of collaboration going forward so that newly marketed clinical diagnostic products are simultaneously rolled out to SRL as test items, thus delivering effective clinical tests to medical institutions and their patients with utmost speed.

SRL and HRI are also actively working together to integrate AI, robotics, and other emerging technologies to further raise the standards of testing quality and technological capabilities. We will continue contributing to the ongoing development of medical care by working to realize high quality, low cost testing and analysis technologies.

IVD Business

Continuous creation of new diagnostic products and materials of clinical value

In the IVD business, Fujirebio, which has more than 50 years of experience in immunoassay-related domains, develops unique and brand-new products, including low molecular sandwich immunoassays*1 and iTACT®*2. Along with this, we are progressing with the development of next-generation platforms through Group collaboration. In fiscal 2020, to contribute to COVID-19 testing in a variety of clinical settings, in May we released Japan's first rapid antigen test kit, ESPLINE® SARS-CoV-2, followed in June by the world's first fully automated high-sensitive quantitative antigen test reagent, Lumipulse® SARS-CoV-2 Ag, and in November by Lumipulse® Presto SARS-CoV-2 Ag, a reagent for high-volume processing.

Going forward, we will continue to develop new clinical diagnostic products and materials of clinical value.

*1 Existing immunoassays using low molecular sandwich immunoassay methods (non-competitive format using two or more antibodies), which often focus on hormones or vitamins, are becoming increasingly problematic. The H.U. Group has applied its sophisticated antibody production technology and assay (reagent) expertise to create a technological platform that makes it possible to conduct low molecular immunoassay using the same principles as the current methods but producing more accurate and highly reproducible measurements.

*2 iTACT® (immunoassay for total antigen including complex via pretreatment) is an innovative technology developed by the Group that incorporates preprocessing of specimens to enable more accurate measurements of the target substances than existing technologies. By maintaining a rich development pipeline in diverse fields, we are contributing to more accurate diagnosis.

Fujirebio Market Releases in FY2020 and Future Development Pipeline (Partial)

Product	Field	Reagents released in FY2020	Reagents for future release
LUMIPULSE series	Infectious disease	SARS-CoV-2 Ag, Flu-A&B	SARS-CoV-2 Ab, iTACT HBcrAg
	Dementia		Amyloid ß (Japan), Tau (Japan), pTau (Japan)
	Hepatic fibrosis	Type IV collagen 7S	
	Bone-related		25OH vitamin D (L2400)
	Other	SCC	PGE-MUM (IVD), TDM-related
ESPLINE series	Infectious disease	SARS-CoV-2 Ag	SARS-CoV-2 Ab



Intellectual Properties

H.U. Group Holdings' Intellectual Property Department conducts the centralized management of the intellectual properties of Group subsidiaries, centered on Fujirebio and SRL, and related companies in Japan and overseas. Through this structure, the H.U. Group maximizes the internal use of its intellectual properties while minimizing the risk to the properties. In recent years, the Group has been actively supporting and protecting HRI's efforts to apply new technologies to generate innovation for research in an expanding range of areas.

Patents

The H.U. Group as a whole held some 836 patents as of the end of fiscal 2019. Group companies submitted 48 new patent applications in fiscal 2019, including 15 related to AI and IoT.

Part III

Management Foundation





Section Contents

- Participation in the United Nations Global Compact and Contribution to SDGs
- Identifying Materiality (Fiscal 2020 Revision)
- Governance
  - Corporate Governance
  - Risk Management
  - Compliance
  - Directors and Officers
  - Viewpoints of Outside Directors
- Environment and Society
  - Promotion Structure for CSR
  - CSR Roadmap
  - Environment
  - Human Rights & Human Resources
  - Procurement
  - Philanthropy / Communication / BCP

Participation in the United Nations Global Compact and Contribution to SDGs

Participation in the United Nations Global Compact

On March 15, 2019, the H.U. Group participated in the United Nations Global Compact, a global initiative to realize sustainable growth in the international society. The Group engages in corporate social responsibility (CSR) activities through our businesses. We support the Ten Principles of the United Nations Global Compact, which encompass human rights, labour, the environment, and anti-corruption.

Participation in Global Compact Network Japan

The H.U. Group participates in the activities of Global Compact Network Japan (GCNJ), the local network of the United Nations Global Compact in Japan. The GCNJ engages in working group activities on a range of topics to learn from the efforts of different companies and scholars and discuss/share information on sustainability approaches and initiatives. In fiscal 2019 (ended March 31, 2020), 13 employees of the H.U. Group from relevant departments participated, and 11 participated in fiscal 2020.

Working Groups Joined in Fiscal 2019 and 2020

- ESG Working Group
- GC Internal Promotion Working Group
- SDGs Working Group
- Reporting Working Group
- Supply Chain Working Group
- Environmental Management Working Group
- Human Rights Education Working Group
- Disaster Risk Reduction (DRR) Working Group
- Anti-corruption Working Group

Contribution to SDGs

The H.U. Group will contribute to the achievement of the four Sustainable Development Goals (SDGs) targets below by working on solutions to social issues through its main business.

WE SUPPORT UN GLOBAL COMPACT

SDG targets

3 GOOD HEALTH AND WELL-BEING	**3.8**	Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
8 DECENT WORK AND ECONOMIC GROWTH	**8.2**	Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**9.1**	Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**12.4**	By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

Identifying Materiality (Fiscal 2020 Revision)

Definition of Materiality

Among assets that generate corporate value, intangible assets such as human resources, patents, expertise, and the brand are becoming increasingly important, not merely tangible assets including the production equipment to expand production and the facilities to conduct high-efficiency inspections. The H.U. Group's definition of materiality as those elements that impact the creation of corporate value in the medium term covers general intangible assets including customer assets, intellectual property, and the brand, going beyond the standpoint of environment, society and governance (ESG).

Steps for Identification

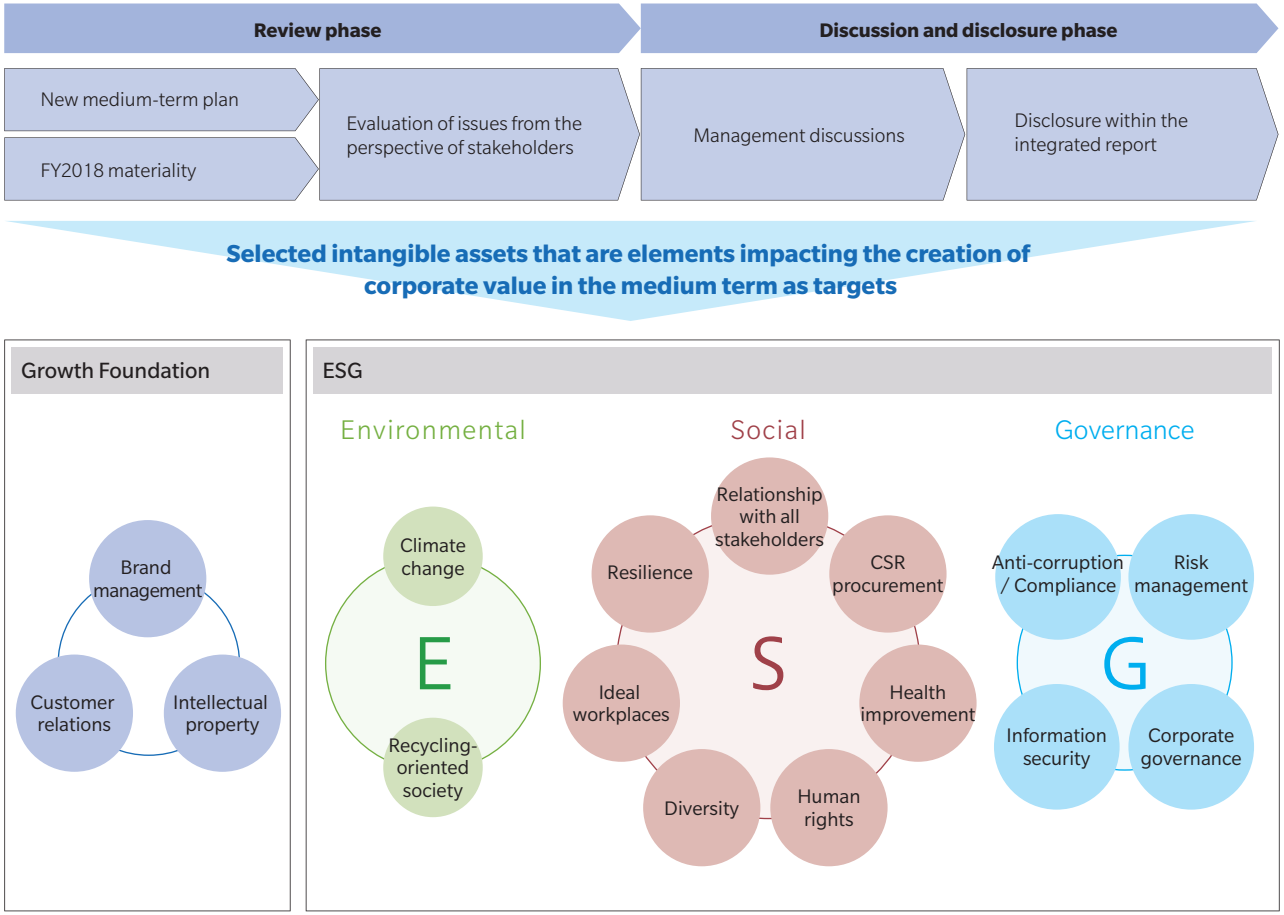
Based on the materiality established in fiscal 2018, and mainly taking into account ISO 26000*1 and GRI Standards*2, we evaluated the priority from the perspective of our stakeholders in accordance with our new medium-term plan, which addresses changes in the business environment.

Our management engaged in discussions accordingly and, following approval by the President and Group CEO, we disclosed our new materiality in this integrated report.

*1 ISO 26000: A standard providing guidelines for social responsibility set forth by the International Organization for Standardization (ISO) in collaboration with the United Nations, various national governments, nongovernmental organizations and others. It applies not only to companies but also to all kinds of organizations.

*2 GRI Standards: Guidelines related to the disclosure of non-financial information published by the Global Reporting Initiative (GRI), which establishes international standards on sustainability.

Steps for Identification and Results of Selection



Governance

Corporate Governance

Basic Approach to Corporate Governance

We in the H.U. Group bring about greater managerial efficiency based on our stated Mission to "Create new value in healthcare and thereby contribute to human health and the future of medical care," along with our Vision and Values. We fully recognize the vital importance of cooperation encompassing a wide range of stakeholders both inside and outside the Group. Accordingly, we are committed to the establishment of a corporate governance structure that encourages greater managerial transparency and accelerates proper decision-making.

Corporate Governance Structure

Overview of our corporate governance structure and the reason for its adoption

We fully recognize the importance of strong and thorough corporate governance, and are committed to the establishment of a governance structure that encourages greater transparency and accelerates proper decision-making at all levels of oversight, management and operation.

As such, following the adoption of a "company with committees" (now "a company with three committees") system on June 27, 2005, the Company transitioned to a holding company structure that performs centralized oversight of the Group as of July 1, 2005. We adopted this management configuration with the aim of achieving clear separation of oversight and executive functions, establishing an implementation structure capable of operating with greater speed and enhancing oversight of Group companies.

Under this configuration, we have established three committees: the Nominating, Audit and Compensation committees, in accordance with laws and ordinances.

At the Board of Directors meetings, board members receive reports from each committee and from the executive officers providing information on current corporate operations and target management achievements. The Board of Directors is thus able to provide timely comprehension and oversight of corporate management information. Among the eight members of the Board of Directors, five are outside directors, each of whom is recognized as a leader in his or her respective field.

The Board of Directors and appointment of directors

The Company appoints candidates for outside directors from the perspective of their: 1) capacity to manage based on knowledge and experience in wide ranging fields outside the scope of business experience gained within the Company, 2) due recognition of the role management should play in society, while not placing disproportionate emphasis on interests of management or certain stakeholders, and 3) ability to properly oversee the management in the execution of its duties. Moreover, the Company appoints candidates for outside director primarily from a wide range of fields, as follows:

- Experience as managers of operating companies;
- Experts in public administration in the fields of medical services, insurance, etc.;
- Experts in corporate and business law, corporate accounting and corporate finance;
- Experts in providing advice and support to corporate management; and
- Experience as managers of global business operations.

The Company appoints as candidate for outside director those who have been nominated by the Nominating Committee upon having determined that they have the aforementioned experience, while also showing that they are capable of maintaining independence from management and possess character and insights befitting an outside director.

The Company appoints as candidate for internal director those who have been nominated by the Nominating Committee on the basis of the criteria listed below:

- Possess expertise related to the Company's business operations;
- Exhibit outstanding capabilities for making business decisions and management execution;
- Exhibit outstanding capabilities in terms of leadership, decisiveness, foresight and planning; and
- Possess character and insights befitting a director.

As a basic rule, a majority of the Company's directors are to be outside directors with high independency. The Company deems that no more than 10 directors should serve on the Board of Directors in order to ensure lively and substantive discussion.

Governance structure

Outside directors are nominated to chair our Nominating Committee, Audit Committee, and Compensation Committee. Outside directors account for a majority of the members on each committee, with our Audit Committee in particular comprised entirely of outside directors.

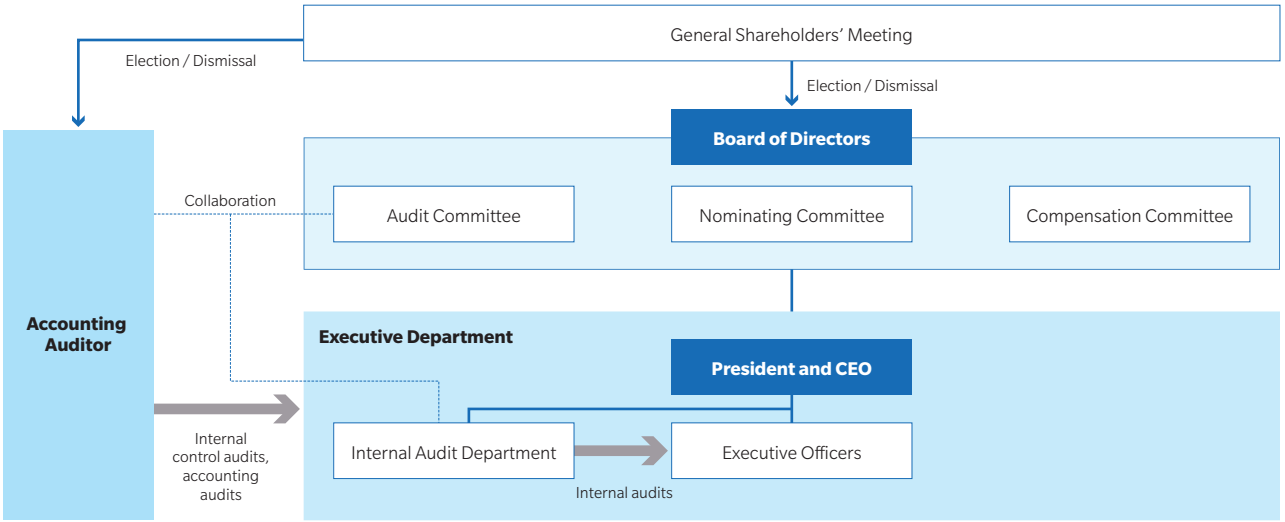
The Audit Committee consists of three committee members and one secretariat. Each committee member participates in major meetings of the Risk Management Committee and other committees. Each member also holds a regular liaison conference with the Internal Audit Department and auditors of the relevant operating companies and directly conducts audits on the execution of duties as necessary, and the results of such activities are regularly reported to the Board of Directors. The Audit Committee exchanges ideas regularly with the Accounting Auditor by requesting auditors to explain and report the initial audit plan, status of audits during the term and results of the year-end audit.

Futomichi Amano, who is the chairman of the Audit Committee, is a qualified certified public accountant who has considerable knowledge when it comes to financial affairs and accounting.

Governance

Corporate Governance

Corporate Governance Structure



Matters regarding ensuring appropriate execution of business operations of the corporate Group

We ensure subsidiaries execute business operations appropriately by administering and managing subsidiaries pursuant to the management rules of the subsidiaries and affiliates and agreement on responsibilities and authorities of the officers of the subsidiaries.

In addition, we have established a management structure with the following framework to ensure the appropriate execution of business operations by the corporate Group:

- The structure covers the Company and its principal operating subsidiaries;
- The objective is the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations related to business activities;
- Promote risk management for the entire corporate Group based on the Risk Management Rules;
- Prepare a flowchart for principal operational processes including subsidiaries to standardize operations and carry out appropriate responses to risks;
- The Internal Audit Department will conduct audits for the internal control system.

The internal audit departments of the Group companies report and exchange opinions on a regular basis and hold an audit liaison conference regularly in order to enhance cooperation between the Audit Committee and auditors of the Group companies.

Matters regarding managing risk of loss

We have developed a risk management system based on the Risk Management Rules and the Rules of the Risk Management Committee. This system is used by the Risk Management Committee to manage the risk of loss.

Evaluating the Effectiveness of the Board of Directors

The Board of Directors considers it important to adopt a third-party perspective in its processes for evaluating its own effectiveness, and this evaluation process is carried out once a year in order to verify said effectiveness. As such, in fiscal 2019, ended March 31, 2020, it brought on board an independent, third-party organization to serve as an advisor in performing evaluations related to a number of different matters. Said matters include the composition of the Board of Directors; its effectiveness (including monitoring how it carries out work); the effectiveness of the Nominating, Compensation, and Audit committees; the management of the Board of Directors, structures related to support and coordination by outside directors; and relations with shareholders and other stakeholders. The evaluations were carried out by ensuring impartiality by following a process of having seven directors respond to questionnaires and having a third-party organization tabulate and analyze the responses under conditions in which anonymity was guaranteed.

The evaluation results were discussed in May 2020 by every member of the Board of Directors, and efforts were made to deepen understanding regarding the Board's strengths and to share information regarding its effectiveness, the roles it should play, and coordination with how it carries out its work. Moving forward, we plan to continue making improvements based on discussions at the Board of Directors meeting in an effort to further improve its functionality.

Governance

Corporate Governance

Addressing the Corporate Governance Code

We do not implement "Principle 2-6 Roles of Corporate Pension Funds as Asset Owners" of Japan's revised Corporate Governance Code published on June 1, 2018.

In April 2019, we introduced a lump-sum retirement benefit program and defined contribution pension plan, while moving our previous defined benefit plan to a closed corporate pension fund. As the administrator of the corporate pension plan, we ensure the plan is operated using an appropriate structure and we have established venues for periodic reporting of asset management results. However, decisions on the selection of investment targets and the exercising of voting rights is entrusted to an investment institution, and given our awareness that engagement is an issue in terms of stewardship, we provide an explanation regarding our non-compliance with this principle.

H.U. Group Holdings complies with all other principles of Japan's Corporate Governance Code.

Reason for the selection of outside directors

We have five outside directors at our company.

Shigehiro Aoyama has been involved in the management of Suntory Holdings Limited over a long period of time, and offers invaluable advice to our company based on his wealth of experience and widespread knowledge on corporate management cultivated through this. As such, we determined that he is qualified to serve as an outside director.

Futomichi Amano has been involved in auditing as a certified public accountant and the management of Deloitte Touche Tohmatsu LLC for a long period of time. He is an expert with a wealth of knowledge on accounting cultivated from this that he offers for the management of our company. As such, we determined that he is qualified to serve as an outside director.

Ryoji Itoh is a university professor. He is also an expert who offers his knowledge cultivated through his wealth of experience as a business consultant and corporate manager for the management of our company. As such, we determined that he is qualified to serve as an outside director.

Eriko Matsuno is an expert who can offer her opinions to our management team from her perspective as a lawyer who is well versed in corporate legal affairs and compliance. As such, we determined that she is qualified to serve as an outside director.

Susumu Yamauchi is a professor who has taught Western legal history at a university. He is also an expert who offers his wealth of experience and extensive knowledge as the President of Hitotsubashi University for the management of our company. As such, we determined that he is qualified to serve as an outside director.

Determining the independence of outside directors

We determine the independence of outside directors on the basis of criteria for independence established by the Tokyo Stock Exchange.

We emphasize objectivity, neutrality, and expertise in our outside directors, and recognize their role in supervision to ensure that management fairly recognizes the roles that the company plays in society and that managers carry out their professional duties in a reasonable and appropriate manner free from bias toward the interests of managers or specific shareholders. We appoint outside directors from the perspective of having them put their knowledge and experience in different fields to use in the Company's management and expect that the aforementioned directors will play an independent role in governance.

Compensation for Directors and Executive Officers, etc.

Policy and determination methods on amounts of compensation for directors and executive officers or calculation method thereof

The Company, at the Compensation Committee, has established the following policies for determining compensation for respective directors and executive officers of the Company and determines the amounts and other conditions of compensation, etc. for respective directors and executive officers in accordance with these policies.

1) Approach to compensation for directors and executive officers, etc.

Compensation for directors and executive officers of the Company will be paid in the form of fixed-amount compensation based on official responsibilities in consideration of the scope and degree of responsibility for group management and other aspects, and will not be paid in the form of retirement benefits at the time of retirement. The amount of performance-based compensation will be changed depending on business results, with net sales, operating profit, net profit and other figures employed as criteria for determining results.

Directors serving concurrently as executive officers will receive compensation as executive officers.

i) Directors' compensation

Directors' compensation will be determined as nil, or as a combination of fixed-amount compensation and share-based compensation in consideration of the duties of the respective directors. Reasonable upper limits will be set for the amount of payment in light of the economic situation, the Company's conditions and the duties of the respective directors.

The Company will pay compensation to outside directors, based on the details of their supervision activities, in addition to the combination of prescribed fixed-amount compensation and share-based compensation.

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ii) Executive officers' compensation

Executive officers' compensation will be determined in combination of fixed-amount compensation, performance-based compensation and share-based compensation in consideration of the duties of the respective executive officers. An upper limit that is considered reasonable in light of the economic situation, the Company's conditions and the duties of the executive officers will be set for the amount of payment.

2) Compensation system

Compensation received by directors and executive officers of the Company shall be determined by a resolution of the Compensation Committee in light of the economic situation, the Company's conditions and the duties of the respective directors and executive officers, and based on the H.U. Group Officers' Compensation Rules, Rules of Compensation for Directors Not Serving Concurrently as Executive Officers, and Rules of Compensation for Outside Directors.

Compensation for directors and executive officers consists of basic compensation which is fixed monetary compensation; restricted stock compensation, which is fixed stock compensation; performance-based compensation, in which the monetary compensation fluctuates in accordance with the degree of progress toward achieving performance targets over the short term; and trust-type share-based compensation, which is stock compensation linked to performance targets over the medium to long term. The breakdown of standard compensation ratios by titles is provided in the table below.

i) Basic compensation

Although the benchmark for compensation is their titles, compensation is paid to executive officers after taking into account how each of them has performed in his or her duties, etc. In addition to the prescribed fixed compensation, compensation is paid to directors in accordance with the details of their supervisory activities.

ii) Restricted stock compensation

As well as providing an incentive to seek sustainable improvements in the Group corporate value, restricted stock compensation is provided to directors to further promote shared value with shareholders.

(1) Overview of restricted stock compensation scheme

- The Company grants monetary compensation claims to its executive officers, and the executive officers use these monetary compensation claims in their entirety to make an investment in kind in the Company, and are in turn issued with common shares of the Company (restricted stock).
- The amount of monetary compensation claims granted to each executive officer is determined by the Company's Compensation Committee. In addition, the details of issuance of restricted stock, etc., are determined by the Company's Board of Directors.
- The amount paid in per share of restricted stock is based on the closing price for the common shares of the Company on the Tokyo Stock Exchange on the business day before the day of the Board of Directors' resolution in relation to the details of the issuance of restricted stock, etc. (in the event that no transactions were made on that day, the closing price on the most recent transaction day), and is determined by the Board of Directors of the Company within a range that does not offer a particularly advantageous amount to the executive officers receiving the stock.

(2) Main features of the restricted stock allotment agreement

When issuing restricted stock, the Company and the executive officers of the Company enter into a restricted stock allotment agreement. The main features of the agreement are as follows:

- Executive officers of the Company shall not, for a period of three years from the day on which they receive an issuance of restricted stock (hereafter, "the restricted period"), transfer, create a security interest on, or in any other way dispose of the restricted stock they have been allocated.
- In the event that certain grounds arise, the restricted stock allotted to the executive officers shall be acquired by the Company without contribution.
- In order to prevent the transfer, creation of security interest, or disposal in any other way of the restricted stock allocated to executive officers of the Company, during the restricted period the restricted stock shall be managed in dedicated accounts, opened by the executive officers, at a financial instruments business operator designated separately by the Company.

Title	Fixed compensation		Short-term performance-based compensation	Medium- to long-term performance-based compensation
	Monetary	Shares	Monetary	Shares
	Basic compensation	Restricted stock compensation	Performance-based compensation	Trust-type share-based compensation
President and CEO	0.44	0.11	0.22	0.23
Executive Vice President	0.48	0.08	0.24	0.20
CFO	0.50	0.08	0.25	0.17
Executive officer	0.50–0.66	0.07–0.09	0.20–0.25	0.07–0.17
Director (excluding directors serving concurrently as executive officer)*	1.00	0.00	0.00	0.00

*Stock compensation was not provided to outside directors as directors' compensation in the fiscal year under review, because they fall under the above category of "Director (excluding directors serving concurrently as executive officer)."

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iii) Performance-based compensation

In terms of short-term performance-based compensation, performance-based compensation shall be paid based on single-year performance, and on individual evaluation.

Evaluation of single-year performance will be based on the consolidated performance, but performance-based compensation for the executive officers in charge of CLT and the IVD shall also take into account the evaluation of CLT segment and IVD segment performance, respectively. The breakdown of performance-based compensation by titles is as shown to the right.

Title	Performance evaluation items		
	Single-year performance*1		Individual evaluation*2
	Consolidated group performance	CLT segment performance IVD segment performance	
President and CEO, Executive Vice President, and CFO	100%	—	—
Executive officers (excluding executive officers in charge of CLT and IVD)	80%	—	20%
Executive officers in charge of CLT and IVD	20–40%	60%	0–20%

*1 With regard to "single-year performance" among performance evaluation items, these take into account the degree of progress toward targets for profit attributable to owners of parent, with a view to promoting management that is aligned with shareholder interests, while balancing growth of net sales and operating profit, in respect of which performance evaluation indicator for "single-year performance" has been set, as shown below. The setting of specific criteria for evaluation, changing of those criteria, and determining performance-based compensation shall be resolved by the Compensation Committee.
*2 With regard to "individual evaluation" among performance evaluation items, the President and CEO will conduct a comprehensive evaluation of the status of execution of each executive officer's duties on a person-by-person basis and then create a draft proposal, with the Compensation Committee determining compensation within a range fluctuating from 0% to 200% of the standard payment amount for each title.

Performance evaluation items	Performance evaluation indicator	Weight	Targets	Range of variation in payment
Consolidated group performance	Consolidated net sales	50%	Year-on-year growth rate	0%–200%
	Consolidated profit	50%	Absolute amount stipulated in advance	0% to no upper limit
CLT segment performance	CLT net sales	50%	Year-on-year growth rate	0%–200%
	CLT operating profit	50%	Absolute amount stipulated in advance	0% to no upper limit
IVD segment performance	IVD net sales	50%	Year-on-year growth rate	0%–200%
	IVD operating profit	50%	Absolute amount stipulated in advance	0% to no upper limit

With regard to net sales indicators, if targets are 100% achieved then 100% of the standard amount will be paid, so that it fluctuates by 0% to 200%. With regard to profit and operating profit indicators, if targets are 100% achieved then 100% of the standard amount will be paid, fluctuating from 0% upward, with no upper limit.

Governance

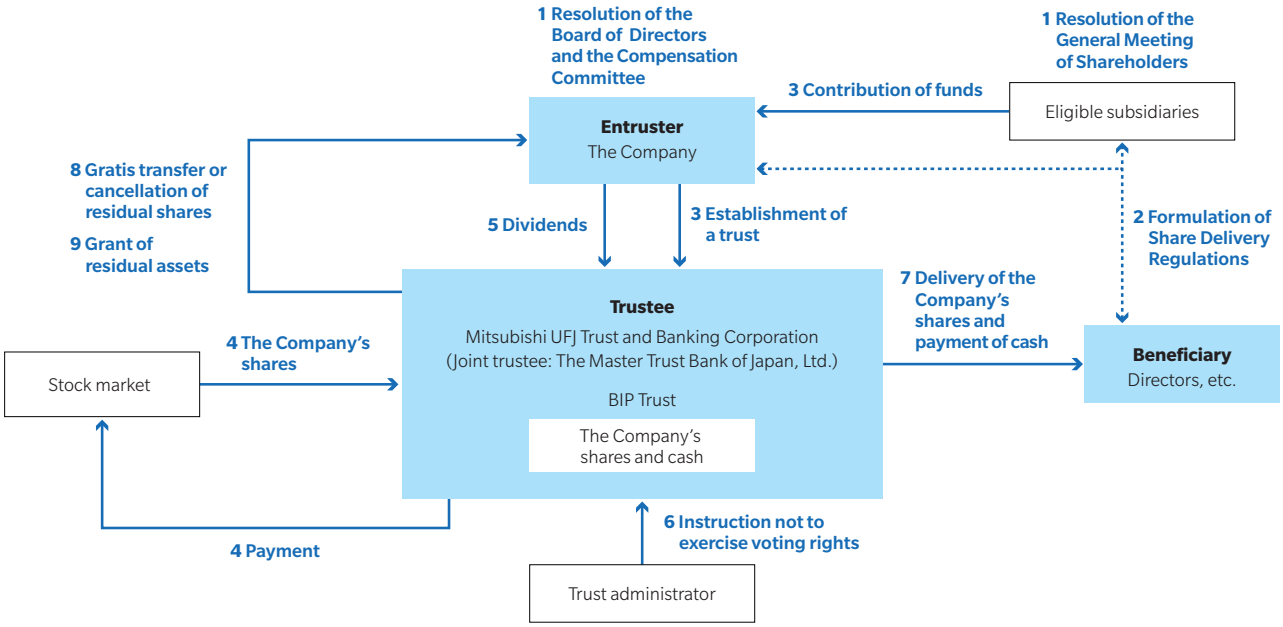
Corporate Governance

iv) Trust-type share-based compensation

By linking compensation for executive officers of the Company to the degree of progress toward targets set out in the medium-term plan, the Company aims to raise awareness of the need to contribute to improving performance over the medium- to long-term and enhancing corporate value, to which end it will provide trust-type share-based compensation.

(1) Overview of the trust-type share-based compensation scheme

As is the case with the performance-linked share-based compensation seen in the U.S. and Europe (performance shares), the trust-type share-based compensation is a scheme in which the shares of the Company or the amount of money equivalent to the converted value of the shares of the Company are delivered or provided, in accordance with their titles and the degree of progress toward performance targets.



1 The Company has obtained approval from the Board of Directors and the Compensation Committee for the introduction of the trust-type share-based compensation scheme and the compensation for directors and executive officers.

2 In relation to the introduction of the trust-type share-based compensation scheme, the Company has formulated "Share Delivery Regulations" regarding compensation for directors and executive officers at a meeting of the Compensation Committee.

3 The Company shall combine a sum of money, the value of which is within a range approved by a resolution of the Compensation Committee, with the monetary contributions received from each eligible subsidiary and entrust this to a trust bank (the "Trustees") in order to set up a trust ("the Trust"), the beneficiaries of which shall be directors, etc. of eligible companies (including executive officers of the Company; hereinafter the same shall apply) who satisfy the requirements for beneficiaries.

4 The Trustees of the Trust have, in accordance with the instructions of the trust administrator, obtained the Company's shares from the stock market using the money contributed as in 3 as funds.

5 Dividends shall be paid in relation to the Company's shares held within the Trust in the same way as for other shares of the Company.

6 For the Company's shares held within the Trust, voting rights shall not be exercised through the trust period.

7 During the trust period, a certain number of points shall be granted to directors, etc., in accordance with their titles and the degree of progress toward performance targets. For directors, etc. who satisfy a certain level of beneficiary requirements, shares of the Company, or the amount of money equivalent to the converted value of the shares of the Company, shall be delivered or provided in accordance with the number of points granted.

8 In the event that residual shares remain at the expiry of the trust period due to performance targets not being achieved or for some other reason, the Trust shall either continue to use them for a new stock compensation scheme as a result of a change in the trust agreement or additional trusts being made, or the Trust shall transfer the residual shares to the Company without contribution, after which acquisition, it is expected that they will be canceled by a resolution of the Board of Directors.

9 When the Trust comes to an end, any assets remaining after distributions to beneficiaries are expected to be vested in the Company (which is the holder of vested rights), within the scope of the reserve for trust expenses, which are calculated by deducting funds to purchase stock from trust money.

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Corporate Governance

(2) Number of shares to be delivered, etc. (including shares that are subject to conversion)

In principle, on June 1 for each year during the trust period, a certain number of points shall be granted to the executive officers of the Company in relation to the fiscal year that ended on March 31 of that year. The number of points shall be determined based on the individual's title and the degree of progress toward targets for consolidated net sales, consolidated operating profit and year-on-year growth in consolidated net sales for each fiscal year of the medium-term plan. Around the month of July after the ending of the target period (for the first time, this will be around July 2023), the number of shares, which is the basis for delivery, etc., of the Company's shares, etc. (hereinafter, "stock delivery points"), shall be determined based on the total number of points for the three years. The number of shares of the Company per point shall be one share.

(3) Number of points granted per year

The method used to calculate the number of points granted per year is as follows.

(Calculation formula)

Number of points granted (per year) = Standard points[*1] x Performance-linked coefficient

Performance-linked coefficient = Granted percentage for consolidated net sales[*2] x 0.4 + Granted percentage for consolidated operating profit[*2] x 0.4 + Granted percentage for year-on-year growth of consolidated net sales[*3] x 0.2

The target of the current medium-term plan is to balance growth of net sales and operating profit, so the performance-linked coefficient has been set as shown above.

*1 "Standard points" are calculated by dividing the standard amount of trust-type share-based compensation determined for each title, by the closing price of ¥2,449 on the day before July 17, 2020, the date on which the Compensation Committee resolved to revise the Share Delivery Regulations.

*2 Based on the "Share Delivery Regulations" set out beforehand as they relate to trust-type share-based compensation, the granted percentage is determined by dividing the consolidated group results for each fiscal year by the consolidated targets for each fiscal year of the medium-term plan.

*3 Based on the "Share Delivery Regulations" set out beforehand as they relate to trust-type share-based compensation, the granted percentage is determined by dividing consolidated net sales for each fiscal year by the consolidated net sales of the previous fiscal year.

(4) Conditions for delivering shares/providing money

In the event that executive officers of the Company meet the conditions laid out below (hereinafter, "share delivery conditions"), the right to receive delivery of shares of the Company or provision of the proceeds of selling such shares, shall be settled on the record date for beneficial rights prescribed in the "Share Delivery Regulations."

	Conditions for delivering shares
1	Cases where for the duration of the target period, the individual continuously holds the position as either a director (excluding outside director), an executive officer of the Company, or as a director (excluding outside director) of a domestic subsidiary of the Company (hereinafter "eligible officers")
2	Cases where, during the target period, the eligible officer resigns from the position for reasons such as the expiry of his or her term, retirement, or some other justifiable reason
3	Cases where the individual dies during the target period
4	Cases where the individual becomes a non-resident of Japan during the target period
5	Cases where, at the time the scheme is abolished, the individual is serving in any of the positions of an eligible officer

However, in cases where executive officers of the Company fall under any of the following categories before the record date for beneficial rights, or in any equivalent cases, the delivery of shares of the Company or the provision of proceeds of selling such shares, in accordance with the trust-type share-based compensation scheme, shall not be carried out.

	Details
1	Cases where there have been material violations of the individual's responsibilities as an executive officer, or material violations of internal rules
2	Cases where the individual resigns from any and all the positions of the eligible officer regardless of the will of the Company, or for personal or some other unjustifiable reason (however, they shall exclude situations caused by unavoidable circumstances, such as sickness)
3	Cases where the individual is dismissed due to behavior corresponding to a reason for the dismissal of an executive officer
4	Cases where the individual takes up work at a competitor without the approval of the Company

Governance

Corporate Governance

Persons with decision-making authority in relation to policy for determining the amount of compensation for directors and executive officers or calculation method thereof

Because the Company is a "company with three committees" under the Companies Act, it has set up a Compensation Committee as an organization based on the Companies Act, in which the committee chair is an outside director, and outside directors form a majority of committee members.

1) Details of the Compensation Committee's authority and scope of discretion

The Compensation Committee determines the amount of compensation, etc. for executive officers and directors of the Company based on laws and regulations, the Articles of Incorporation and relevant rules of the Company.

2) Details of the Compensation Committee's activities during the process of determining compensation, etc., for directors and executive officers

The Compensation Committee meets at a frequency of about once every two months.

On June 23, 2020, the Compensation Committee unanimously passed a resolution approving "the H.U. Group Officers' Compensation Rules," and the determining amounts for basic compensation of different individuals.

Next, in relation to restricted stock compensation, the Committee unanimously passed a resolution on July 17, 2020 approving amounts to be granted to different individuals, and the number of shares to be allotted, in accordance with "the H.U. Group Officers' Compensation Rules."

Moreover, in relation to trust-type share-based compensation, the Committee unanimously passed a resolution on May 26, 2020 approving points to be granted to different individuals in relation to results for fiscal 2019, in accordance with "the H.U. Group Officers' Compensation Rules" and achievement ratios of the performance achievement indicators.

With regard to performance-linked compensation for fiscal 2019, the Committee unanimously passed a resolution on May 26, 2020 approving payment amounts for different individuals, in accordance with "the H.U. Group Officers' Compensation Rules" and achievement ratios of the performance achievement indicators.

In addition, all resolutions of the Compensation Committee are made after excluding any persons having a relationship of special interest.

Securing Shareholder Rights and Equality

We implement the following measures to secure the rights of our shareholders and ensure that they can properly exercise said rights at regular general meetings of shareholders.

(1) To ensure that our shareholders can properly exercise their voting rights, we send convocation notices and attached documents three weeks prior to regular general meetings of shareholders. Ahead of this, we electronically disclose said materials on the website of the Tokyo Stock Exchange and our own website. We also disclose English versions of the convocation notice together with this.

(2) The schedule for general meetings of shareholders is set by avoiding busy dates on which many companies hold meetings to limit disruptions. In addition, we have adopted an electronic voting system and provide detailed e-voting guidance in convocation notices.

For shares held as part of cross-shareholdings by H.U. or our Group companies, we confirm their consistency with our strategic objectives based on the results of assessments performed by our Board of Directors on each company share held. We have not adopted any anti-takeover measures.

Dialogue with Shareholders

For institutional investors and analysts, the Company holds financial results briefings after the first half and at the end of each fiscal year and holds conference calls during the first and third quarters.

The Company actively engages with them through investor relations (IR) activities to build trusted relationships and mutual understanding, thereby improving our corporate value over the medium to long term.

In addition, we identify the composition of shareholders on the shareholder registry quarterly and outsource a survey to better understand beneficial shareholders. For our primary beneficial shareholders, the Company conducts shareholder relations (SR) activities to share the Company's management situation and provides updates on business performance from both financial and non-financial points of view.

These IR and SR activities are promoted and overseen by the CFO. Requests for dialogue from shareholders and investors are handled through proactive communication by our IR/SR Department as well as through direct dialogue with the CEO and CFO. Feedback and insight obtained through dialogue are reported to executive management and the Board of Directors for further corporate value improvement, and management structure enhancement.

Furthermore, in order to earn trust and fair evaluations from equities markets, the Company has established disclosure regulations and an IR policy to avoid selective disclosure of material information.

Governance

Risk Management

Basic Approach to Risk Management and Management Structure

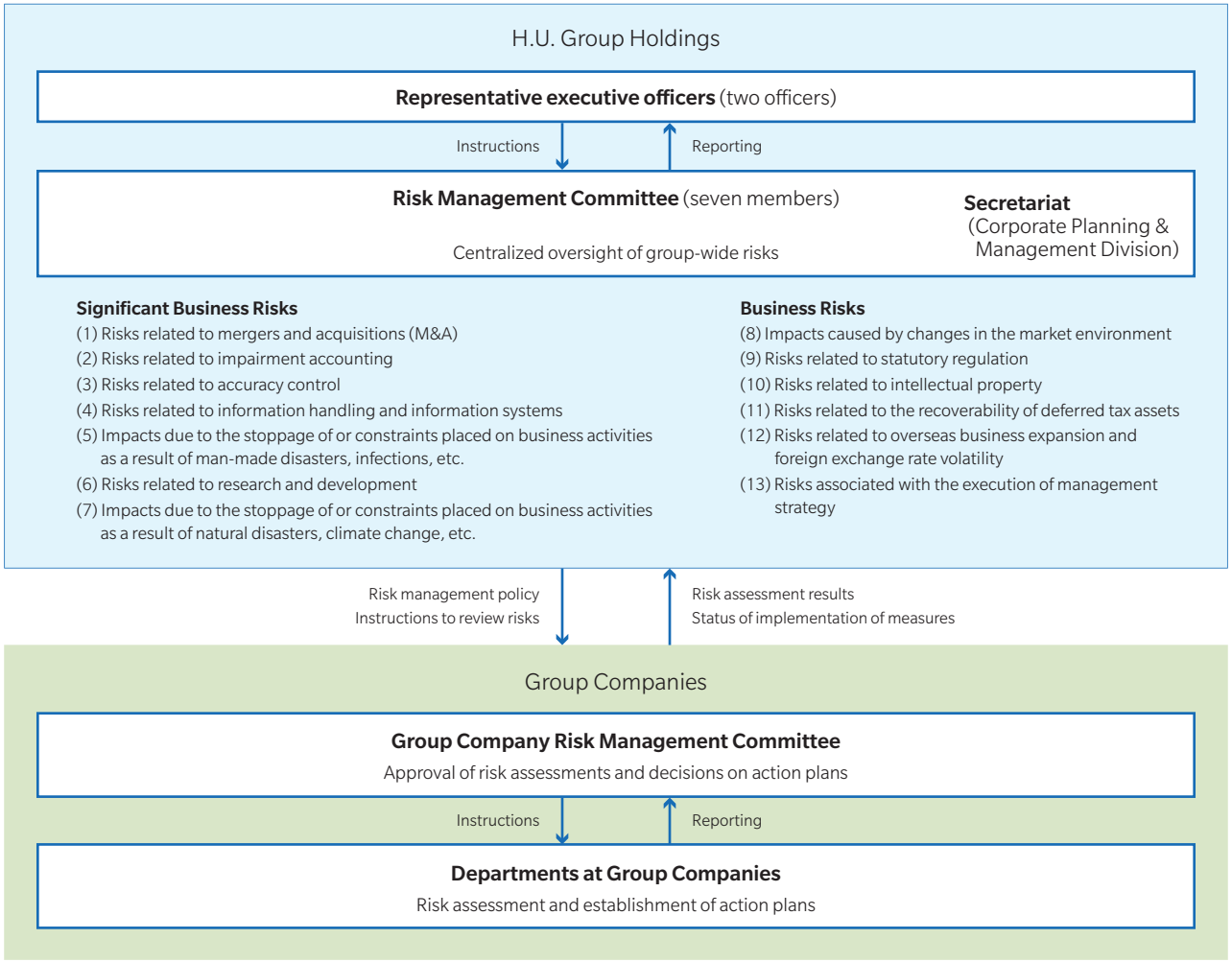
Risk is managed according to a uniform policy that applies to the entire H.U. Group as defined in the risk management structure within the Risk Management Rules.

The Risk Management Committee was established with the purpose of promoting risk management for the Company and the entire Group. The committee is chaired by the CFO and comprises executive officers other than the representative executive officers. It meets at least annually, with the results reported to the Board of Directors. The committee's detailed activities include:

(1) Centralized oversight of the risk management of each Group company;
(2) Identification of risks facing the entire Group and risks pertaining to the misconduct of management, as well as management of control execution;
(3) Identification of risks that should be disclosed and management of control execution; and
(4) Matters concerning the risk management of the Company.

The Company and its Group companies also conduct risk management through the Risk Management Committee or executive committees. This process involves risk identification, categorization of company-wide or business process risks, risk analysis and evaluation based on the possibility and degree of impacts, and risk response. Specifically, risks are managed using a Risk Control Matrix (RCM) and reported at least annually to the Risk Management Committee. In March 2020, we specified business risks including significant business risks. When specifying these risks, we included consolidated subsidiaries in the scope of assessment and selected risks by company that should be addressed with priority measures based on the size of the company, the risks specific to their business category and the severity of those risks. All members of the Risk Management Committee then assessed the selected risks on a five-level scale based on the impact and frequency/possibility.

Framework of Group Risk Management



Governance

Risk Management

Significant Business Risks

(1) Risks related to M&A

The Group considers and executes M&A deals in the fields of its existing businesses both inside and outside Japan as part of its growth strategy to enhance corporate value.

When executing M&A deals, each operating company, along with the Company's specialized departments, investigates and studies profitability and investment recoverability in advance. The Company also seeks the advice of outside experts such as lawyers and accountants when needed. However, acquired businesses may not meet expected targets due to sudden changes in their business climate or unforeseen circumstances post acquisition, which could have an adverse effect on the Group's business performance and financial condition.

(2) Risks related to impairment accounting

The Group owns a number of tangible and intangible fixed assets, including goodwill, as well as investment securities. Impairment is required in the event that the value of these assets declines or if their expected future cash flows are unlikely to occur. This could adversely affect the Group's business performance and financial condition.

(3) Risks related to accuracy control

The Group's accuracy controls are an extremely important element for maintaining the accuracy of testing results. The Group's primary Clinical Laboratory Testing (CLT) business companies participate in surveys by the Japan Medical Association, Japanese Association of Medical Technologists, Japan Registered Clinical Laboratories Association, and other public institutions to ensure thorough accuracy controls. In addition, the Company is focusing on establishing its own internal structure for improving testing quality, including acquiring certification for the service mark of the Japan Health Enterprise Foundation, College of American Pathologists (CAP), Clinical Laboratory Improvement Amendments (CLIA), and ISO 15189. The Company strives to prevent mistakes in the CLT business by developing a structure that can quickly identify events and consider their causes and countermeasures. Other preventative efforts include improving procedures, implementing automation, and increasing rigor in employee training.

However, if testing cannot be conducted appropriately due to human error or other unforeseen circumstances, the Group's business performance could be adversely affected due to declining test accuracy and loss of credibility.

(4) Risks related to information handling and information systems

The Group retains vast quantities of data, including personal and patient's testing information. As a result, one important management task is to ensure the security of this information and build a corresponding structure that complies with Japan's Personal Information Protection Act. As part of these efforts, SRL, Inc. acquired PrivacyMark certification in February 2005. SRL has also acquired the ISMS and ISO/IEC 27001 certifications for security countermeasures in information systems. The Group also utilizes multiple information systems for the execution of business. It strives to operate these in a stable manner, and to modify and upgrade aging systems. Further, it works to build information systems that help to prevent data leakages and to ensure their operational rules are well-understood so that this purpose can be achieved.

However, information systems can fail to operate normally due to software or hardware problems, human errors, disasters, criminal activities, cyberattacks, infection by computer viruses, or terrorism. These failures could result in exposure of personal information, large-scale stoppage of services, wrongful billing, delayed test reports, or loss of data, leading to lost credibility of the Group and its products and services, and furthermore adversely affect the Group's business performance.

The Group develops its own information systems for business execution. Efforts are being focused on reinforcing project management, including obtaining outside evaluations for system development by a third-party as needed. If development plans are delayed, development costs rise, or the planned functions cannot be implemented, the Group's business execution could be inhibited, and development costs may be unrecoverable.

(5) Impacts due to the stoppage of or constraints placed on business activities as a result of man-made disasters, infections, etc.

The Group's business performance could be adversely affected by fires, labor disputes, facility accidents or other man-made disasters at the Group's business locations. The Group's business performance could also be adversely affected by pandemics that interfere with our operations due to their high infectiousness and the serious health hazards they pose.

(6) Risks related to research and development

The Group continuously invests in research and development for the efficient and prompt development of new products and new technologies. Therefore, we established H.U. Group Research Institute G.K., where we streamline and accelerate basic research activities and centralize the handling of information. In addition, we actively gather information on market trends and technological developments by participating in academic societies inside and outside of Japan, as well as by incorporating the views of third parties as needed. Also, we reinforce our management system by conducting periodic reviews of internal R&D progress. However, expected outcomes may either be slow to reach or may be unattainable entirely. In addition, competitors may overtake us in a technological development. Furthermore, there may be instances where we must give up on research and development due to reasons such as not fulfilling the required standards for drug approval in terms of efficacy and safety during the research and development process. This could result in the inability to recover the costs associated with this research and development or could force changes in our research and development policy.

(7) Impacts due to the stoppage of or constraints placed on business activities as a result of natural disasters, climate change, etc.

The Group has established a business continuity plan (BCP) and allocated emergency-use facilities and stockpiled supplies in preparation for a large-scale natural disaster. However, the Group's business performance could be adversely affected in the event the Group's business sites or its customers such as medical institutions suffer damage from a large-scale typhoon, earthquake or other natural disaster. The Group's business performance could also be adversely affected in the event of tremendous physical damages arising from natural disasters due to climate change or the tightening of regulations on greenhouse gas emissions.

Click here for details, including other business risks.

Governance

Compliance

Promulgation of Code of Conduct

The H.U. Group has established a single code of conduct for the entire Group and requires its observance by all Group companies in order to strengthen group-wide compliance. English-, Chinese- and Vietnamese-language versions have also been prepared for overseas subsidiaries.

Click here for the full text of the Code of Conduct.

Promotion of Compliance Awareness

The H.U. Group has prepared a Compliance Handbook that is distributed to all employees, holds compliance training once a year, conducts an annual compliance survey, and distributes a monthly e-mail newsletter on compliance in order to promote understanding of compliance.

The Compliance Handbook was first published in 2016 and is used to raise awareness of compliance among employees, including reading sessions at each department. We update the handbook to reflect the latest compliance-related trends and social requirements while incorporating compliance-related contents into harassment training and other training programs, thereby raising awareness of compliance group-wide.

Additionally, we carry out e-Learning using shared tools available at each company as part of compliance training. Employees at workplaces that do not have access to the Internet take classes using paper-based materials.

Moreover, we send a compliance newsletter to all Group employees who are provided with company e-mail addresses. In fiscal 2020, ending March 31, 2021, we distributed material on the Power Harassment Prevention Act enacted in June to promote understanding within the Group.

	2016	2017	2018	2019
Compliance comprehension test-taking percentage	97.3%	99.0%	95.4%	94.5%



Compliance Handbook



Compliance newsletter

Compliance Promotion Structure

All Group companies have adopted the Group Code of Conduct, and the H.U. Group Holdings Compliance Committee keeps track of information and provides Group-wide instruction. As an advisory body for the representative executive officers, the Compliance Committee meets once a year under the structure shown in the figure to the right.

The committee receives reports on compliance with laws, regulations and the Code of Conduct from each Group company and provides appropriate instruction accordingly.

H.U. Group Holdings

Compliance Committee

Chairman: Executive Officer in charge of Legal Affairs
Members: All executive officers (excluding the President and CEO) and the general manager of the Legal Department

- Dissemination of and education on the Code of Conduct
- Monitoring of compliance with the Code of Conduct
- Establishment of various programs and measures for compliance with laws, regulations and the Code of Conduct and respect for corporate ethics
- Addressing violations of laws, regulations and the Code of Conduct
- Providing instructions for addressing or independent investigation of violations

Whistleblowing System

It is important to avoid damage to the corporate image or credibility by quickly discovering compliance problems related to the Company or its employees and addressing them while they are still small.

In 2013, the H.U. Group established the H.U. Group Hotline for all Group companies in Japan to report violations of the law, regulations, internal rules and the Code of Conduct. External consultants receive reports via telephone or the website, and reports can also be made anonymously. Serious matters are also reported to management as appropriate.

Governance

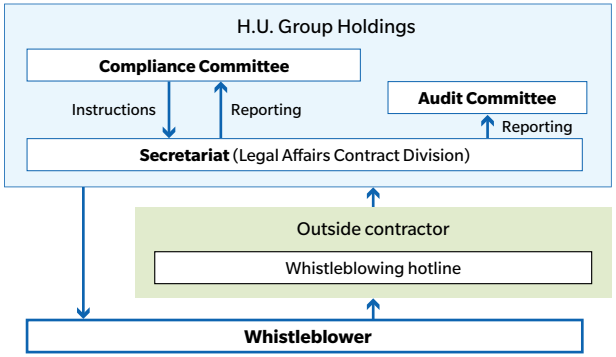
Compliance

The Legal Department reports to the Audit Committee (consisting of three outside directors) regularly on the status of whistleblowing cases.

Furthermore, we put up posters with the hotline information at all the Group companies to raise awareness of the whistleblowing system and help employees understand the purpose of the system and how it is run.

	2015	2016	2017	2018	2019
Number of reports made through the H.U. Group Hotline	36	59	104	109	125

Whistleblowing System





Posters to raise awareness

Preventing Corruption and Bribery

The H.U. Group has established policies to prevent corruption and bribery within the Code of Conduct on 6(1) "Relationships with Customers and Business Partners" and 6(3) "Anticorruption," and thus has familiarized employees with them.

Code of Conduct

6(1) Relationships with Customers and Business Partners

H.U. Group entertains or offers gifts to customers and business partners only within the scope of social norms, business practices and voluntary industry standards. H.U. Group shall not entertain or offer gifts if such action may have an impact on fair and free transactions even when the monetary value involved and the scope of action are deemed appropriate.

6(3) Anticorruption

It is H.U. Group's policy not to offer money or gifts to, or entertain, public officials and/or foreign public officials (including assembly members, candidates thereof, and any other persons who are treated under applicable law as government officials or employees) of any countries, with the intention of acquiring or maintaining business transactions, or receiving undisclosed information, or for the purpose of having an effect on the execution of duties by such public officials. We will also make efforts so that the acts will not be executed through agents, consultants and other parties that support our business activities.

As a measure to prevent corruption in fiscal 2019, we carried out a training program on the Group Code of Conduct and anticorruption for local officers of overseas business locations (Singapore, Vietnam and India).

Going forward, we will establish an anticorruption policy and work on preparing materials in each language to further promote these efforts.

As part of our anticorruption efforts, we conducted a compliance survey in January 2020 and asked whether respondents had seen or heard about misconduct in relationships with business partners.

We plan to conduct a similar survey in fiscal 2020 as we continue to work on preventing corruption and bribery.



Anticorruption training in Vietnam

Research Ethics

The H.U. Group has established the H.U. Group Research Ethics Committee as an independent body for neutral and fair review of the clinical tests and research conducted at each Group company from an ethical and scientific standpoint. The committee rules, the list of members, and a summary of discussions are published on our website.

Click here for the committee rules, the list of members, and a summary of discussions.

Governance

Directors and Officers

(As of November 30, 2020)

Directors







Outside Directors











Click here for brief personal profiles of each director and officer.

Governance

Directors and Officers

(As of November 30, 2020)

Executive Officers

Shigekazu Takeuchi
President and Group CEO

Masaya Watanabe
Executive Vice President and COO, CIO

Naoki Kitamura
CFO













Click here for brief personal profiles of each director and officer.

Governance

Viewpoints of Outside Directors

Developing a Transparent Succession Plan for Selecting and Cultivating Next-Generation Managers



Shigehiro Aoyama
Chairman of
Nominating Committee

The Company clearly separates the oversight and executive functions of management as a "company with three committees." The majority of the Board of Directors is composed of outside directors, and it features a balanced allocation of highly independent, diverse and specialized human resources that engage in highly controlled discussion and decision-making. Outside directors are tasked with chairing the Nominating, Audit and Compensation committees, and we seek to strengthen corporate governance from an objective standpoint.

What is required to improve the effectiveness of the Company's Board of Directors is—in addition to board diversity in terms of experience, capabilities and other characteristics—strengthening communication to understand the status of execution at job sites and enhancing the ability to ask questions toward this end. I believe that making such improvements step by step will also demonstrate the effectiveness of the Board of Directors.

The Nominating Committee is taking the lead in discussions on major elements of the succession plan, including selecting future candidates for president and cultivating next-generation managers. As chairman of the committee, I recognize that designing a mechanism and process for transparent selection is an important task. To achieve this, I believe it is essential to know what kinds of human resources there are within the Company as well as their qualifications, and I strive to go one step further in my communication, including with the frontlines of operations.

Focusing on Establishing a Compensation System While Providing Support to Achieve the New Medium-Term Plan Targets



Ryoji Itoh
Chairman of
Compensation Committee

The Company has supported medical care amid the current COVID-19 pandemic through PCR, antibody and antigen testing. President Takeuchi has stated, "What is important as social infrastructure is being able to provide high-quality medical services at affordable prices when they are needed." I believe that this thinking is also found within the new medium-term plan.

In the Company's efforts to strengthen its core business, it seeks to cut costs by consolidating and restructuring sales, logistics and laboratories while aiming to deliver high-quality services by improving the quality of testing and expanding test items. Additionally, in new businesses, the Company aims to develop a platform for providing the best healthcare to all people, staying on top of the trend toward home-based medical care and preventive medicine as well as digitalization. These efforts are what is truly sought by society, and I will do my best as an outside director to support achievement of the Company's goals.

In regard to compensation for directors and executive officers, the important points of consideration are how to determine the short- and long-term ranges for performance-based compensation in a situation where it is difficult to forecast performance several years into the future—due to the current trends in the business environment and the COVID-19 pandemic—and what to use as the corresponding level of pay. Placing the first priority on ensuring fairness and transparency, we will engage in thorough discussions so that the compensation is acceptable to shareholders and the directors and executive officers alike.

Supporting the Supervision Function of the Board of Directors to Achieve the New Medium-term Plan Targets



Futomichi Amano
Chairman of
Audit Committee

Under the new medium-term plan, an overall policy for reinforcing the profit structure was formulated, with the setting of the most important management tasks for each business, including reducing costs through stable operations and automation at the New Central Lab, promoting the Group's integration in the core business, strengthening the OEM business, and cultivating new businesses based on healthcare. I believe that these themes are highly appropriate and that the strategic measures are balanced.

What will be important going forward is implementing the proposed strategies and achieving results. Things may not go smoothly according to plan, as the market environment is ever changing while the Company itself is promoting transformation. I believe there is a certain level of risk when implementing these strategies. What is important when faced with such circumstances is for both managers and employees to understand and share the vision and to steadily execute a PDCA cycle to achieve the targets. This experience will lead to both personal growth and growth of the Company.

The Audit Committee is focused on reinforcing the supervision function of the Board of Directors from the standpoint of implementation. We share frank opinions with not only the executive officers but also the persons responsible and the staff on the frontlines in order to check the status and progress of plan execution, the response to the issues and risks faced, and other aspects. I believe that knowing both the upside and the downside will allow us to provide more objective and precise support.

Environment and Society

Promotion Structure for CSR

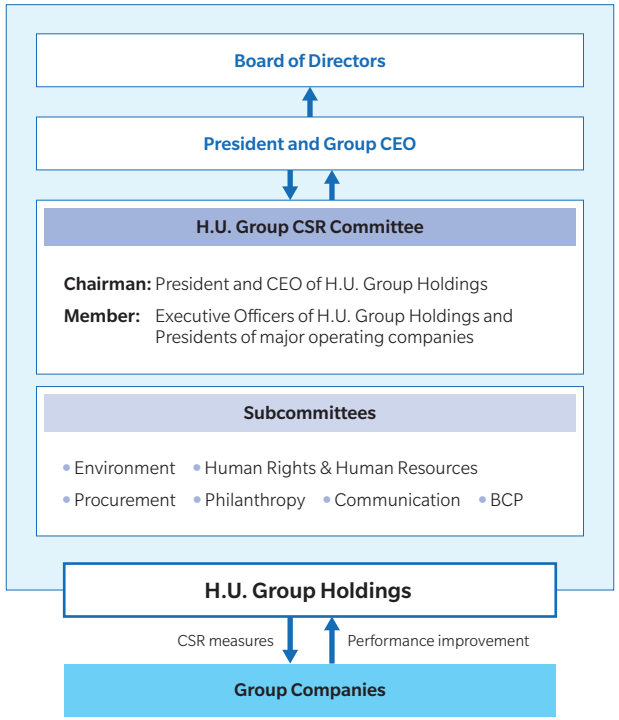
Our Approach to CSR

The H.U. Group Management Philosophy consists of three main declarations; Mission, Vision, and Values. We believe we can fulfill our CSR through our business activities, which we base on our management philosophy. By means of this framework, we create strong relationships with a wide range of stakeholders, engaging in initiatives to solve social issues through our business activities.

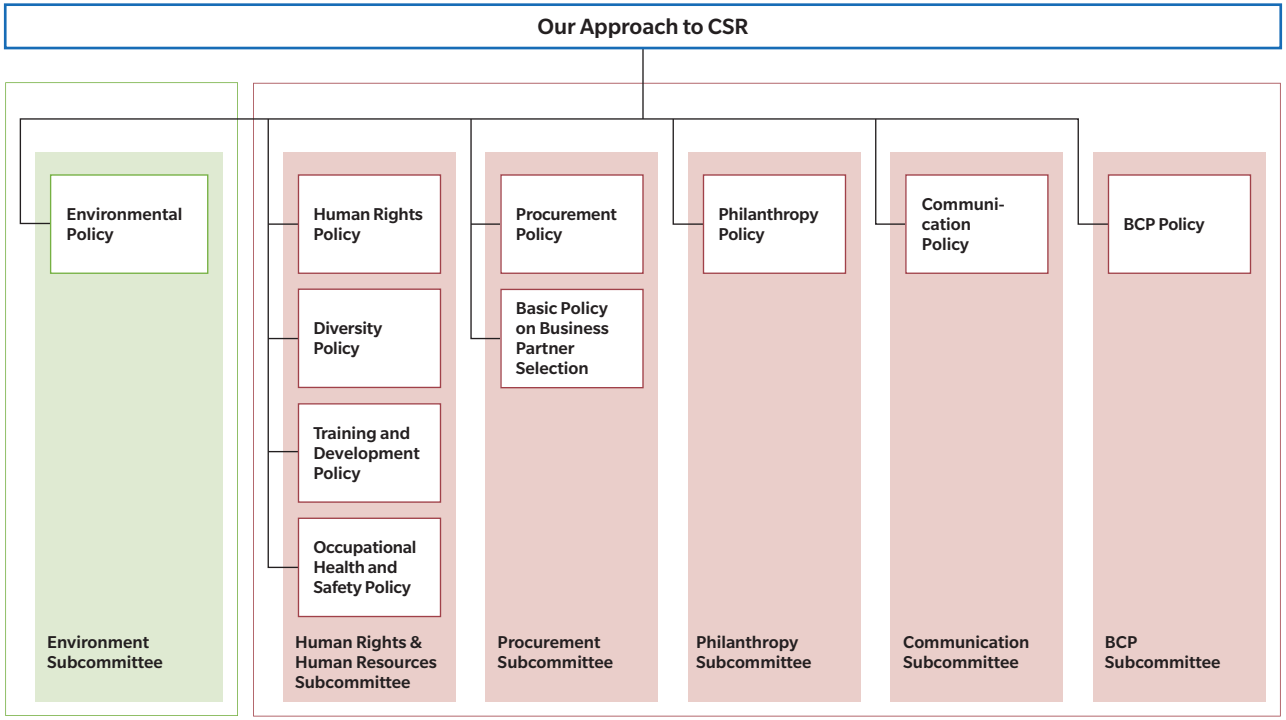
Promotion Structure for CSR

The H.U. Group CSR Committee, which is chaired by the H.U. Group Holdings CEO, discusses the Group's basic CSR policy and CSR action plans. The committee monitors the progress of the action plans at each Group company and also gathers and shares information about the latest activities conducted by other companies. The committee also sets up subcommittees led by the division heads of related operations to execute the CSR action plan.

Structure



CSR Document Architecture



Environment and Society

CSR Roadmap

H.U. Group CSR Roadmap (Fiscal 2020–2022)

In September 2020, the H.U. Group announced its new medium-term plan, H.U. 2025, as it took the first step into a new stage of its business. In CSR activities, we renewed "Our Approach to CSR" in fiscal 2019, ended March 31, 2020, and established a total of 10 related policies in the environmental and social areas.

Then, in October 2020, we announced "H.U. Group CSR Roadmap" with KPIs and three-year targets from the period of fiscal 2020 to fiscal 2022.

The boundary is to be the H.U. Group Holdings and the companies that make up the Group's funded sales ratio of 95%.

H.U. Group CSR Roadmap Three-year targets (Fiscal 2020–2022)

Quantitative targets

Environment

- CO_2 emissions ..... -7% (Base: FY2017)
- Recycling rate ..... +15% (Base: FY2017)
- CDP ..... B plus



Human Rights & Human Resources

- Percentage of female managers 20%
- White 500 acquisition



Procurement

- Excellent response rate (A) 90% on UNGC Self Assessment tool



Qualitative targets

Philanthropy

- Continuous enlightenment of clinical testing for 40 years



Communication

- Holding of first ESG Briefing session



BCP

- Start-up of the New Central Lab (Realization of high resilience)



H.U. Group Long-Term Environmental Goals (Fiscal 2020–2030)

The H.U. Group has set Long-Term Environmental Goals for reducing CO_2 emissions and improving its plastic recycling rate looking ahead to 2030 based on the two-degree scenario advanced by initiatives such as the Paris Agreement, as well as on the Osaka Blue Ocean Vision.

H.U. Group Long-Term Environmental Goals (Fiscal 2020–2030)

CO_2 (Scope 1, 2) emissions Sales intensity basis

Reduced by 20% (Base: FY2017)



Waste plastic recycling rate at major business locations

90% (66% in FY2017)



Environment and Society

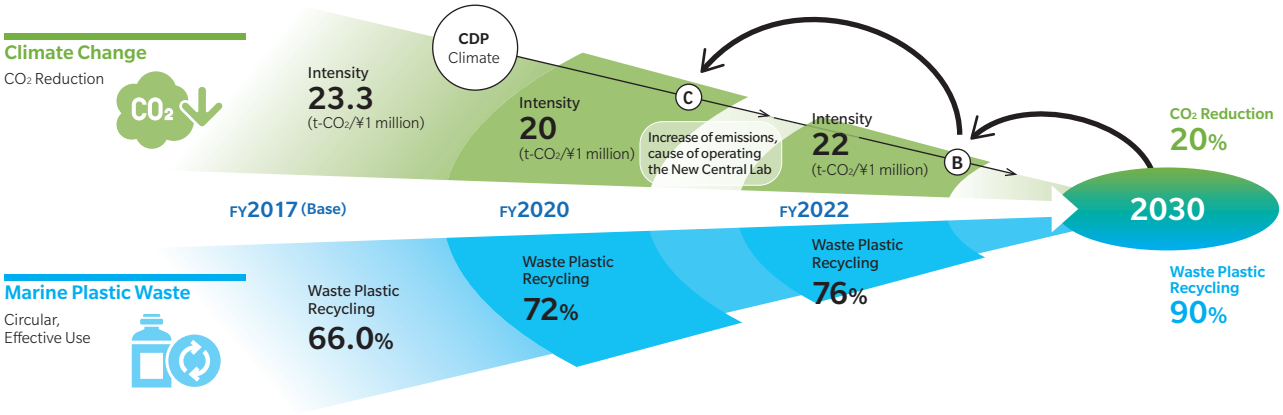
Environment

Click here for the basic approach and policy on the environment.

Environmental Goals

The H.U. Group has set "H.U. Group Long-Term Environmental Goals" for reducing CO_2 emissions and improving its plastic recycling rate looking ahead to 2030 based on the two-degree scenario advanced by initiatives such as the Paris Agreement, as well as on the Osaka Blue Ocean Vision. Given these, we formulated a company-wide CSR Roadmap in 2020 with targets for the three years immediately ahead and disclosed this externally.

Long-Term Environmental Goals



Environmental CSR Roadmap (Three-year Targets)

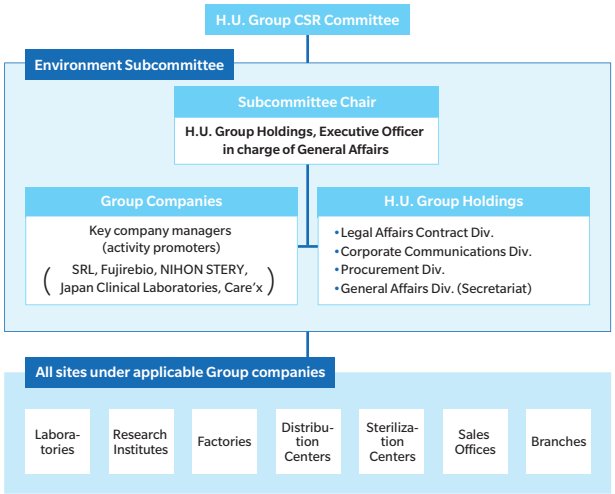
KPI				Performance*1			Forecast FY2019		Targets		
Major Category	Subcategory	Item	Unit	2016	2017	2018	Target	Actual	2020	2021	2022
Climate change	CO_2 reduction	Total of Scopes 1 & 2 emissions (sales intensity basis)	(t-CO_2/¥1 million)	25.0	23.3	21.0	21*2	19.9	20	22	22
		(Reference) Achievement status for long-term targets (–20%)	(%)	—	0	9.8	11	14.6	16	7	7
Marine plastic waste (Formation of a recycling-oriented society)	Circular, effective use of resources	Total recycling rate of waste plastic	(%) (Recycled amount / total amount)	—	66.0	67.6	70	71.4	72	74	76
CDP score	Climate	—	Rank	F	F	F	D	C	C	B-	B

*1 Aggregated the results of the three major companies in fiscal 2016, ended March 31, 2017, six domestic companies subject to internal control from fiscal 2017.
*2 Final target value (sales intensity basis) with target value set to 1% reduction vs. fiscal 2018 results (21) Initiatives

Promotion System

We have established an Environment Subcommittee managed by an Executive Officer/division head of General Affairs from H.U. Group Holdings. Further, we have established the Environmental Management System (EMS), and formulate and execute plans for environmental activities in climate change, waste, and other areas. This subcommittee regularly monitors the progress of these activity plans and their results, and strives to act and take corrective action going forward.

Environmental Management Promotion System (as of October 2020)



We have acquired ISO 14001* certification at our major bases in Clinical Laboratory Testing (CLT) and In Vitro Diagnostics (IVD) businesses, grasping the environmental impact of our business locations and activities and working to reduce environmental burden.

* ISO 14001: A standard for environmental management systems (EMS) established by the ISO (International Organization for Standardization). Certification is given to organizations that have built a system conscious of the environment and reducing environmental burden on an ongoing basis.

Environment and Society

Environment

EMS

The H.U. Group promotes EMS company-wide under the H.U. Group Environmental Policy. SRL and Fujirebio have established our systems that meet ISO 14001 requirements.

Internal Audits

In order to ensure objectivity and independence, General Affairs division at H.U. Group Holdings plays a central role in conducting internal audits by gathering auditors from Group companies.

Status of External Audit Implementation

In order to maintain ISO 14001 certification, we utilize a certifying body to conduct external audits. In fiscal 2019, we underwent an audit by TÜV SÜD Japan.

Status of Environmental Compliance

In fiscal 2019, the H.U. Group has not experienced any serious violations of laws and regulations, nor incidents having a significant impact on the environment.

Reducing Greenhouse Gas Emissions

The H.U. Group regards climate change as an important issue, has set Long-Term Environmental Goals, and aims to reduce sales intensity by 20% by 2030 compared to 2017. CO_2 is the Group's primary target, and we are continuously promoting the following energy conservation measures to reduce emissions.

- Converting to LED lighting in high-emission bases, especially at laboratories
- Efficiency/automation by reviewing manufacturing processes
- Optimizing office air conditioning temperature, limiting power use from lighting/office automation equipment
- Promoting work style reform (reducing meeting times, promoting on-time work departure)
- Reducing company-owned vehicles through joint logistics
- Consolidating laboratories, reducing office space in business locations, etc.

Plastic Countermeasures for a Recycling-Oriented Society

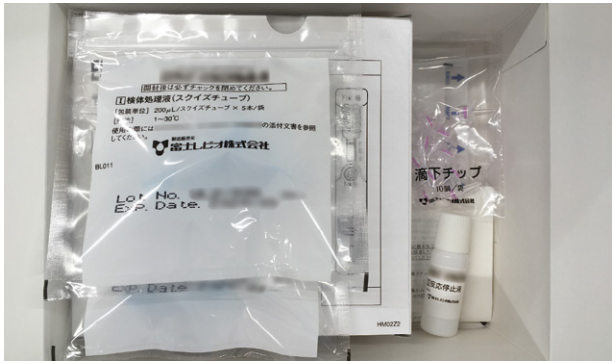
Based on the goal of 100% effective use of plastics by 2035 as seen in the Japanese government's Resource Circulation Strategy for Plastics and the Osaka Blue Ocean Vision, which was shared at the G20 Osaka Summit and aims to eliminate new pollution caused by marine plastic waste by 2050, the H.U. Group is earnestly strengthening its plastic countermeasures as of fiscal 2020 for a recycling-oriented society.

Promotion of Waste Plastic Recycling

At our Hachioji Laboratory, we select waste disposal companies with high recycling/coverage rates and thoroughly sort waste at the facility.

Review of Product Packaging Materials

We are working to suspend use of plastic materials, reduce the weight volume of plastic parts, and replace conventional plastics with biomass plastics.



Examples of products that no longer have outer packaging

Environmental Communication

The H.U. Group strives for two-way communication with stakeholders through active disclosure of information on environmental management and dialogue with stakeholders.

- 2018: Selected for the Sompo Japan Green Open Fund (nicknamed Buna no Mori)
- 2019: Responded to the CDP*1 (Climate), received a C rank
- April 2020: Participated in the Japan Climate Initiative

JAPAN CLIMATE INITIATIVE

- October 2020: Disclosed TCFD*2 recommended items and risk/opportunity response status

*1 CDP: An international NGO working in environmental areas, including climate change, preceded by the Carbon Disclosure Project established in 2000. This organization focuses on collection and disclosure of climate change-related information that is of interest to institutional investors.

*2 TCFD: By request of the G20, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD), chaired by Michael Bloomberg, to consider climate-related information and how financial institutions should respond.

Environment and Society

Human Rights & Human Resources

Click here for the basic approach to and policy for human rights & human resources.

Basic Approach

The H.U. Group promotes the development of an organizational culture that is diverse, healthy, and active, and carries out human-centric activities based on its Human Rights Policy, Diversity Policy, Occupational Health and Safety Policy, and Training and Development Policy.

Targets

We have created KPIs covering the respective areas of the Human Rights Policy, Diversity Policy, Occupational Health and Safety Policy, and Training and Development Policy, and are working to achieve our three-year targets.

Human Rights

In addition to its Human Rights Policy, the H.U. Group has established the item (1) Respect for Human Rights in Section 4, Relationship with Society in its Code of Conduct, which states, The H.U. Group will respect internationally recognized human rights. H.U. will respect the rights of all persons involved in the business activities of the H.U. Group and make its best efforts to ensure that such rights will not be infringed upon. This is in accordance with the stipulations of the Universal Declaration of Human Rights, which says that all human beings are born free and equal in dignity and rights, and with the United Nations' International Bill of Human Rights. In addition to complying with laws and regulations, we clearly state that discrimination, harassment, forced labor and child labor are prohibited in order to ensure a higher level of effectiveness, and we are increasing awareness among employees through various training programs.

In March 2019, we participated in the United Nations Global Compact and made clear our corporate stance on the 10 principles covering Human Rights, Labour, Environment, ant Anti-Corruption.

Diversity

In addition to its Diversity Policy, the H.U. Group advocates respect for diverse values under the Mutual Respect section of the Values and Traits under its Group Philosophy system, ensuring diverse human resources regardless of nationality, age, or gender. Employees range in age from the late teens to 60s, and many new graduates hired in recent years are women. Furthermore, we are focusing on promoting the success of women, setting a high ratio of female managers and those returning to work after childcare leave, and otherwise developing measures to create an environment in which more women can play active roles. In June 2019, we were selected as a component stock of the MSCI Japan Empowering Women Index (WIN). In April 2019, we established H.U. Cast, which has been certified as a specified subsidiary, providing a place to demonstrate a variety of personalities, and we are gradually expanding our business to promote the employment of people with disabilities.



Female employees account for a large percentage of new recruits



H.U. Cast employees with diverse personalities

Human Rights & Human Resources CSR Roadmap (Three-year Targets)

KPI				Performance			Forecast 2019		Target		
Major Category	Subcategory	Item	Unit	2016	2017	2018	Target	Actual	2020	2021	2022
Compliance with labor-related laws and human rights in the countries and regions where business is conducted	Violation of labor condition laws and regulations	—	Cases	0	0	0	0	0	0	0	0
	Forced labor / child labor	Number of forced labor reports	Cases	0	0	0	0	0	0	0	0
		Number of child labor reports	Cases	0	0	0	0	0	0	0	0
Promotion of work-life balance	Promotion of taking paid leave	Rate of paid leave taken	%	44.5	43.4	44.0	60	60.1	60	65	70
	Average overtime hours per month	—	Hours	17.8	21.5	19.0	10	20.7	10	5	5
Diversity promotion status	Percentage of persons with disabilities hired	—	%	2.20	2.01	1.97	2.20	1.86	2.2	2.3	2.3
	Percentage of female managers	Percentage at section chief or above	%	10.0	11.8	14.1	15	14.2	15	18	20
	Status of Kurumin certification acquisition promotion	Female employees taking maternity leave	People	66	66	84	170	173	170	185	200
		Percentage of female employees returning to work after maternity leave	%	100	100	90.6	100	96.8	100	100	100
Engagement survey promotion	Response rate	—	%	—	—	—	Figures known	80%	—	90%+	—
Promotion status of human resources development	Average annual training time per employee	Total time for group training, e-learning, distance education, Hours - etc.	Hours	—	—	11	15	7.8	15	20	25
Health management	Acquisition of White 500 status	—	—	—	—	—	—	—	—	—	Acquired

Environment and Society

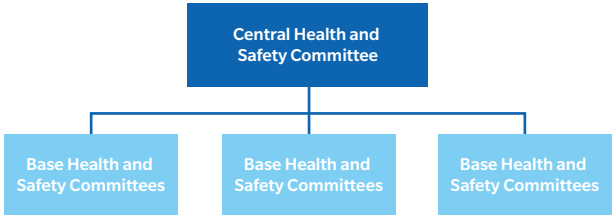
Human Rights & Human Resources

Occupational Health and Safety

The H.U. Group, prioritizing labor, safety, and hygiene, has established the Occupational Health and Safety Policy. Based on this guideline, we formulate an annual Occupational Health and Safety Plan.

In Japan, based on the Industrial Safety and Health Act, safety and health committees have been set up at each base with 50 or more employees, and representatives of the company and the labor union hold regular discussions on occupational health and safety. In addition, in collaboration with health insurance associations, we are also working to maintain and improve the physical and mental health of our employees.

Health and Safety Committee



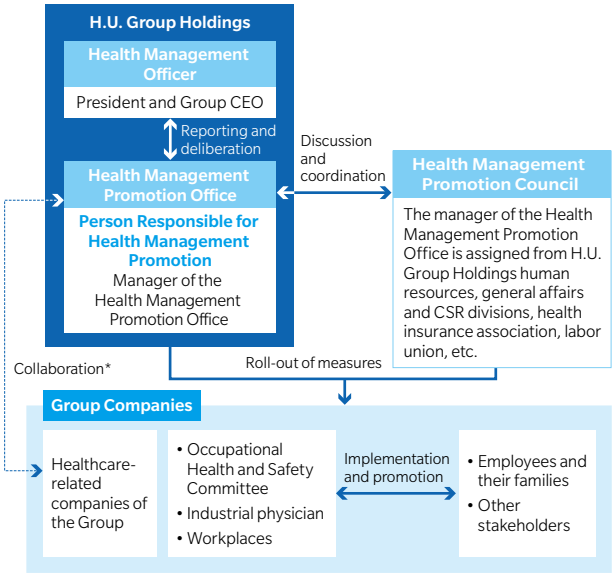
Health Management

In 2019, we have codified our position as a corporation oriented toward health in our Health Declaration, and in 2020 we established the Health Management Promotion Office, further strengthening our initiatives in health management.

2020 健康経営優良法人 Health and productivity

Health Management Promotion Structure

The relevant personnel/organizations come together under the health management promotion structure below to promote health management.



* Maintain and promote the health of employees and their families by quickly rolling out and utilizing cutting-edge healthcare-related products and services within the Group.

No Smoking Policy

As of October 1, 2019, the H.U. Group has completely prohibited smoking inside and during working hours at companies and business locations in Japan. We believe that it is a company's responsibility to provide employees with a safe and healthy workplace environment and to prevent damage to the health of stakeholders from secondhand smoke. This policy applies to not only our personnel but also all those who visit our facilities.

Support for Quitting Smoking

To implement the group-wide no smoking policy, we set up free telephone consultations, conducted programs for quitting smoking, and provided subsidies for purchasing related products such as nicotine patches and gum. We will continue to implement various support measures, including programs for quitting smoking.

Training and Development

The H.U. Group clearly states in its Training and Development Policy that individual employee development is the most critical element in the Group's sustainable growth and ongoing contribution to society. It can be said that securing and training superior and highly specialized human resources is the basis for our doing business. As such, we are exploring various measures such as talent reviews and training for manager cultivation in the entire Group, as well as training for improving specializations at the Group companies.

We are also focusing our efforts on promoting work style reforms so that diverse human resources can play an active role. In 2020, we applied for the Platinum Career Award sponsored by Toyo Keizai Inc., ranking in 73rd place out of 353 companies.



Environment and Society

Procurement

Click here for our basic approach to and policy of procurement.

Basic Approach

The H.U. Group carries out purchasing activities based on its Procurement Policy. This policy incorporates the requirement for fair, stable, and sustainable procurement transactions. In addition, in order to fulfill the social responsibility of the supply chain in purchasing activities, we have compiled and thoroughly disseminated the Basic Policy on Business Partner Selection, a policy describing the efforts we would like our business partners to take alongside the Group. These policies are available in three languages, Japanese, English and Chinese.

Initiatives

When initiating a new transaction, we share our Procurement Policy and Basic Policy for Business Partner Selection. For existing business partners, we confirm the status of initiatives toward the realization of a sustainable society with business partners accounting for 80% of the order amount of each Group company approximately once every three years. Specifically, we utilize the United Nations Global Compact Self Assessment Tool (hereafter the UNGC SA), confirming details in a wide range of items: environmental conservation, occupational safety, and quality assurance, as well as corporate governance, fair trade, human rights, information security, and more. We also provide support for making improvements.

Targets

In fiscal 2019, ended March 31, 2020, we collected 100% of responses to the UNGC SA from all 89 business partners comprising 80% of group company order amounts from six major Group companies in Japan*1, realizing sustainability evaluations and improvement support for our business partners. Based on these results, we are holding dialogues with the relevant business partners to improve the ratio of those achieving top rankings (Class A), and are working on continuous improvement activities for business partners working with overseas companies*2.

Procurement CSR Roadmap (Three-Year Targets)

KPI				Forecast 2019		Target		
Major Category	Subcategory	Item	Unit	Target	Actual	2020	2021	2022
Promotion of CSR procurement for Tier 1	Questionnaire collection rate	Questionnaire collection rate	%	100	100	100	100	100
	UNGC SA analysis	Class A rate (Score of 60% of total points or more)	%	Figures known	84.3	Figures known	Figures known	90
		Class B rate (Score of 40-60% of total GC self-assessment analysis points)	%	Figures known	12.3	Figures known	Figures known	8
		Class C rate (Score of 40% of total points or less)	%	Figures known	3.4	Figures known	Figures known	2
		Share of non-responses	%	Figures known	0	Figures known	Figures known	0

Distribution of Number of Business Partners by Assessment Field/Class

	Corporate governance	Human rights	Labor	Environment	Fair business practices
A	73	60	81	70	72
B	8	11	4	8	10
C	8	18	4	11	7
Total	**89**	**89**	**89**	**89**	**89**

	Quality and safety	Information security	Supply chain	Local communities
A	82	81	67	59
B	4	8	5	12
C	3	0	17	18
Total	**89**	**89**	**89**	**89**

Average Score by Assessment Item



*1 Fiscal 2019: H.U. Group Holdings, SRL, Fujirebio, NIHON STERY, Japan Clinical Laboratories, Care'x
*2 Fiscal 2020: Fujirebio Diagnostics (US), Fujirebio Europe (Belgium)

Environment and Society

Philanthropy / Communication / BCP

Philanthropy

Click here for the policy of the subcommittee.

We are engaged in philanthropy activities in line with our core business, including providing research subsidies for clinical tests, accepting overseas trainees, and educational symposiums. Since fiscal 2019, ended March 31, 2020, each group company has established a volunteer paid holiday and transportation expenses support system and is promoting voluntary activities by employees.

Charitable Trust Fund for Healthcare

For nearly 40 years we have been running the Charitable Trust Laboratory Medicine Research Foundation of Japan, which supports future researchers and contributes to advances in medicine and medical technology. We help raise the standards in the industry as a whole, with funding available to all hospitals and researchers. Total funding has exceeded ¥270 million by fiscal 2019.

H.U. Group Disaster Relief Donation Scheme

We have set up the H.U. Group Disaster Relief Donation Scheme, which matches amounts voluntarily donated by employees with company contributions to provide relief to disaster areas. In fiscal 2019, this scheme was put into action following the disaster caused by Typhoon Hagibis, and a ¥270,000 matching donation was made by a total of 36 employees. The Company made a donation of the same amount to CIVIC FORCE, a public interest incorporated foundation.

Click here for details on other activities.



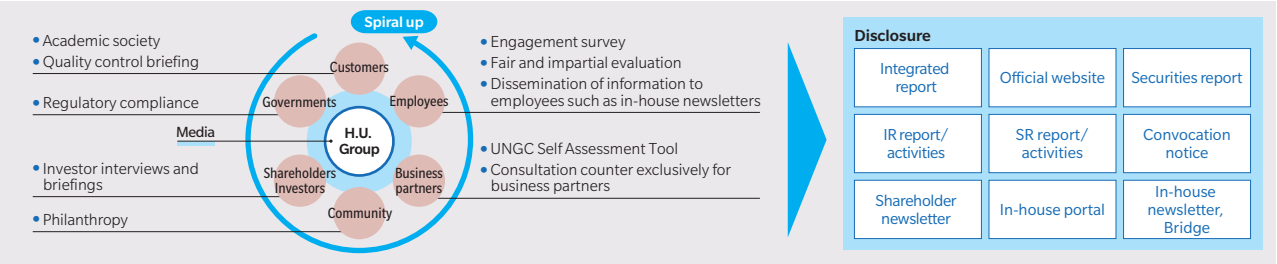
Emergency support for the 2020 Kyushu floods

Communication

Click here for the policy of the subcommittee.

The H.U. Group explicitly states in its Communication Policy that it is important to understand and reflect the demands and expectations on our corporate activities, through our stakeholders. In accordance with the Communication Policy, we will promote dialogue and collaboration with various stakeholders, further improving quality. As a result, dialogue and collaboration with each stakeholder will be reported to management in a timely and appropriate manner.

Communication with Diverse Stakeholders



BCP

Click here for the policy of the subcommittee.

Given our mission in society to ensure uninterrupted acceptance of testing, a part of social infrastructure, we have constructed a business continuity system. We have targeted the construction of an important base resilient to disasters in the New Central Lab, a facility of our Clinical Laboratory Testing (CLT) business which is to be opened in 2022, to operate 24 hours a day thanks to vibration-isolating construction and full automation.

Response to COVID-19

We promptly implemented infection prevention measures, including taking action in accordance with the situation in each country, recommending telecommuting, and more. We have secured a business continuity system by thoroughly preventing infections in inspection and collection operations.

Improvement of Business Continuity Procedures

In our BCP document, we set business continuity procedures based on the target recovery time/level, requires resources, and continuity/alternative procedures of each company's priority businesses, striving to ensure the effectiveness of business continuity. In addition, we carry out training that makes full use of various scenarios and make careful preparations in taking all possible measures.



Part IV

Data Section

Section Contents

Business Segments
Consolidated Management Indicators
Consolidated Financial Statements
Investor Relations and Shareholder Relations Activities
Company Recognition
Main Group Companies and Bases
Corporate Overview and Investor Information
Editorial Policy

Business Segments

Results for Fiscal 2019	Net Sales (¥ billion)	EBITDA*1 (¥ billion)	Operating Profit (¥ billion)	Number of Employees (Permanent)	Number of Employees (Temporary)
	188.7	21.3*2	9.9*2	5,968*3	6,622*3
CLT Clinical Laboratory Testing*4	116.9 61.9%	11.1 52.4%	5.2 52.5%	2,926	3,112
IVD In Vitro Diagnostics	40.1 21.2%	9.3 43.8%	6.1 61.3%	1,129	118
SR Sterilization and Related Services*4	23.5 12.5%	2.1 9.9%	1.8 18.1%	1,161	3,152
ENB Emerging New Business and others	8.2 4.4%	0.5 2.2%	-0.8 —	393	188

Note: Amounts have been rounded to the nearest ¥100 million.
*1 EBITDA = Operating profit + Depreciation + Amortization of goodwill *2 Includes corporate expenses and intersegment eliminations. *3 Includes employees of H.U. Group Holdings Inc., H.U. Group Research Institute G.K. and H.U. Cast, Inc. The number of temporary employees indicates average personnel per year.
*4 The SPS service business was transferred from the CLT business to the SR business in fiscal 2020, ending March 31, 2021. In conjunction with that change, the results of both businesses have been restated taking that into account.

Consolidated Management Indicators

(Amounts have been rounded down to the nearest ¥1 million)

Financial Indicators

		FY2015	FY2016	FY2017	FY2018	**FY2019**
Net sales	(¥ million)	211,743	204,245	195,400	181,415	**188,712**
EBITDA*	(¥ million)	41,044	41,181	27,287	24,353	**21,270**
Operating profit	(¥ million)	26,050	28,057	17,648	14,648	**9,939**
Ordinary profit	(¥ million)	23,782	26,385	16,567	11,524	**6,468**
Profit (loss) attributable to owners of parent	(¥ million)	-5,081	333	257	6,386	**-516**
Total assets	(¥ million)	237,296	213,926	176,068	201,234	**219,403**
Net assets	(¥ million)	155,700	148,087	113,225	112,973	**103,228**
Net cash	(¥ million)	9,445	29,247	16,144	-13,187	**-29,156**
Cash flows from operating activities	(¥ million)	29,316	36,436	15,767	16,244	**15,229**
Cash flows from investing activities	(¥ million)	-11,965	-8,599	-21,552	-34,902	**-21,761**
Cash flows from financing activities	(¥ million)	-12,115	-23,138	-9,635	31,973	**8,234**
Cash and cash equivalents at end of period	(¥ million)	31,745	35,547	20,444	33,688	**36,226**
Operating margin	(%)	12.3	13.7	9.0	8.1	**5.3**
ROE	(%)	-3.1	0.2	0.2	5.7	**-0.5**
ROA	(%)	9.5	11.7	8.5	6.1	**3.1**
ROIC	(%)	7.9	9.5	7.2	6.3	**3.7**
Equity ratio	(%)	65.5	69.1	64.2	56.0	**47.0**
Basic earnings (loss) per share	(¥)	-89.21	5.84	4.51	111.94	**-9.06**
Net assets per share	(¥)	2,727.81	2,592.04	1,979.78	1,980.27	**1,809.18**
Research & development expenses	(¥ million)	5,702	4,748	5,365	5,937	**5,514**
Capital expenditure	(¥ million)	12,117	9,017	26,221	17,768	**18,833**
Depreciation	(¥ million)	11,287	10,499	7,842	8,692	**10,432**
Dividend payout ratio	(%)	—	1,952.1	2,882.5	116.1	**—**
Dividends per share	(¥)	110	114	130	130	**130**
Number of shares issued	(Shares)	57,246,866	57,287,166	57,334,183	57,361,385	**57,387,861**
Number of treasury shares at end of period	(Shares)	250,435	251,376	253,080	404,381	**408,064**

* EBITDA = Operating profit + Depreciation + Amortization of goodwill

Consolidated Management Indicators

Non-Financial Indicators

				FY2015	FY2016	FY2017	FY2018	FY2019
Environment		Greenhouse gas (GHG) emissions (Scope 1, Scope 2 and Scope 3) *1	($t\text{-}CO_2$)	325,677	247,180	370,809	388,459	**364,653**
		Scope 1	($t\text{-}CO_2$)	9,453	9,141	11,221	10,712	**11,162**
		Scope 2*2	($t\text{-}CO_2$)	23,464	22,217	24,912	22,822	**22,088**
		Scope 3	($t\text{-}CO_2$)	292,760	215,822	334,676	354,925	**331,403**
		Energy use*3	(kL (converted to crude oil))	15,330	15,248	17,805	17,072	**16,987**
		Electricity use*3	(kL (converted to crude oil))	11,282	11,246	12,901	12,363	**12,170**
		Gasoline use*3	(kL (converted to crude oil))	1,781	1,704	2,246	2,235	**2,391**
		Amount of waste generated	(t)	2,288	2,307	3,467	3,581	**3,494**
		Recycling rate*4	(%)	97.0	90.7	84.0	83.0	**86.0**
		Water used	($1{,}000\ m^3$)	229	223	392	374	**399**
		CDP climate change score*5	—	F	F	F	F	**C**
Social	Business partners	Number of suppliers performing risk assessment*6	(Times)	—	—	—	—	**89**
		Percentage of suppliers performing risk assessment*6	(%)	—	—	—	—	**100**
		Reported cases of child labor at suppliers	(Number)	0	0	0	0	**0**
		Reported cases of forced labor at suppliers	(Number)	0	0	0	0	**0**
	Employees*7	Average age	(Years old)	43.9	44.6	42.9	42.5	**40.0**
		Average employment year (male/female)	(Years)	—	—	14.2/10.6	14.3/11.1	**13.0/10.0**
		Gender ratio (male/female)	(%)	64:36	63:37	63:37	64:36	**57:43**
		Percentage of female managers*8	(%)	9.4	10.0	11.8	14.1	**14.2**
		Percentage of females in new graduate hires	(%)	61.5	60.3	57.6	62.6	**69.8**
		Percentage of employees returning to work after maternity / parental leave	(%)	97.2	100	100	90.6	**97.0**
		Average monthly overtime hours	(Hours)	19.5	17.8	21.5	19.0	**21.0**

•Applicable range

Environment: Aggregated the results of the three major companies in FY 2015 and 2016, and disclosed the results of six domestic companies subject to internal control from 2017.

Society/governance: Aggregated the results of the three major companies before FY 2018, and disclosed the results of six domestic companies subject to internal control from FY 2019.

Three companies: H.U. Group Holdings, SRL, Fujirebio

Six companies: H.U. Group Holdings, SRL, Fujirebio, NIHON STERY, Japan Clinical Laboratories, Care'x

•Period

These figures are calculated based on our fiscal year. (April 1 to March 31 of the following year)

*1 Based on Japan's Ministry of the Environment's emission source unit database (ver. 2.5) for calculating greenhouse gas emissions throughout the supply chain (March 2018)

*2 Target items calculated based on Scope3 items of GHG Protocol.

*3 Calculated by converting to crude oil

*4 For Fujirebio and Care'x

*5 Answered for the first time in FY 2019

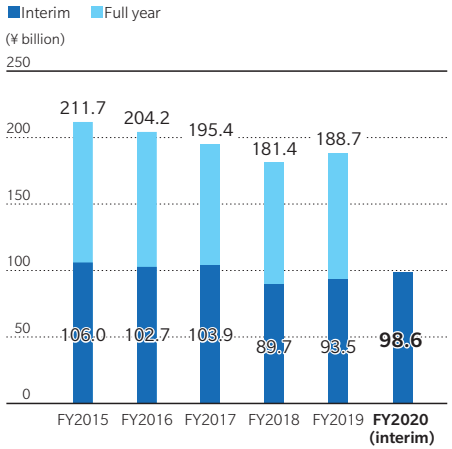
*6 Suppliers at 80% sales coverage of each of the applicable ranges

*7 Full-time employees

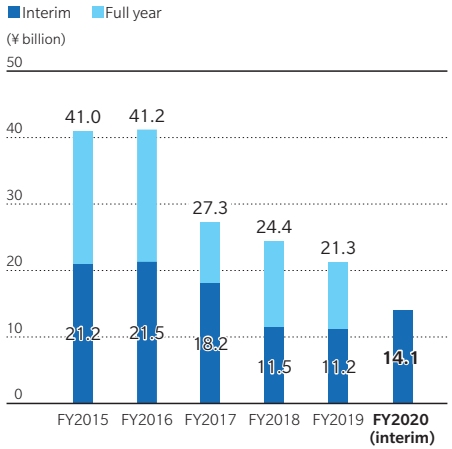
*8 Managers & above

Consolidated Management Indicators

Net sales

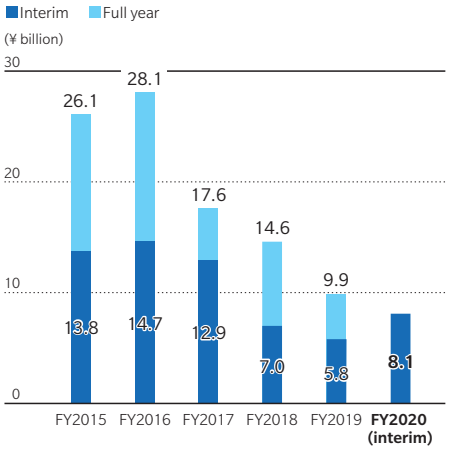


EBITDA*

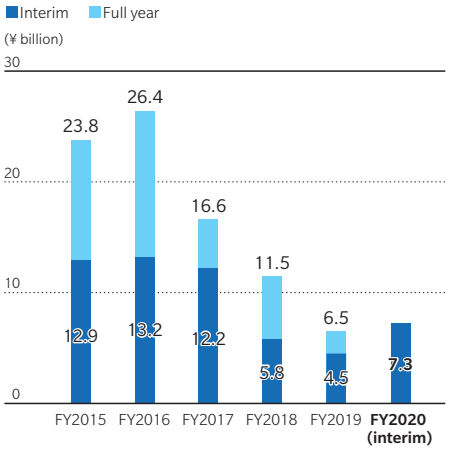


* EBITDA = Operating profit + Depreciation + Amortization of goodwill

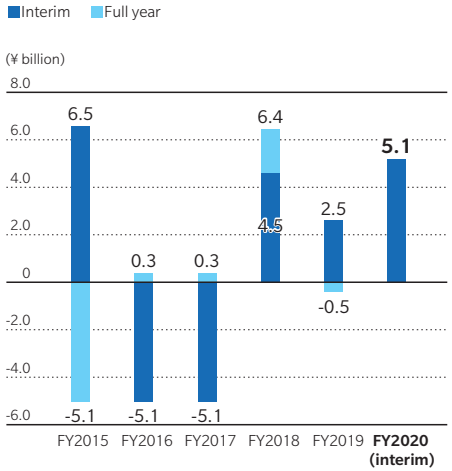
Operating profit



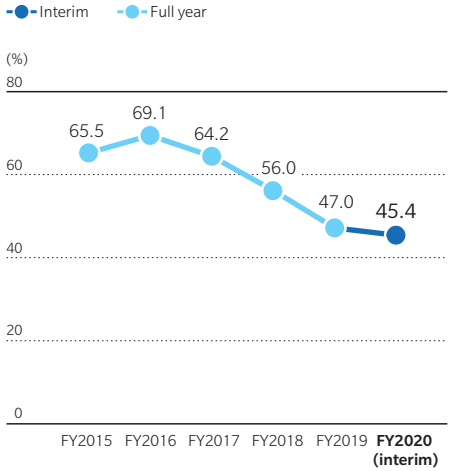
Ordinary profit



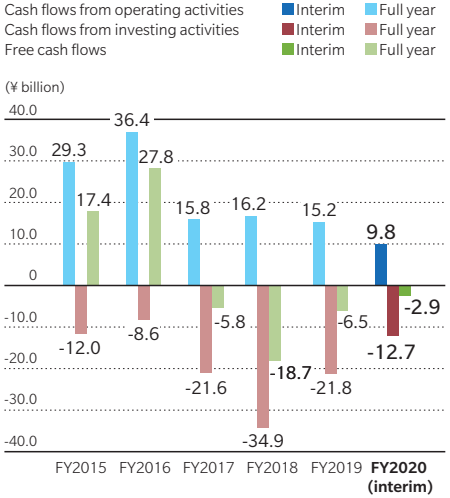
Profit (loss) attributable to owners of parent



Equity ratio



Cash flows



Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Balance Sheets (¥ million)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	33,699	36,357
Notes and accounts receivable – trade	34,145	32,737
Investments in leases	737	750
Merchandise and finished goods	5,302	6,796
Work in process	5,429	5,325
Raw materials and supplies	5,212	5,829
Other	5,250	16,193
Allowance for doubtful accounts	-128	-90
Total current assets	89,649	103,899
Non-current assets		
Property, plant and equipment		
Buildings and structures	53,146	55,102
Accumulated depreciation	-36,432	-37,729
Buildings and structures, net	16,714	17,372
Machinery, equipment and vehicles	14,875	15,544
Accumulated depreciation	-11,716	-12,284
Machinery, equipment and vehicles, net	3,159	3,259
Tools, furniture and fixtures	46,711	47,882
Accumulated depreciation	-27,364	-29,309
Tools, furniture and fixtures, net	19,346	18,572
Land	11,008	11,670
Leased assets	7,194	10,007
Accumulated depreciation	-4,776	-5,241
Leased assets, net	2,417	4,765
Construction in progress	2,107	2,689
Total property, plant and equipment	54,753	58,330
Intangible assets		
Goodwill	2,029	1,514
Customer-related intangible assets	1,105	970
Software	5,445	5,904
Leased assets	431	930
Other	6,086	11,706
Total intangible assets	15,098	21,027
Investments and other assets		
Investment securities	14,598	11,394
Long-term loans receivable	1,117	3,935
Deferred tax assets	14,251	8,565
Other	11,707	12,107
Allowance for doubtful accounts	-22	-27
Total investments and other assets	41,653	35,975
Total non-current assets	111,505	115,332
Deferred assets		
Bond issuance cost	80	171
Total deferred assets	80	171
Total assets	201,234	219,403

Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Balance Sheets (¥ million)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	10,396	12,318
Electronically recorded obligations – operating	1,278	1,290
Short-term borrowings	10,000	10,000
Current portion of long-term borrowings	6,477	4,166
Lease obligations	816	1,471
Accounts payable – other	7,880	7,107
Income taxes payable	1,066	1,050
Provision for bonuses	6,054	6,235
Other	7,272	11,659
Total current liabilities	51,242	55,299
Non-current liabilities		
Bonds payable	15,000	35,000
Long-term borrowings	15,398	16,216
Lease obligations	2,225	4,671
Deferred tax liabilities	85	69
Retirement benefit liability	2,284	3,167
Asset retirement obligations	649	709
Provision for share-based remuneration	52	51
Provision for compensation loss	481	458
Other	840	531
Total non-current liabilities	37,018	60,875
Total liabilities	88,261	116,175

	As of March 31, 2019	As of March 31, 2020
Net assets		
Shareholders' equity		
Share capital	9,113	9,147
Capital surplus	24,835	24,869
Retained earnings	80,601	72,772
Treasury shares	-1,631	-1,633
Total shareholders' equity	112,920	105,156
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	345	-117
Foreign currency translation adjustment	-81	-1,204
Remeasurements of defined benefit plans	-393	-747
Total accumulated other comprehensive income	-129	-2,069
Share acquisition rights	182	141
Total net assets	112,973	103,228
Total liabilities and net assets	201,234	219,403

Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Statements of Income (¥ million)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	181,415	188,712
Cost of sales	119,462	131,135
Gross profit	61,952	57,577
Selling, general and administrative expenses	47,303	47,637
Operating profit	14,648	9,939
Non-operating income		
Interest income	88	109
Dividend income	25	38
Dividend income of insurance	38	35
Rental income	59	108
Outsourcing service income	51	28
Foreign exchange gains	16	78
Other	541	159
Total non-operating income	820	558
Non-operating expenses		
Interest expenses	195	230
Rental expenses	39	43
Share of loss of entities accounted for using equity method	3,471	3,473
Other	239	282
Total non-operating expenses	3,945	4,029
Ordinary profit	11,524	6,468
Extraordinary income		
Gain on sales of non-current assets	1	2
Gain on sales of investment securities	237	869
Gain on sales of shares of subsidiaries and associates	166	—
Gain on reversal of share acquisition rights	24	43
Gain on step acquisitions	—	283
Reversal of provision for compensation loss	656	—
Gain on revision of retirement benefit plan	211	—
Other	4	9
Total extraordinary income	1,302	1,207
Extraordinary losses		
Loss on retirement of non-current assets	157	98
Loss on valuation of investment securities	273	—
Loss on valuation of shares of subsidiaries and associates	—	475
Impairment loss	—	209
Loss on cancellation of leases	—	335
Loss on termination of contracts	—	321
Provision for compensation loss	855	—
Other	164	121
Total extraordinary losses	1,451	1,562
Profit before income taxes	11,375	6,113
Income taxes – current	1,590	829
Income taxes – deferred	3,398	5,800
Total income taxes	4,989	6,629
Profit (loss)	6,386	-516
Profit (loss) attributable to owners of parent	6,386	-516

Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Statements of Comprehensive Income (¥ million)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit (loss)	6,386	-516
Other comprehensive income		
Valuation difference on available-for-sale securities	34	-463
Foreign currency translation adjustment	674	-1,122
Remeasurements of defined benefit plans, net of tax	410	-353
Total other comprehensive income	1,118	-1,939
Comprehensive income	7,505	-2,455
Comprehensive income attributable to:		
Owners of parent	7,505	-2,455

Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Statements of Changes in Equity (¥ million)

Fiscal year ended March 31, 2019	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Total net assets
Balance at beginning of period	9,066	24,788	81,637	-1,235	114,257	310	-756	-803	-1,248	217	113,225
Changes during period											
Issuance of new shares – exercise of share acquisition rights	17	17			34						34
Issuance of new shares – restricted stock	30	30			60						60
Dividends of surplus			-7,422		-7,422						-7,422
Profit attributable to owners of parent			6,386		6,386						6,386
Purchase of treasury shares				-395	-395						-395
Net changes in items other than shareholders' equity						34	674	410	1,118	-34	1,084
Total changes during period	47	47	-1,035	-395	-1,336	34	674	410	1,118	-34	-252
Balance at end of period	9,113	24,835	80,601	-1,631	112,920	345	-81	-393	-129	182	112,973

Fiscal year ended March 31, 2020											
Balance at beginning of period	9,113	24,835	80,601	-1,631	112,920	345	-81	-393	-129	182	112,973
Cumulative effects of changes in accounting policies			628		628						628
Restated balance	9,113	24,835	81,230	-1,631	113,549	345	-81	-393	-129	182	113,602
Changes during period											
Issuance of new shares – exercise of share acquisition rights	2	2			4						4
Issuance of new shares – restricted stock	31	31			63						63
Dividends of surplus			-7,425		-7,425						-7,425
Loss attributable to owners of parent			-516		-516						-516
Purchase of treasury shares				-2	-2						-2
Change in scope of consolidation			-199		-199						-199
Change in scope of equity method			-317		-317						-317
Net changes in items other than shareholders' equity						-463	-1,122	-353	-1,939	-41	-1,981
Total changes during period	34	34	-8,458	-2	-8,392	-463	-1,122	-353	-1,939	-41	-10,374
Balance at end of period	9,147	24,869	72,772	-1,633	-105,156	-117	-1,204	-747	-2,069	141	103,228

Consolidated Financial Statements

(Amounts have been rounded down to the nearest ¥1 million)

Consolidated Statements of Cash Flows (¥ million)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	11,375	6,113
Depreciation	8,692	10,432
Impairment loss	—	209
Loss (gain) on step acquisitions	—	-283
Loss on cancellation of leases	—	335
Loss on termination of contracts	—	321
Loss (gain) on sales of investment securities	-237	-869
Loss on valuation of shares of subsidiaries and associates	—	475
Amortization of goodwill	1,012	898
Increase (decrease) in retirement benefit liability	-408	399
Interest and dividend income	-113	-148
Interest expenses	195	230
Share of loss (profit) of entities accounted for using equity method	3,471	3,473
Decrease (increase) in trade receivables	-2,460	881
Decrease (increase) in inventories	-1,349	-2,908
Increase (decrease) in trade payables	995	1,909
Increase (decrease) in accrued consumption taxes	538	1,095
Decrease (increase) in other current assets	159	-1,616
Increase (decrease) in other current liabilities	-94	2,424
Other, net	-6,383	929
Subtotal	15,393	24,305
Interest and dividends received	184	147
Interest paid	-150	-223
Income taxes (paid) refund	817	-8,999
Net cash provided by (used in) operating activities	16,244	15,229

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from investing activities		
Purchase of property, plant and equipment	-21,361	-8,095
Purchase of intangible assets	-5,348	-7,470
Purchase of investment securities	-3,656	-1,632
Proceeds from sales of investment securities	970	1,053
Loan advances	-1,000	-3,286
Collection of loans receivable	1,888	427
Payments for acquisition of businesses	-517	—
Payments for guarantee deposits	-7,701	-323
Purchase of shares of subsidiaries	-633	-2,065
Income from settlement	2,361	—
Other, net	97	-369
Net cash provided by (used in) investing activities	-34,902	-21,761
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	8,538	—
Proceeds from long-term borrowings	21,662	5,000
Repayments of long-term borrowings	-4,104	-7,896
Proceeds from issuance of bonds	15,000	20,000
Repayments of finance lease obligations	-1,221	-1,223
Dividends paid	-7,413	-7,417
Other, net	-487	-228
Net cash provided by (used in) financing activities	31,973	8,234
Effect of exchange rate change on cash and cash equivalents	-72	-295
Net increase (decrease) in cash and cash equivalents	13,243	1,406
Cash and cash equivalents at beginning of period	20,444	33,668
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	1,131
Cash and cash equivalents at end of period	33,688	36,226

Investor Relations and Shareholder Relations Activities

The Company actively discloses corporate information including management strategy and financial condition to shareholders, investors and other stakeholders in a timely, impartial and accurate manner.

Through these disclosures, we strive to improve two-way communication with stakeholders as well as increase the transparency of management. At the same time, all of the H.U. Group's officers promote organized investor relations activities and engage in shareholder relations activities, as the key contributors of enhancing corporate value, under the leadership of top management, in order to earn credibility and an appropriate evaluation of the Company from stakeholders.

■ Briefings for individual investors

IR forums	2 times
Securities company branch seminars	2 times
Facility tours	1 time

● Briefings for institutional investors and analysts

Financial results presentations	2 times (2Q and year-end)
Conference calls	2 times (1Q and 3Q)
Small meetings	2 times
Facility tours (including for analysts)	3 times
One-on-one meetings with institutional investors and analysts	159 times

IR / SR activities in FY2019

◇ Earnings releases ■ Events for individual investors ● IR/SR activities

	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
		◇ Full-year	◇ Ordinary General Meeting of Shareholders		◇ 1Q		◇ Publication of Integrated Report 2019	◇ 2Q			◇ 3Q	
For individual investors		■ Securities company branch seminars			■ Facility tour	■ IR forum			■ IR forum			
For institutional investors and analysts		● IR (Japan) ● IR (Europe and N. America)			● IR (Japan) ● IR (N. America) ● IR (Asia)			● IR (Japan)	● IR (Europe and N. America) ● Small sell-side meetings		● IR (Japan)	SR activities (Japan) ●

Company Recognition

MSCI ESG Ratings

MSCI ESG RATINGS AA

CCC B BB BBB A AA AAA

MSCI Japan ESG Select Leaders Index

2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

MSCI Japan Empowering Women Index (WIN)

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

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Nikko Investor Relations Website Ranking

The Company's website was selected as an excellent site (Grade AA) in the All Japanese Listed Companies' Website Ranking in 2019 by Nikko Investor Relations Co., Ltd.

WITH GRADE AA Corporate Websites 2019 Nikko Investor Relations Co.,Ltd Ranking in all listed companies in Japan

Main Group Companies and Bases

(As of December 2020)

● Integrated operating company ● CLT ● IVD
● SR ● ENB ○ Company-wide (all segments)

Japan

H.U. Group Holdings, Inc.

● H.U. Frontier, Inc.

● SRL, Inc.
● Japan Clinical Laboratories, Inc.
● HOKUSHIN Clinical Laboratory, Inc.
● SRL Kitakanto Laboratory, Inc.
● SRL International, Inc.
● Clinical Network G.K.
● Ishinban, Inc.
● KBBM, Inc.
● SRL & Shizuoka Cancer Center Collaborative Laboratories, Inc.
● St. Luke's SRL Advanced Clinical Research Center, Inc.

● Fujirebio Holdings, Inc.
● Fujirebio, Inc.
● Advanced Life Science Institute, Inc.
● Fujirebio Diagnostics Japan, Inc.

● NIHON STERY CO., LTD.

● Care'x, Inc.
● Selmesta CO., LTD.
● SRL Wellness Promotion Inc.
● Japan Institute of Foods Ecology, Inc.
● SRL Medisearch, Inc.
● Kurotsuchi Medical Partners Co., Ltd.
● Medicofrontier G.K.
● MSF Capital Partners G.K.

○ H.U. Group Research Institute G.K.
○ H.U. Cast, Inc.
○ H.U. Cells, Inc.



Americas

1 Fujirebio Diagnostics, Inc. (US)
1 Fujirebio US, Inc.
2 H.U. America, Inc.
2 Baylor Genetics (US)

Europe

3 Fujirebio Europe N.V. (Belgium)
4 Fujirebio Diagnostics AB (Sweden)
5 Fujirebio Italia S.r.L.
6 Fujirebio Germany GmbH
7 Fujirebio Iberia SL (Spain)
8 Fujirebio France SARL

Asia

9 SRL (Hong Kong) Limited
10 Ping An SRL Medical Laboratories
11 CanAg Diagnostics (Beijing) Co., Ltd.
12 Fujirebio China Co., Ltd.
13 Fujirebio Taiwan Inc.

Corporate Overview and Investor Information

(As of March 31, 2020)

Corporate Profile

Corporate Name
H.U. Group Holdings, Inc.

Headquarters
Shinjuku Mitsui Building
2-1-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-0408, Japan
Tel: +81-3-5909-3335

Director, President and Group CEO
Shigekazu Takeuchi

Established
December 18, 1950

Capital Stock
¥9,147 million

Permanent Employees (Consolidated)
5,968

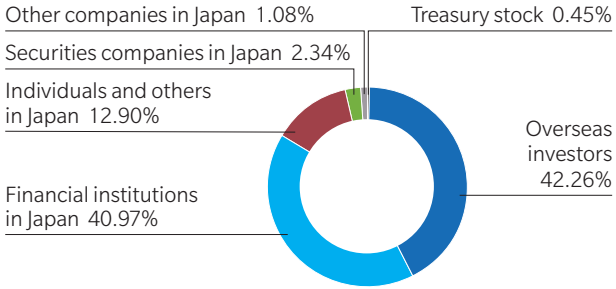
Management Structure
Company with three committees

Main Subsidiaries
SRL, Inc., Fujirebio, Inc. and NIHON STERY Co., Ltd.

Share Information

Number of shares authorized:	200,000,000
Number of shares issued and outstanding:	57,387,861
One share unit:	100
Number of shareholders:	12,020

Shareholders Based on the Shareholding Percentage



Major Shareholders

Name of shareholders	Number of shares held (thousands)	Shareholding ratio (%)*1
SSBTC CLIENT OMNIBUS ACCOUNT	6,388.7	11.18
The Master Trust Bank of Japan, Ltd. (Trust Account)*2	4,820.5	8.44
Japan Trustee Services Bank, Ltd. (Trust Account)*2	4,056.8	7.10
Mizuho Bank, Ltd.*3	2,132.1	3.73
The Dai-ichi Life Insurance Company, Limited	2,000.7	3.50
J.P. Morgan Bank Luxembourg S.A. 380578	1,854.4	3.25
Nippon Life Insurance Company, Ltd.	1,538.6	2.69
State Street Client Omnibus Account OM44	1,538.2	2.69
Northern Trust Co. (AVFC) RE HSD00	1,383.9	2.42
Meiji Yasuda Life Insurance Company	1,272.2	2.23

*1 The Company holds 258,864 shares of treasury stock, which is excluded from the major shareholders listed above.
Furthermore, treasury stock does not include the 149,200 shares held in the Board Incentive Plan (BIP) trust under the trust-type share-based compensation scheme.
*2 Shares owned by The Master Trust Bank of Japan, Ltd. and by Japan Trustee Services Bank, Ltd. are held at their trust accounts.
*3 Shares owned by Mizuho Bank, Ltd. include 2,131.5 thousand shares being held as trust assets of Retirement Benefits Trust Accounts of Mizuho Bank, Ltd. (shareholding ratio of 3.73%)
(The name on the list of shareholders is Custody Bank of Japan, Ltd., re-trust trustee of Mizuho Bank, Ltd. Retirement Benefits Trust Accounts of Mizuho Trust & Banking Co., Ltd.)

Ratings Information (As of November 30, 2020)

Ratings Agency	Rating
Rating and Investment Information Center (R&I)	A (Stable)

Editorial Policy

This integrated report contains a simple overview of both financial and non-financial data for shareholders, investors and other stakeholders to increase their understanding about the H.U. Group's management policy, business strategy, and management foundation. This integrated report was designed in a manner to highlight the Group's various initiatives for addressing changes in management climate and market needs, with an eye toward the integrated reporting framework of the International Integrated Reporting Council (IIRC).

- Reporting period: Fiscal 2019 (April 1, 2019 to March 31, 2020)
  Please note that certain information on activities up to December 2020 is also included.
- Scope: H.U. Group Holdings, Inc. as well as its subsidiaries and affiliates
- Publication: December 2020

Forward-Looking Statements

The predicted performance figures found within this integrated report are based on determinations made by our management team obtained from the information available at this point in time. They were prepared on the basis of numerous assumptions and opinions obtained based on information that includes enormous risks and uncertainty. Please note that our actual performance results may differ from these performance predictions due to a variety of different factors. Factors that could foreseeably impact our performance include, but are not limited to, a deterioration of the economic climate, exchange rate fluctuations, changes to legal or governance systems, delays in bringing new products to market, pressure resulting from the product strategies of our competitors, decreased selling power for our existing products, and the discontinuation of sales.

Precaution concerning Monetary Amounts

The monetary amounts appearing in this integrated report are rounded when presented in billions and truncated when presented in millions. In addition, percentages are rounded off to the nearest percentage point.

Note on Trademarks Appearing in This Report

LUMIPULSE, ESPLINE and iTACT are registered trademarks of Fujirebio, Inc. in Japan and in other countries.

H.U.GROUP
Healthcare for You