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**Disclosure on the Internet accompanying  
the Notice of the 72nd Annual General Meeting of Shareholders**

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The aforementioned content is posted on the website of TOHO HOLDINGS ("the Company") (<https://ir.tohohd.co.jp/en/stock/meeting.html>) and is provided to the shareholders via the Internet, pursuant to laws and regulations and Article 14 of the Articles of Incorporation of the Company.

**TOHO HOLDINGS CO., LTD.**

## **System to Ensure Proper Execution of Business and Status of Operation of the System**

The following descriptions outline the decisions made with respect to the system to ensure that the Directors' execution of duties complies with laws and regulations and the Articles of Incorporation, and other systems to ensure the proper execution of business of the Company.

Pursuant to the provisions of the Companies Act, the Company has established the following "Basic Policies for the Internal Control System," and will faithfully comply with the Basic Policies in order to ensure the legality and efficiency of the Company's business and to manage risks. In response to changes in social and economic conditions and other environments surrounding the Company, the Company will review the Basic Policies and seek to improve and enhance the Basic Policies.

(1) System to ensure that the Directors execute their duties in compliance with laws and regulations and the Articles of Incorporation

1) Under the "Kyoso Mirai Group Ethical Code" (hereinafter referred to as the "Ethical Code"), the Company has formulated the ethical standards and a code of conduct that must be followed in compliance with laws and regulations, as well as social norms. All employees (including Directors, Corporate Officers and employees) of the Kyoso Mirai Group act in accordance with this Ethical Code.

2) Pursuant to the provisions of laws and regulations, the Articles of Incorporation, the Board of Directors Rules, etc., the Board of Directors makes decisions on the Company's execution of business and monitors and supervises the execution of business of group companies.

3) In order to ensure that the execution of duties of each Director will be supervised by the Board of Directors, each Director properly reports to the Board of Directors on the status of business execution by the Company and group companies and the Directors mutually monitor and supervise each other's execution of duties.

4) By executing duties in compliance with laws and regulations, the Articles of Incorporation, the Board of Directors Rules, Decision-Making (*Ringi*) Rules, etc., the Directors ensure proper decision-making and the execution of duties.

5) Pursuant to the provisions of the Financial Instruments and Exchange Act, the Directors establish and continuously operate and assess the system in which internal control over financial reporting of group companies is effectively and appropriately conducted, and ensure the reliability and appropriateness of the financial reporting of the Company group.

6) In order to ensure that the execution of duties by each Director of the Company group will follow laws and regulations, the Articles of Incorporation, and various rules, the Company has established a whistle-blowing desk to receive whistleblowers' reports internally (Toho Hotline) and externally, and ensures that whistle-blowers will not be treated disadvantageously.

(2) System to ensure that the execution of duties by employees will be in compliance with laws and regulations and the Articles of Incorporation

1) In order to ensure that employees execute their duties while always being conscious of compliance, the Company strives so that the Ethical Code will be practically and fully applied under the control and supervision of the Group Management Committee. In particular, the Company makes efforts for maintaining and strengthening the system to ensure compliance with laws and regulations related to pharmaceutical affairs, laws and regulations for securing fair competition such as the Antimonopoly Act, strict control of corporate information and personal information, etc., and for providing employees with education and enlightening employees about the system.

2) The Company fully ensures that the business will be executed and managed in a proper manner through the office organization. If any problem arises, the Company will make a disposition in a proper and strict manner in accordance with the rules of employment and immediately take measures to prevent any recurrence of such problem.

3) In order to ensure that the execution of duties by employees of the Company group complies with laws and regulations, the Articles of Incorporation, and various rules, the Company has established a whistle-blowing desk to receive whistleblowers' reports internally (Toho Hotline) and externally, and ensures that whistle-blowers will not be treated disadvantageously. Through these efforts, the Company tries to ensure that the whistle-blowing system will be effectively and smoothly operated.

4) By periodically conducting internal audits, the Company checks whether the execution of duties by employees of the Company group complies with laws and regulations, the Articles of Incorporation, and various rules, and maintains and strengthens the proper execution of duties.

(3) System to preserve and control information concerning the Directors' execution of their duties

1) The Company properly preserves and controls the documents (including electronic records) related to the Directors' execution of their duties and other important information in accordance with laws and regulations and the "Document Handling Rules."

2) By undergoing audits conducted by the Audit and Supervisory Committee Members, the Company ensures the appropriateness of the creation, preservation, and control of information concerning the Directors' execution of duties.

(4) Rules and other systems related to the control of the risk of loss

1) Pursuant to the "Risk Management Basic Rules," the Company promotes the establishment of the Company group's risk management system, and makes efforts for early detection and understanding of any actual or potential risks that come to exist within the Company group, and for taking proper measures for such risks.

2) Through the Group Compliance Risk Management Committee, Group Disaster Countermeasure Committee, etc., the Company provides the Group Management Committee with risk information, and makes efforts for maintaining and improving the risk management system by taking appropriate measures.

3) If any unexpected circumstance occurs to the Company group, a task force will be established at the Company or a business operating company. The task force will be directed by the President (or a person appointed by the President) and take swift actions to organize a system to minimize damage and to maintain and establish the supply system for pharmaceuticals.

4) In order to maintain the normal operation of the computer processing systems, the Company introduced a back-up system by maintaining multiple data centers and has properly established a system in preparation for accidents.

(5) System to ensure that the Directors execute their duties in an efficient manner

1) As the basis for the system to ensure the Directors execute their duties in an efficient manner, the Company holds the Board of Directors meeting on a specified date each month, and extraordinary meetings of the Board of Directors as necessary. The Board of Directors meeting deliberates important issues related to business management, passes resolutions for such issues, and supervises the Directors' execution of their duties, etc.

2) The Group Management Committee sufficiently examines in advance any matters to be discussed and reported to the Board of Directors, so that the Company will be able to maintain the efficient and practical operation of the Board of Directors meeting.

3) In order to ensure that the Directors execute their duties in an efficient manner, the Company stipulates the "Organizational Rules," "Rules on Division of Duties," and "Rules on Duties and Authorities," appoints a person in charge of each set of rules, and formulates procedures for the enforcement of each set of rules.

4) Through the Board of Directors meeting, the Company periodically checks the progress of the Company group's business activities based on a medium-term management plan and an annual management plan.

(6) System to ensure the proper business execution of the Company group

1) System under which the Directors, etc., of subsidiaries report to the Company about matters related to the execution of their duties

The Company has established decision-making standards for business execution by subsidiaries. Any business execution that is considered important under the standards will be discussed at and reported to the Group Management Committee, and where necessary, discussed at and reported to the Board of Directors meeting. Subsidiaries are required to make reports pursuant to the "Affiliates Management Rules," for the purpose of subsidiary management.

2) Rules and other systems concerning the management of the risk of loss of subsidiaries

In order to properly address the "management risk" referred to in the "Risk Management Basic Rules," the Company has established the Group Compliance Risk Management Committee, for the purpose of promoting group-wide risk management.

3) System to ensure that the Directors, etc., of subsidiaries execute their duties in an efficient manner

Pursuant to the basic policies stipulated in the "Affiliates Management Rules," the Company has established the reporting system for the purpose of subsidiary management, and the Group Management Committee discusses important issues related to subsidiaries.

4) System to ensure that the Directors, etc., and employees of subsidiaries execute their duties in compliance with laws and regulations and the Articles of Incorporation

a. For the purpose of securing proper business execution, the Company ensures that subsidiaries will fully comply with the rules of conduct in accordance with the ethical standards prescribed in the Ethical Code.

b. Through internal audits periodically conducted by the Company, the Company audits the business of subsidiaries in order to ensure the proper business execution of subsidiaries.

(7) System related to certain employees to be assigned to assist with the duties of the Audit and Supervisory Committee

1) Where necessary, the Company appoints certain employees to be assigned to assist with the duties of the Audit and Supervisory Committee.

2) When the Company appoints certain employees to be assigned to assist with the duties of the Audit and Supervisory Committee, matters related to the appointment, transfer, and other personnel affairs of such employees will be determined through discussion with the Audit and Supervisory Committee or with the Full-time Audit and Supervisory Committee Member.

(8) Matters concerning reports to the Audit and Supervisory Committee

1) The Audit and Supervisory Committee Members attend important decision-making meetings including the Board of Directors meetings or inspect minutes and other materials thereof as necessary, and receive reports on important matters from the Directors and employees of the Company group.

2) If there is any significant event that may cause considerable damage to the Company, such as a violation of laws and regulations and the Articles of Incorporation, the Directors and any equivalent employees will immediately report such event to the Audit and Supervisory Committee or to the Full-time Audit and Supervisory Committee Member.

3) Decision-making documents (*Ringi* documents) are forwarded to the Audit and Supervisory Committee Members immediately after the final decision has been made on the decision-making documents.

(9) System to ensure that any person who has made a report to the Audit and Supervisory Committee will not be treated disadvantageously on the grounds of having made such report

When any of the officers and employees of the Company group has made a report to the Audit and Supervisory Committee or to the Full-time Audit and Supervisory Committee Member, it is prohibited to treat him/her disadvantageously on the grounds of having made such report, and all the officers and employees of the Company will be fully familiarized with such prohibition.

(10) Matters related to the advance payment or reimbursement procedures for expenses incurred for the Audit and Supervisory Committee Members' execution of their duties, and other policies concerning the processing of expenses or obligations incurred for the Audit and Supervisory Committee Members' execution of their duties

1) The Company bears the expenses necessary for the audits conducted by the Audit and Supervisory Committee, including expenses for lawyers, certified public accounts, consultants, etc., exclusively hired by the Audit and Supervisory Committee.

2) In addition to the expenses described above, the Company also bears any other expenses necessary for the Audit and Supervisory Committee Members' execution of their duties.

(11) Other systems to ensure that the Audit and Supervisory Committee will conduct the audits in an effective manner

1) The Representative Director exchanges opinions and communicates with the Audit and Supervisory Committee, by holding periodical meetings with the Audit and Supervisory Committee to discuss various issues, including issues to be addressed by the Company, the status of improvement of the environment for the Audit and Supervisory Committee's audits, and important issues related to the audits.

2) The Audit and Supervisory Committee periodically receives reports from the Accounting Auditors about plans, methods and results of the accounting audits, and exchanges information with the Accounting Auditors, for the purpose of conducting audits in an efficient manner.

3) The Internal Audit Division provides the Audit and Supervisory Committee with internal audit results, internal audit information and other necessary information, and maintains close collaboration with the Audit and Supervisory Committee. Furthermore, the Audit and Supervisory Committee may request investigation on audit matters and other relevant issues to the Internal Audit Division as necessary.

4) The Company assures the Audit and Supervisory Committee Members that the Audit and Supervisory Committee Members are entitled to conclude a consultancy contract with lawyers who are dedicated to the Audit and Supervisory Committee, in addition to the corporate lawyers hired by the Company.

The following outlines the operational status of the internal control system, pursuant to the basic policies described above, during the fiscal year under review.

(1) Efforts to ensure the properness and efficiency of business execution

The Company holds the Board of Directors meeting, in principle once a month, and the Group Management Committee meeting, in principle twice a month, in order to sufficiently deliberate business plans and other important management-related issues from the perspective of properness and efficiency. Out of the 16 Directors (excluding those who are Audit and Supervisory Committee Members) of the Company, 3 Directors are Outside Directors, and out of the 3 Directors who are Audit and Supervisory Committee Members of the Company, 2 Directors are Outside Directors who are Audit and Supervisory Committee Members. The Outside Directors and Outside Audit and Supervisory Committee Members attend important meetings, including the meetings referred to above, and express their opinions, etc., where necessary and on a timely basis. In addition, the Company has established rules which require important issues to be reported to the Audit and Supervisory Committee or to the Full-time Audit and Supervisory Committee Member and operates the framework under which the decision-making documents (*Ringi* documents) are forwarded to the Audit and Supervisory Committee Members and other information necessary for audits is transmitted to the Audit and Supervisory Committee Members.

(2) Compliance promotion and risk management system

The Company has established the "Risk Management Basic Rules." The Group Compliance Risk Management Committee, which is chaired by the person appointed by the President, deliberates important issues related to compliance promotion and risk management within the Company and the Company's group companies, and makes decisions on the policies concerning such issues.

In the context of compliance promotion, the Company implements education, training and enlightenment activities using the "Ethical Code," and makes efforts for the improvement of awareness and knowledge, as well as for enlightenment activities for the Company's affiliates.

In the context of risk management, the Company periodically conducts interviews within the Company and the Company's group companies with respect to the status of risks that may affect business activities, reports on the interview results to the Group Compliance Risk Management Committee and the Group Management Committee in order to take proper measures.

With the purpose of ensuring early detection and prevention of any violation of laws and regulations, unlawful acts, etc., and improving the self-cleansing mechanism, the Company also introduced the whistle-blowing system internally and has established internal and external whistle-blowing desks.

(3) Group management system

In terms of the management of the Company's group companies, the Company organizes the reporting system for the management of subsidiaries, and has established the system in which important issues are discussed with the Group Management Committee, pursuant to the "Affiliates Management Rules." The Group Audit Office, as the Company's internal audit division, conducts internal audits of group companies, in accordance with audit plans.

(4) Efforts to ensure the effectiveness of audits

The Company's Audit and Supervisory Committee Members, including the Outside Directors, attend important meetings such as the Board of Directors meetings and the Group Management Committee meetings, to obtain information regarding business execution and management and information relevant to the effectiveness of the internal control system. Furthermore, in order to ensure the effectiveness of audits, the Company has ensured close cooperation, including a system where the Audit and Supervisory Committee Members receive reporting on a periodical and occasional basis from, and exchange opinions with, the Accounting Auditor and the Group Audit Office, as well as a system where the Audit and Supervisory Committee Members periodically hold meetings and exchange opinions with the Representative Director, the head of each division and other employees.

## Consolidated Statement of Changes in Shareholders' Equity

(April 1, 2019 - March 31, 2020)

(In millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2019	10,649	48,566	151,943	-20,257	190,902
Changes of items during the consolidated fiscal year					
Dividends from surplus			-2,427		-2,427
Profit attributable to owners of parent			16,230		16,230
Purchase of treasury stock				-2,822	-2,822
Disposal of treasury stock		704		7,294	7,998
Net changes of items other than shareholders' equity during the consolidated fiscal year					
Total changes of items during the consolidated fiscal year		704	13,802	4,471	18,978
Balance as of March 31, 2020	10,649	49,271	165,745	-15,785	209,881

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for sale securities	Revaluation reserve for land	Total accumulated other comprehensive income		
Balance as of April 1, 2019	27,285	-4,507	22,777	168	213,848
Changes of items during the consolidated fiscal year					
Dividends from surplus					-2,427
Profit attributable to owners of parent					16,230
Purchase of treasury stock					-2,822
Disposal of treasury stock					7,998
Net changes of items other than shareholders' equity during the consolidated fiscal year	-1,816		-1,816	-2	-1,818
Total changes of items during the consolidated fiscal year	-1,816		-1,816	-2	17,160
Balance as of March 31, 2020	25,469	-4,507	20,961	166	231,009

(Note) Reported amounts are rounded down to the nearest million yen.

## Notes to Consolidated Financial Statements

### 1. Basis for Preparation of Consolidated Financial Statements

#### (1) Scope of consolidation

##### 1) Consolidated subsidiaries

- Number of consolidated subsidiaries: 18
- Names of principal consolidated subsidiaries:

TOHO PHARMACEUTICAL

Kyushu Toho

SAYWELL

Koyo

SQUARE-ONE

Toho System Service

Pharma Cluster

Pharma-Daiwa

J. Mirai Medical

Shimizu Pharmacy

Pharma Mirai

Seiko Medical Brain

VEGA PHARMA

Cure

Aobado

Kosei

Tokyo Research Center of Clinical Pharmacology

ALF

##### 2) Non-consolidated subsidiaries

- Names of principal non-consolidated subsidiaries:

Nextit Research Institute, Inc.

- Reason for exclusion from the scope of consolidation:

The non-consolidated subsidiary is excluded from the scope of consolidation, because its business size is small, it does not have a significant impact on the total assets, net sales, consolidated net income or loss, and retained earnings, etc., and its overall impact is negligible.

## (2) Application of the equity method

### 1) Number of affiliates to which the equity method is applied: 1

- Names of principal companies:  
SAKAI MEDICINES CO., LTD.

### 2) Non-consolidated subsidiaries and affiliates to which the equity method is not applied:

- Names of principal non-consolidated subsidiaries:

Nextit Research Institute, Inc.

- Names of principal affiliates:

Wakaba

- Reason for exclusion from the scope of application of the equity method:

The non-consolidated subsidiary and affiliate to which the equity method is not applied is excluded from the scope of application of the equity method, because it does not have a significant impact on the consolidated net income or loss, and retained earnings, etc., and they are overall negligible.

## (3) Fiscal year, etc. of consolidated subsidiaries

The last day of the fiscal year of consolidated subsidiaries is the same as the day of the consolidated settlement.

## (4) Accounting standards

### 1) Standards and methods for the valuation of securities

Held-to-maturity bonds: Amortized cost method (Straight-line method)

Other securities

- Securities with fair value: The fair value method based on the market price, etc., as of the last day of the consolidated fiscal year (All valuation differences are reported as a component of net assets, with the cost of securities sold calculated according to the moving-average method.)
- Securities without fair value: The cost method using the moving-average method.  
As for investments in limited liability investment partnerships and other similar partnerships (considered as securities according to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount equivalent to equity based on the most recent available financial report of the partnership, according to the reporting date stipulated in the partnership contract, is recorded.

- ### 2) Valuation standards and valuation method for inventories: The cost method using the moving-average method is used for the 4 consolidated subsidiaries (TOHO PHARMACEUTICAL, Kyushu Toho, SAYWELL and Koyo) (The method of writing down the book value due to decreased profitability). The cost method using the last cost method is used for other consolidated subsidiaries (The method of writing down the book value due to decreased profitability).

3) Depreciation method for fixed assets

i) Property, plant and equipment (excluding lease assets)

The fixed-rate method is applied (However, the straight-line method is applied for buildings (excluding auxiliary facilities of buildings) acquired on or after April 1, 1998 and for auxiliary facilities of buildings and structures acquired on or after April 1, 2016).

Principal useful lives are as follows:

Buildings and structures:	8-50 years
Vehicles and transport equipment:	4-6 years
Others:	5-15 years

ii) Intangible assets (excluding lease assets)

The straight-line method. However, the straight-line method over the internal useful life (five years) is used for computer software for internal use.

iii) Lease assets

Lease assets pertaining to finance lease transactions, without transferring the ownership of the leased assets to the lessee.

The straight-line method with no residual value is applied and the lease term is considered to be the useful life.

4) Standards for reporting significant allowances and provisions

i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad-debt losses on accounts receivable, loans, etc. In cases of ordinary receivables, the amount calculated using the loan loss ratio is provided, and in cases of specific receivables such as doubtful accounts, the recoverability is individually assessed and the estimated irrecoverable amount is provided.

ii) Provision for bonuses

The reserve for the payment of bonuses to employees and officers who perform duties as employees is provided, based on the estimated amount of bonuses payable for the consolidated fiscal year under review.

iii) Provision for directors' bonuses

The reserve for the payment of bonuses to directors is provided, based on the estimated amount of bonuses payable for the consolidated fiscal year under review.

iv) Provision for sales returns

The estimated amount of losses associated with future sales returns is provided to cover possible losses on sales returns.

5) Other significant matters for preparation of consolidated financial statements

i) Accounting treatment method for retirement benefits

When calculating retirement benefit obligations and costs, six consolidated subsidiaries (Pharma-Daiwa, J. Mirai Medical, Pharma Mirai, VEGA PHARMA, Tokyo Research Center of Clinical Pharmacology and ALF) are subject to the application of the simplified method, under which the hypothetical amount required to be paid for all employees upon their retirement for personal reasons as of the end of the fiscal year is considered to be the amount of retirement benefit obligations.

In line with the full transition to the defined contribution pension system, the Company and two consolidated subsidiaries (TOHO PHARMACEUTICAL and Toho System Service) have introduced an interim measure for compulsory retirees, who were employed at the time of the transition. Under the interim measure, part of the retirement benefits payable for past services rendered by the employees is paid as a retirement lump-sum payment. Accordingly, the retirement benefit obligations as of the end of March 2020 are provided to cover the payment of the retirement benefits for the employees. Because the actuarial differences are minor, they are treated as costs in each year when actuarial differences arise.

ii) Depreciation method and period of goodwill and negative goodwill

Goodwill, and negative goodwill that comes to exist by March 31, 2010, are evenly depreciated over 5 or 10 years.

iii) Accounting treatment method of consumption taxes, etc.

For the accounting treatment of consumption taxes, etc., the tax-exclusion method is adopted.

## 2. Notes to the Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 54,640 million yen

(2) Assets provided as security and obligations pertaining to security

1) Assets provided as security

Fixed-term deposits	165 million yen
Buildings	1,742 million yen
Land	4,203 million yen
Investment securities	4,035 million yen
Total	10,145 million yen

2) Obligations pertaining to security

Notes payable and accounts payable	20,281 million yen
Long-term loans payable (including those to be reimbursed within 1 year)	1,841 million yen
Total	22,122 million yen

(3) Land revaluation

Pursuant to the "Act on Revaluation of Land" (Act No. 34 of March 31, 1998) and the "Act for Partial Revision of the Act on Revaluation of Land" (Act No. 19 of March 31, 2001), land for business use has been revaluated, and the amount obtained by deducting the "deferred tax liabilities pertaining to revaluation" from the revaluation differences is reported as the "revaluation reserve for land" in the net assets section.

Revaluation method

The calculation is based on the land tax ledger referred to in Article 2, Item (3) of the "Order for Enforcement of the Act on Revaluation of Land" (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation March 31, 2002

The difference between the fair value of the revaluated land as of the end of the consolidated fiscal year under review and the book value after the revaluation of the revaluated land

1,297 million yen

### 3. Notes to the Consolidated Statement of Changes in Shareholders' Equity

#### (1) Types and total number of shares issued, and types and number of treasury shares

Type of shares	Number of shares at the beginning of the fiscal year under review	Number of increased shares during the fiscal year under review	Number of decreased shares during the fiscal year under review	Number of shares at the end of the fiscal year under review
Shares issued				
Common stocks	78,270 thousand shares	—	—	78,270 thousand shares
Total	78,270 thousand shares	—	—	78,270 thousand shares
Treasury shares				
Common stocks (Notes)	10,120 thousand shares	1,272 thousand shares	3,633 thousand shares	7,759 thousand shares
Total	10,120 thousand shares	1,272 thousand shares	3,633 thousand shares	7,759 thousand shares

(Notes) 1. The treasury shares of common stocks increased by 1,272 thousand shares, consisting of an increase of 1,270 thousand shares based on a resolution adopted by the Board of Directors, an increase of 1 thousand shares due to the stock acquisition for no consideration associated with restricted stock compensation and an increase of 0 thousand shares due to purchase of common stocks representing less than one unit.

2. The treasury shares of common stocks decreased by 3,633 thousand shares, consisting of a decrease of 3,612 thousand shares due to exercise of the subscription rights to shares options as Euro-yen convertible corporate bonds due 2019 with subscription rights to shares, a decrease of 19 thousand shares due to disposal as restricted stock compensation and a decrease of 1 thousand shares due to the exercise of stock options.

#### (2) Subscription rights to shares, etc.

Company name	Breakdown	Type of target shares	Number of target shares (Thousand shares)				Balance as of the end of the consolidated fiscal year under review (Million yen)
			Beginning of the consolidated fiscal year under review	Increase	Decrease	End of the consolidated fiscal year under review	
Filing company	Euro-yen convertible corporate bonds due 2019 with subscription rights to shares (Notes 2, 3 and 4)	Common stocks	3,604	8	3,612	—	—

	Euro-yen convertible corporate bonds due 2023 with subscription rights to shares (Notes 1 and 2)	Common stocks	5,973	—	—	5,973	—
	Share acquisition rights as stock options (Notes 5)	Common stocks	82	—	1	80	166
Total			9,660	8	3,614	6,054	166

(Notes) 1. The above number of the target shares of share acquisition rights is the number of shares calculated based on the presumption that the subscription rights to shares options have been exercised.

2. For the convertible bonds with share subscription rights, the all-inclusive method is used.

3. The increase of 8 thousand shares in the number of target shares of Euro-yen convertible corporate bonds due 2019 with share subscription rights is attributable to adjustment of the conversion price pursuant to the provisions for conversion price adjustment in the bond requirements.

4. The decrease of 3,612 thousand shares in the number of target shares of Euro-yen convertible corporate bonds due 2019 with share subscription rights is attributable to exercise of share acquisition rights.

5. The decrease of 1 thousand shares in the number of target shares of share acquisition rights as stock options is attributable to exercise of the rights.

### (3) Dividends from surplus

#### 1) Dividends from surplus, paid during the consolidated fiscal year under review

Resolution	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 9, 2019	Common stocks	1,022 million yen	15 yen	March 31, 2019	June 7, 2019
Meeting of the Board of Directors held on November 7, 2019	Common stocks	1,405 million yen	20 yen	September 30, 2019	December 6, 2019

(Note) Dividends per share based on the resolution adopted at the Meeting of the Board of Directors held on November 7, 2019 include 5 yen of commemorative dividend for the 10th anniversary of the transition to a holding company.

#### 2) Dividends for which the record date falls during the consolidated fiscal year under review but for which the effective date is in the next consolidated fiscal year

Resolution	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 14, 2020	Common stocks	1,410 million yen	20 yen	March 31, 2020	June 10, 2020

(Note) Dividends per share include 5 yen of commemorative dividend for the 10th anniversary of the transition to a holding company.

It is planned that retained earnings will be the divided resource.

## 4. Notes to Financial Instruments

### 1. Status of financial instruments

#### (1) Policies toward financial instruments

According to the Company group's policy, only products with a high level of safety, such as fixed-term deposits, are used for fund management, and loans from banks and other financial institutions and bond issuance are used as its primary means of fund procurement. The Company group enters into derivative transactions for the purpose of hedging the risk of interest rate fluctuations, and not for speculative purposes.

#### (2) Contents and risks of financial instruments and risk management system

Notes and accounts receivable, which are trade receivables, are exposed to customer credit risk. With respect to such risk, the Company group maintains the system in which the schedule and balance are managed for each trade partner and the credit status of major trade partners is monitored where necessary, pursuant to the Company group's accounts receivable management rules.

Regarding the shares considered as investment securities by the Company group, the shares are mainly those of the companies with which the Company group has a business relationship. Although the shares are exposed to the risk of market price fluctuations, the finance division periodically checks the market prices in order to control the risk.

The notes and accounts payable, which are trade payables, will become due within one year.

Regarding borrowings, the Company group uses a short-term borrowing method mainly for the purpose of procuring funds for business transactions, or as a short-term bridge loan to be borrowed until investment funds are procured by means of long-term loans payable; the Company group uses long-term loans payable and corporate bonds mainly for the purpose of making capital investments. The Company group uses long-term loans payable mainly at fixed interest rates to mitigate the risk of interest rate fluctuations.

The finance division is responsible for the execution and management of derivative transactions, and when executing a derivative transaction, approval is obtained in advance pursuant to internal rules for the execution of derivative transactions, as well as hedged borrowing. The Company group enters into derivative transactions only with financial institutions with a high credit rating, in order to reduce the credit risk. The Company group did not engage in derivative transactions in the consolidated fiscal year under review.

Trade payables and borrowings are exposed to liquidity risk. The Company group controls the risk by ensuring that each company prepares monthly cash flow plans, and by taking other measures.

### (3) Supplementary information on the fair value, etc., of financial instruments

The fair value of financial instruments is based on market prices or reasonable calculations in the absence of market prices. Since various assumptions and factors are reflected in estimating said value, different assumptions and factors could result in a different value.

## 2. Fair value, etc., of financial instruments

The amounts reported in the consolidated balance sheet, fair values, and differences between them as of March 31, 2020 are as follows. The following table excludes any items for which the fair values are extremely difficult to identify (See (Note 2)).

(Unit: Million yen)

	Amount reported in the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	84,219	84,219	—
(2) Notes and accounts receivable-trade	285,548	285,548	—
(3) Purchase rebates receivable	13,223	13,223	—
(4) Investment securities Other securities	60,296	60,296	—
(5) Notes and accounts payable-trade	355,140	355,140	—
(6) Bonds payable	20,063	19,850	-213
(7) Long-term loans payable	20,590	20,590	0

(Note 1) Method for calculating fair values of financial instruments and matters concerning investment securities

(1) Cash and deposits, (2) Notes and accounts receivable-trade, and (3) Purchase rebates receivable

Because these items are settled on a short-term basis and their fair values are almost equal to the book values, the book values are used as fair values.

(4) Investment securities

The fair values of shares are based on the prices on exchanges, and the fair values of bonds are based on the prices on exchanges or prices presented by financial institutions.

The notes to the securities for each holding purpose are as follows.

1) Other securities

(Unit: Million yen)

Category	Type	Acquisition cost	Amount reported in the consolidated balance sheet	Difference
Item for which the amount reported in the consolidated balance sheet exceeds the acquisition cost	Shares	22,894	59,416	36,521
	Government bonds, municipal bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Others	5	9	4
	Subtotal	22,900	59,426	36,526
Item for which the amount reported in the consolidated balance sheet is no more than the acquisition cost	Shares	1,018	863	-154
	Government bonds, municipal bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Others	6	5	-0
	Subtotal	1,025	869	-155
Total		23,925	60,296	36,370

(Note) If the fair value as of the end of the consolidated fiscal year decreases by approximately 50% or more of the acquisition cost, an impairment loss is reported. If the fair value decreases by approximately 30-50% of the acquisition cost, the average of the fair values at the end of each month during the past one year is calculated, and if the average fair value decreases by 30% or more of the acquisition cost, an impairment loss is reported.

2) Other securities sold during the consolidated fiscal year (From April 1, 2019 to March 31, 2020)

(Unit: Million yen)

Category	Sales value	Total profit on sales	Total loss on sales
Shares	2,315	1,281	47
Bonds	—	—	—
Others	—	—	—
Total	2,315	1,281	47

(5) Notes and accounts payable-trade

Because these items are settled on a short-term basis and their fair values are almost equal to the book values, the book values are used as fair values.

(6) Corporate bonds

The fair values of corporate bonds are calculated based on their market prices.

(7) Long-term loans payable

The fair values of long-term loans payable are calculated by the method in which the total amount of the principal and interest is discounted by an assumed interest rate that would be applicable to a new equivalent borrowing.

(Note 2) Financial instruments for which the fair values are extremely difficult to identify

(Unit: Million yen)

Category	Amount
Unlisted stocks, etc.	20,065

The above financial instruments are not included in "(4) Investment securities" because it is extremely difficult to identify their fair values as no quoted market price is available and it is impossible to estimate their future cash flows.

(Note 3) The reimbursement schedule of monetary claims and securities with a maturity date, after the consolidated settlement date

(Unit: Million yen)

Category	Within 1 year	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Deposits	83,627	—	—	—
Notes and accounts receivable-trade	285,548	—	—	—
Purchase rebates receivable	13,223	—	—	—
Securities and investment securities				
Held-to-maturity bonds	10	—	—	—
Other securities	—	0	—	—

(Note 4) The reimbursement schedule of corporate bonds, long-term loans payable, lease obligations and other interest-bearing debts, after the consolidated settlement date

(Unit: Million yen)

Category	Within 1 year	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Corporate bonds	—	20,000	—	—
Long-term loans payable	1,366	18,471	248	503

### 5. Notes to Rental Real Property

Notes are omitted because the total amount of rental real property has little significance.

### 6. Notes to Per Share Information

- (1) Net assets per share: 3,273.86 yen
- (2) Net income per share: 233.34 yen

### 7. Notes to Significant Subsequent Events

Not applicable.

## Statement of Changes in Shareholders' Equity

(April 1, 2019 - March 31, 2020)

(In millions of yen)

	Shareholders' Equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		Reserve for reduction entry of land	General reserve	Retained earnings brought forward	
Balance as of April 1, 2019	10,649	46,177	3,233	49,410	664	1,579	6,336	63,104	71,684
Changes of items during the fiscal year									
Dividends from surplus								-2,427	-2,427
Net income								9,720	9,720
Reversal of reserve for reduction entry of land						-56		56	
Purchase of treasury stock									
Disposal of treasury stock			704	704					
Net changes of items other than shareholders' equity during the fiscal year									
Total changes of items during the fiscal year			704	704		-56		7,349	7,292
Balance as of March 31, 2020	10,649	46,177	3,938	50,115	664	1,523	6,336	70,453	78,977

	Shareholders' Equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance as of April 1, 2019	-20,297	111,447	32,785	-4,484	28,300	168	139,916
Changes of items during the fiscal year							
Dividends from surplus		-2,427					-2,427
Net income		9,720					9,720
Reversal of reserve for reduction entry of land							
Purchase of treasury stock	-2,822	-2,822					-2,822
Disposal of treasury stock	7,294	7,998					7,998
Net changes of items other than shareholders' equity during the fiscal year			-2,034		-2,034	-2	-2,036
Total changes of items during the fiscal year	4,471	12,469	-2,034		-2,034	-2	10,432
Balance as of March 31, 2020	-15,825	123,916	30,751	-4,484	26,266	166	150,349

(Note) Reported amounts are rounded down to the nearest million yen.

## Notes to Non-consolidated Financial Statements

### 1. Notes to Significant Accounting Policies

#### (1) Standards and methods for the valuation of securities

Shares of subsidiaries and affiliates: The cost method using the moving-average method.

Other securities

- Securities with fair value: The fair value method based on the market price, etc., as of the last day of the fiscal year (All valuation differences are reported as a component of net assets, with the cost of securities sold calculated according to the moving-average method.)
- Securities without fair value: The cost method using the moving-average method.  
For investments in an investment limited partnership or other similar partnerships (Securities as defined in Article 2, paragraph 2 of the Securities Exchange Law), the Company books the net value of proportional holdings based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.

#### (2) Depreciation method for fixed assets

##### 1) Property, plant and equipment (excluding lease assets)

The fixed-rate method is applied (However, the straight-line method is applied for buildings (excluding auxiliary facilities of buildings) acquired on or after April 1, 1998 and for auxiliary facilities of buildings and structures acquired on or after April 1, 2016).

Principal useful lives are as follows:

Buildings and structures:	8-50 years
Apparatus and equipment:	5-15 years

##### 2) Intangible assets

The straight-line method. However, the straight-line method over the internal useful life (five years) is used for computer software for internal use.

##### 3) Lease assets

Lease assets pertaining to finance lease transactions, without transferring the ownership of the leased assets to the lessee.

The straight-line method with no residual value is applied and the lease term is considered to be the useful life.

##### 4) Long-term prepaid expenses

Evenly depreciated.

#### (3) Standards for reporting significant allowances and provisions

##### 1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover bad-debt losses on accounts receivable, loans, etc. In cases of ordinary receivables, the amount calculated using the loan loss ratio is provided, and

in cases of specific receivables such as doubtful accounts, the recoverability is individually assessed and the estimated irrecoverable amount is provided.

2) Provision for bonuses

The reserve for the payment of bonuses to employees and officers who perform duties as employees is provided, based on the estimated amount of bonuses payable for the fiscal year under review.

3) Provision for directors' bonuses

The reserve for the payment of bonuses to directors is provided, based on the estimated amount of bonuses payable for the fiscal year under review.

4) Provision for retirement benefits

In line with the full transition to the defined contribution pension system in April 2005, the Company has introduced an interim measure for compulsory retirees, who were employed at the time of the transition. Under the interim measure, part of the retirement benefits payable for past services rendered by the employees is paid as a retirement lump-sum payment. Accordingly, the retirement benefit obligations as of the end of March 2020 are provided to cover the payment of the retirement benefits for the employees. Because the actuarial differences are minor, they are treated as costs in each year when actuarial differences arise.

(4) Accounting treatment method of consumption taxes, etc.

For the accounting treatment of consumption taxes, etc., the tax-exclusion method is adopted.

## 2. Notes to the Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment:	18,267 million yen
(2) Assets provided as security and obligations pertaining to security	
Assets provided as security	
Buildings	179 million yen
Land	553 million yen
Total	732 million yen
Obligations pertaining to security	
Long-term loans payable (including those to be reimbursed within 1 year)	770 million yen
Total	770 million yen

The following assets are provided as security pertaining to notes payable and accounts payable-trade of subsidiaries including TOHO PHARMACEUTICAL.

Fixed-term deposits	165 million yen
Buildings	456 million yen
Land	1,925 million yen
Investment securities	4,034 million yen
Total	6,581 million yen

### (3) Guarantee obligations

Guarantee obligations to banks	5,574 million yen
Guarantee obligations to accounts payable	648 million yen

### (4) Monetary receivables and monetary obligations to affiliates

Short-term monetary receivables	19,124 million yen
Long-term monetary receivables	5,777 million yen
Short-term monetary obligations	39,631 million yen

### (5) Land revaluation

Pursuant to the "Act on Revaluation of Land" (Act No. 34 of March 31, 1998) and the "Act for Partial Revision of the Act on Revaluation of Land" (Act No. 19 of March 31, 2001), land for business use has been revaluated, and the amount obtained by deducting the "deferred tax liabilities pertaining to revaluation" from the revaluation differences is reported as the "revaluation reserve for land" in the net assets section.

#### Revaluation method

The calculation is based on the land tax ledger referred to in Article 2, Item (3) of the "Order for Enforcement of the Act on Revaluation of Land" (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation March 31, 2002

The difference between the fair value of the revaluated land as of the end of the fiscal year under review and the book value after the revaluation of the revaluated land.

1,339 million yen

### 3. Notes to the Non-consolidated Profit and Loss Statement

Amount of transactions with affiliates

Amount of business transactions

Business revenue 13,165 million yen

Amount of transactions other than business transactions 527 million yen

### 4. Notes to the Non-consolidated Statement of Changes in Shareholders' Equity

Number of treasury shares

Type of shares	Number of shares at the beginning of the fiscal year under review	Number of increased shares during the fiscal year under review	Number of decreased shares during the fiscal year under review	Number of shares at the end of the fiscal year under review
Common stocks (Notes)	10,108 thousand shares	1,272 thousand shares	3,633 thousand shares	7,747 thousand shares

(Notes) 1. The treasury shares of common stocks increased by 1,272 thousand shares, consisting of an increase of 1,270 thousand shares based on a resolution adopted by the Board of Directors, an increase of 1 thousand shares due to the stock acquisition for no consideration associated with restricted stock compensation and an increase of 0 thousand shares due to purchase of common stocks representing less than one unit.

2. The treasury shares of common stocks decreased by 3,633 thousand shares, consisting of a decrease of 3,612 thousand shares due to exercise of the subscription rights to shares options as Euro-yen convertible corporate bonds due 2019 with subscription rights to shares, a decrease of 19 thousand shares due to disposal as restricted stock compensation and a decrease of 1 thousand shares due to the exercise of stock options.

## 5. Notes to Deferred Tax Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

Deferred tax assets	
Accrued enterprise tax	56
Provision for bonuses	23
Allowance for doubtful accounts	780
Investment securities	813
Stocks of subsidiaries and affiliates	1,470
Other noncurrent liabilities	30
Impairment loss	121
Asset retirement obligations	94
Stock options	34
Restricted stock compensation	27
Net operating loss carryforwards	64
Others	48
Subtotal of deferred tax assets	3,566
Valuation reserve	-3,566
Total of deferred tax assets	-
Deferred tax liabilities	
Reserve for reduction entry of land	-671
Valuation differences on available-for-sale of securities	-13,740
Valuation differences of securities resulting from merger of subsidiaries	-429
Asset retirement obligations	-60
Investment securities returned from retirement benefit trust	-147
Others	-6
Total of deferred tax liabilities	-15,056
Net amount of deferred tax liabilities	-15,056

## 6. Notes concerning Related Party Transactions

Subsidiaries and affiliates, etc.

Attribute	Company name, etc.	Ownership ratio of voting rights, etc. (%)	Relationship with related party	Transaction content	Transaction amount (million yen)	Item	Balance as of the end of the fiscal year (million yen)
Subsidiary	TOHO PHARMACEUTICAL	Ownership Direct 100.0 %	Conclusion of business management contract Financial support Leasing of real estate properties Interlocking officers	Lending of funds	15,195	Loans (CMS loans)	15,195
				Interest income (Notes 1)	173		
				Business advisory fee (Notes 2)	1,175		
				Real estate rental income (Notes 3)	2,236		
				Dividend income (Notes 4)	9,197		
Subsidiary	Kyushu Toho	Ownership Direct 100.0 %	Financial support Interlocking officers	Deposits of funds	5,946	Deposits (CMS deposits)	5,946
				Interest due (Notes 1)	35		
Subsidiary	SAYWELL	Ownership Direct 100.0 %	Financial support Interlocking officers	Deposits of funds	18,298	Deposits (CMS deposits)	18,298
				Interest due (Notes 1)	91		
Subsidiary	SQUARE-ONE	Ownership Direct 100.0 %	Financial support	Debt guarantees (Notes 5)	4,574	—	—
Subsidiary	Pharma Cluster	Ownership Direct 100.0 %	Financial support Interlocking officers	Lending of funds	2,336	Loans	2,555
				Interest income (Notes 1)	19		
Subsidiary	Pharma Mirai	Ownership Direct 100.0 %	Financial support	Deposits of funds	11,876	Deposits (CMS deposits)	11,876
				Interest due (Notes 1)	53		

(Notes) Terms of transactions and the policy for determining the terms of transactions

- Interest rates are determined through discussion pursuant to the Company's rules, taking into consideration market interest rates, etc. A transaction amount represents a net increase or net decrease during the fiscal year.

2. The amount of business advisory fee is determined based on the costs associated with business advisory.
3. The amount of the real estate rental income is determined through discussion based on current conditions of transactions in the neighboring areas.
4. The amount of the dividend income is determined based on prescribed dividend standards.
5. The Company has provided debt guarantees for borrowings from banks.

#### **7. Notes to Per Share Information**

(1) Net assets per share	2,129.58yen
(2) Net income per share	139.74 yen

#### **8. Notes to Significant Subsequent Events**

Not applicable.