



October 31, 2025

To whom it may concern:

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Notice Regarding the Receipt of the Governance Enhancement Special Committee's Final Report and the Company's Policies for Responding to Its Recommendations

As announced in the "Notice Regarding Establishment of "Governance Enhancement Special Committee" dated August 6, 2024, the Company has established the "Governance Enhancement Special Committee" (hereinafter referred to as "the Committee") as an advisory body to the Board of Directors with the aim of further strengthening the governance systems of the Group, encompassing compliance and risk management.

The Committee consists solely of three independent outside members with expertise in law, finance, corporate management, and other relevant fields. From September 2024 to October 2025, it reviewed the Group's decision-making processes; risk management, auditing, and subsidiary oversight practices; the composition, deliberation content, and meeting frequency of various committees; personnel systems; various regulations, and other matters. Over a total of 20 sessions, the Committee examined whether the Group's governance systems function effectively and discussed overall challenges and improvement measures for the Group's governance systems, including measures to prevent recurrence of past misconduct.

At its meeting on October 9, 2025, the Company's Board of Directors received from the Committee the "Final Report of the Governance Enhancement Special Committee: Report on Strengthening the Governance Systems and Improving Operations" (hereinafter referred to as the "Final Report"; the original text of the Final Report is attached).

Upon receiving the Final Report, the Company's Board of Directors has formulated specific action policies to ensure the steady implementation of the recommendations outlined in the Final Report. We hereby announce these policies as follows.

1. Summary of Recommendations in the Committee's Final Report and the Company's Basic Policy

In the Final Report, to make the Group's governance systems more effective, issues related to the overall organization of the Group were examined from a wide range of perspectives, ultimately resulting in the following 12 recommendations. Making it a principle to implement fundamental and effective reforms in

response to all of the following recommendations, the Company has formulated specific action policies. For an outline of the action policies, please also refer to the separate document “The Company’s Major Policies for Responding to Recommendations in the Final Report”.

Moreover, to ensure the implementation of these reforms, the Chief Governance Officer (CGO) will oversee efforts and the Board of Directors will supervise the progress.

1. Strengthening and Enhancing Board of Directors, etc.
2. Strengthening and Clarifying Authority of the Chief Governance Officer (CGO)
3. Clarification of Criteria for Appointment and Roles of Consultants, Corporate Advisors, and Other Advisory Personnel
4. Reorganization of Committees and Clarification of Their Authority and Roles
5. Strengthening Governance of Subsidiaries. etc.
6. Enhancing Audit Effectiveness
7. Objectivity and Fairness in Personnel Management
8. Stricter Contract Procedures
9. Rationalization and Objectification of Investment Committee Decisions
10. Continuous Review of Various Regulations and Thorough Implementation and Enhancement of Training
11. Accelerating, Standardizing, and Documenting Responses to Misconduct
12. Establishment of Effective Whistleblowing System

2. The Company’s Specific Action Policies for Responding to the Recommendations in the Final Report

(1) Strengthening and Enhancing Board of Directors, etc.

The Final Report indicated that for the establishment of a sound corporate culture within the Company, it is extremely important that free and open discussions take place within the Board of Directors.

The Company has been aware of the importance of the composition of the Board of Directors where outside Directors hold a majority, as well as the necessity for continuous review of the skill matrix based on the business environment and the Group’s strategy. In FY2024, the Nomination and Compensation Committee reviewed the skill matrix after identifying the skills necessary to promote the implementation of the Medium-term Management Plan and its action plan. Following the General Meeting of Shareholders held in June 2025, the Board of Directors now consists of four internal Directors and five outside Directors, establishing a structure in which the latter holds a majority. In addition, in the same month, the Nomination and Compensation Committee was reconstituted with four outside Directors and two inside Directors to further enhance the quality of its deliberations.

Going forward, we will maintain a structure where outside Directors constitute a majority, while also continuously reviewing the skill matrix, taking into account the recommendations in the Final Report. Furthermore, we will establish the Company’s own criteria for the independence of outside Directors and further strengthen coordination among them by, for example, regularly providing forums comprised solely of outside Directors for information exchange and shared understanding. These measures will enable us to continuously improve the Board of Directors’ oversight function and the effectiveness of its discussions.

(2) Strengthening and Clarifying Authority of the Chief Governance Officer (CGO)

The Final Report indicated that for the establishment of a free and open-minded corporate culture within the Company, it is extremely important that the CGO function effectively.

The Company established a Chief Governance Officer (CGO) in June 2025 as the person responsible for driving governance reforms. Going forward, we will clarify the CGO's authority and scope of responsibility while establishing a framework that enables the CGO to fully fulfill its assigned role. The CGO will oversee and execute Group-wide compliance and risk management, thereby promoting the establishment of an effective governance system.

(3) Clarification of Criteria for Appointment and Roles of Consultants, Corporate Advisors, and Other Advisory Personnel

The Final Report recognizes the necessity of appointing individuals with insight, knowledge, capabilities, information, etc. that contribute to the sound development of the Group as consultants, corporate advisors or other advisory personnel (hereinafter referred to as "Advisors, etc."). However, it also indicates that if the management of the Group is unduly or excessively influenced by the Advisors, etc., or if they are paid excessive compensation relative to their role, problems may arise in the governance and compliance of the Group.

Accordingly, the Company will abolish the current Corporate Advisor Appointment Regulations and establish new "Consultant, Corporate Advisor, and Other Advisory Personnel Appointment Regulations" (tentative name) that incorporate the points raised in the Final Report. Furthermore, based on the new "Consultant, Corporate Advisor, and Other Advisory Personnel Appointment Regulations," we will review all contracts with currently commissioned Advisors, etc.

(4) Reorganization of Committees and Clarification of Their Authority and Roles

The Final Report indicated that it is necessary to streamline committees, clarifying their authority and responsibilities to prevent the existence of multiple similar committees handling compliance matters within the Company that could lead to overlapping or ambiguous scopes of authority and responsibility. Specifically, it was recommended that the Group Compliance and Risk Management Committee be split into a Compliance Committee and a Risk Management Committee, while the authority and roles of the Compliance Committee, Risk Management Committee, and Compliance Promotion Department were clearly stated.

To further strengthen its compliance functions, the Company established the Compliance Promotion Department effective April 1, 2025. This department has implemented various initiatives, including enhancing and expanding the whistleblowing system and conducting training to further raise Group-wide compliance awareness. The Compliance Promotion Department will continue to implement these initiatives going forward.

Furthermore, following the Final Report, we have already reorganized the Group Compliance and Risk Management Committee into the Compliance Committee and the Risk Management Committee in October 2025. We have also clarified the authority and roles of each committee and appointed the CGO as the chairperson of each committee.

(5) Strengthening Governance of Subsidiaries. etc.

The Final Report indicated that, in response to the increase in subsidiaries and other entities within the Group due to its expansion, the following measures are necessary for managing these subsidiaries

and other entities: unifying governance standards and other frameworks; establishing specialized departments responsible for managing subsidiaries; standardizing financial accounting systems; applying the same compliance rules as the Company to all subsidiaries and other entities; and dispatching financial and accounting experts from the Company to subsidiaries.

In response to the Interim Report, the Company established the Affiliated Company Management Department on April 1, 2025 and has been promoting measures to strengthen the governance of its subsidiaries and other entities. In addition, we have appointed officers dispatched to subsidiaries and other entities from our Affiliated Companies Management Department, Finance and Accounting Department, and the auditors of our subsidiary, TOHO PHARMACEUTICAL. This enables us to ensure the dissemination of management policies and strategies throughout the Group and the timely and appropriate understanding of the Group's financial and business conditions.

Going forward, we will appoint an officer in charge of the Dispensing Pharmacy in the Company to manage the Dispensing Pharmacy in subsidiaries and other entities, and work to establish a system that enables the Company to centrally monitor the financial conditions of each subsidiary.

(6) Enhancing Audit Effectiveness

The Final Report indicated the necessity for effective auditing within the Group.

The Group has already begun strengthening the independence and expertise of its Group Audit Office structure under a new Group Audit General Manager as of April 2025.

Going forward, we will continue to enhance the independence and expertise of the internal audit department, strive to secure talent, and continuously promote the expansion of educational opportunities for talent development. Furthermore, to improve audit quality and ensure audit effectiveness, we will establish a follow-up system to rigorously track and verify the improvement status of issues identified in audits.

(7) Objectivity and Fairness in Personnel Management

The Final Report emphasized the importance of personnel systems that objectively and fairly evaluate employee capabilities and earn the trust of employees.

To date, the Company has promoted initiatives to foster an environment where talented personnel can proactively thrive, aiming to realize “maximizing the value of human capital”, one of the key measures in the Medium-term Management Plan and implementation plan. Specifically, we are advancing the renewal of the target management system and the establishment of a more fair and equitable evaluation system and compensation system based on results. In February 2025, we conducted the engagement survey for all employees. Since July of the same year, based on the issues identified through this survey, top management has been conducting town hall meetings to engage in direct dialogue with employees on the front lines. Furthermore, in April of that same year, we recruited a new Head of Human Resources Department from outside the Company. Under this new leader, we are advancing these initiatives.

Moving forward, to drive corporate culture reform, we will advance the renewal of the target management system and establish a more fair and equitable evaluation system and compensation system based on results. By thoroughly implementing highly transparent personnel management, we will enhance employee engagement and encourage each individual to demonstrate initiative, thereby realizing our management strategy.

(8) Stricter Contract Procedures

The Final Report emphasized the importance of strengthening contract execution procedures, specifically outlining concrete review items for new contractors.

The Company has been working to visualize and document the review process leading up to contract execution. Specifically, when initiating new transactions, we utilize our internal workflow system to conduct necessary investigations, including corporate due diligence, anti-social forces checks, and financial checks, within the corporate department at headquarters. Furthermore, for existing business partners, we conduct regular risk checks, focusing primarily on high-risk industries for continued transactions and business partners critical to business continuity.

We will continue to rigorously implement these measures and other strict operational practices going forward.

(9) Rationalization and Objectification of Investment Committee Decisions

The Final Report indicated that it is necessary to review the way in which the Investment Committee makes decisions and establish institutional safeguards to ensure such decisions are made solely on the basis of economic rationality.

Going forward, to ensure objective and rational decision-making on investment projects, we will verify the appropriateness of the Investment Committee's structure and investment criteria. Subsequently, we will revise the Investment Committee regulations, establish clearer investment criteria and profitability evaluation standards, and specify operational rules for post-investment verification.

(10) Continuous Review of Various Regulations and Thorough Implementation and Enhancement of Training

The Final Report indicated that to prevent illegal acts and other misconduct before they occur, it is essential that officers and employees thoroughly understand what constitutes illegal behavior. This requires the establishment of appropriate regulations and the thorough implementation of effective training based on those regulations.

Two years ago, the Company implemented training focused on "cognitive understanding" through classroom-based sessions. Since then, we have evolved our training program to foster "emotional empathy" by encouraging participants to internalize the issues as their own responsibility, aiming to cultivate a sense of ownership. Additionally, we regularly publish email newsletters. Furthermore, we are reviewing and strengthening the Company's regulations in response to significant legal revisions affecting our business operations and changes in societal demands.

Moving forward, we will continuously review compliance-related regulations to align with evolving times. Based on the findings of the Final Report, we will persistently conduct training that promotes both "cognitive understanding" and "emotional empathy," thereby embedding a strong compliance mindset in every employee.

(11) Accelerating, Standardizing, and Documenting Responses to Misconduct

The Final Report emphasized the critical importance of incident response when incidents occur. It highlighted that timely and appropriate disclosure of incidents and measures to prevent recurrence is essential to minimize the various risks arising from such incidents.

The Company will establish a crisis management manual that clarifies the process from initial

response to information gathering, fact determination and disclosure, anticipating misconduct incidents, thereby establishing a swift and appropriate response system.

(12) Establishment of Effective Whistleblowing System

The Final Report indicated that establishing an effective whistleblowing system is necessary to prevent illegal acts, etc., from occurring, and to enable their early detection and prompt handling.

The Company has strengthened and enhanced its whistleblowing system. In addition to the existing whistleblowing systems within each Group company, we have established a reporting channel accessible to all officers, employees, and business partners of the Group. Furthermore, we have designated the newly established Compliance Promotion Department, effective April 1, 2025, as the internal reporting channel, and appointed external attorneys as the external reporting channel. Additionally, we have conducted training for all officers and employees on the system's overview, importance, and usage methods.

Moving forward, we will continue to enhance the reliability of the internal whistleblowing system through the ongoing operation of the external expert-managed channel, robust whistleblower protection, and thorough dissemination of the system. This will contribute to the deterrence of misconduct and its early detection.

3. Conclusion

The Group views the Final Report of the Governance Enhancement Special Committee as crucial recommendations for revitalizing our corporate culture and achieving sustainable growth. Moving forward, we will advance these initiatives under the oversight of the CGO.

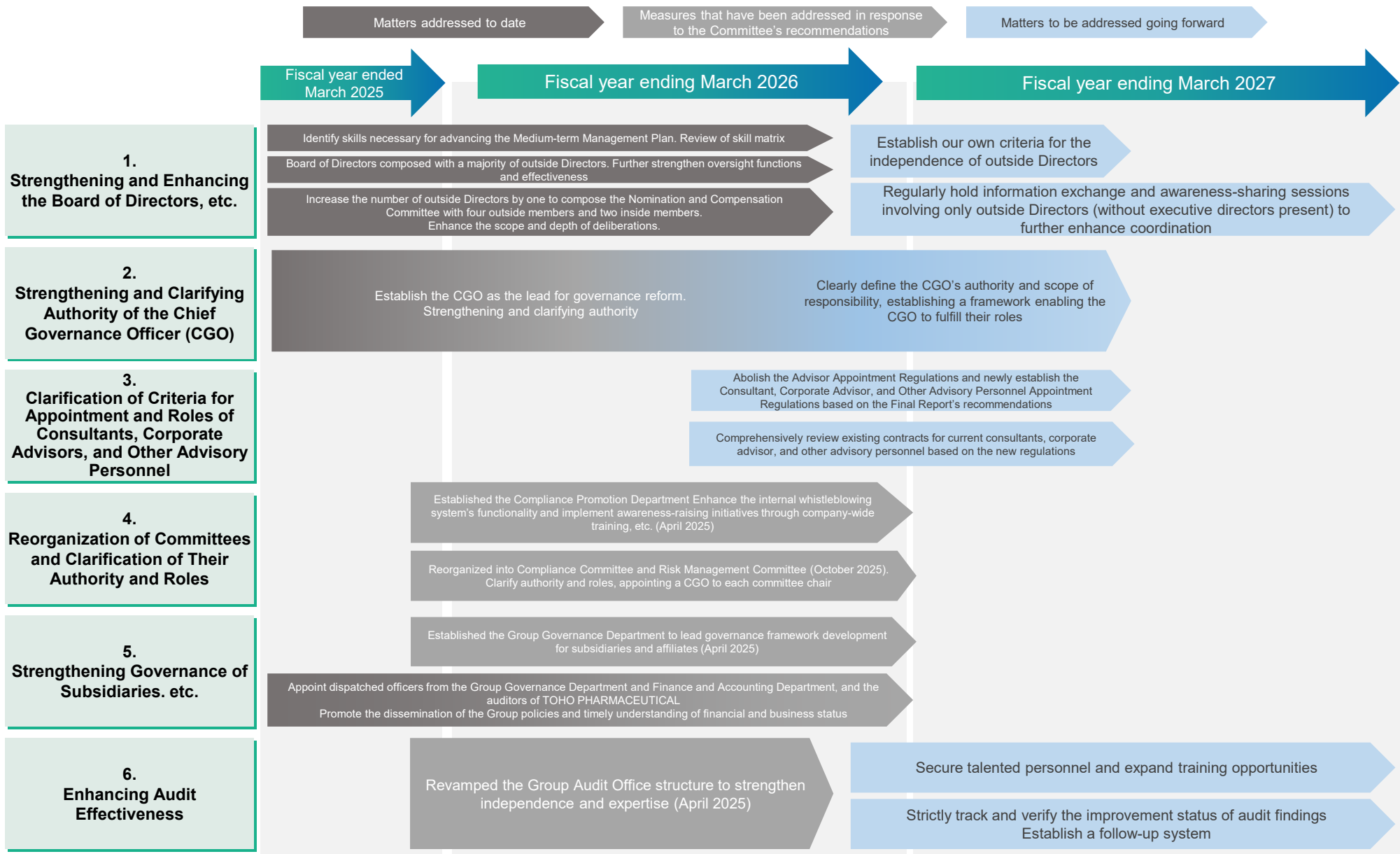
Based on these Policies, all officers and employees will continue to work earnestly and steadily to further enhance compliance and strengthen our governance framework. Through these efforts, we are committed to earning the trust of all stakeholders, including our shareholders, and achieving the sustainable enhancement of corporate value.

Furthermore, based on the strengthened governance framework established in response to the Final Report, we will actively pursue the consideration and implementation of measures to enhance our corporate value over the medium to long term.

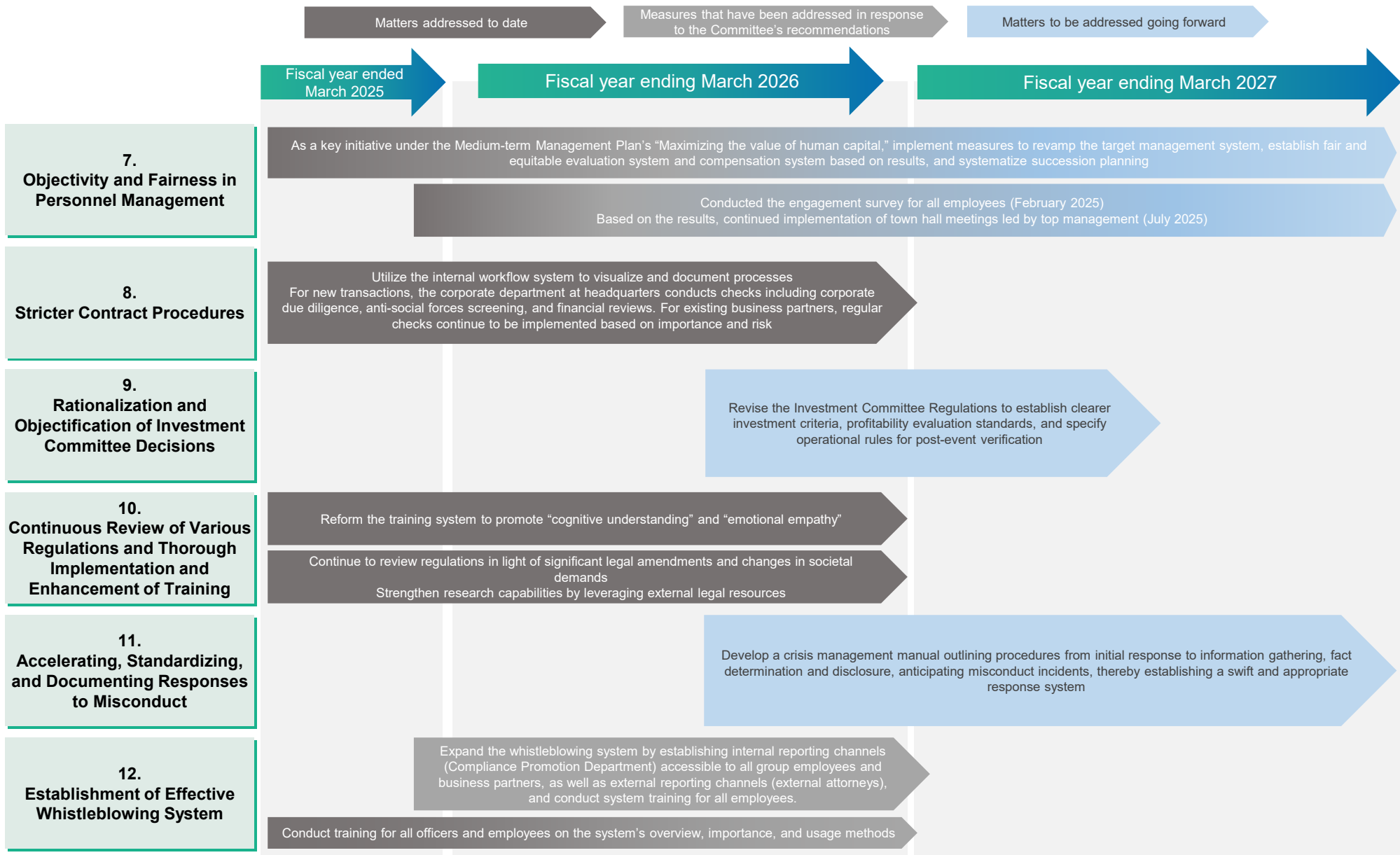
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The Company's Major Policies for Responding to Recommendations in the Final Report (1/2)

Attachment



The Company's Major Policies for Responding to Recommendations in the Final Report (2/2)



October 9, 2025

TOHO HOLDINGS CO., LTD.
To the Board of Directors

Final Report of the Governance Enhancement Special Committee
—Report on Strengthening the Governance Systems and
Improving Operations—

Governance Enhancement Special Committee

Yasuyuki Takai, Chairperson

Hidehito Kotani, Member

Chie Goto, Member

The Governance Enhancement Special Committee received a request for advice from the Board of Directors of TOHO HOLDINGS CO., LTD. regarding the strengthening of the governance and compliance systems within the TOHO HOLDINGS Group. The committee conducted deliberations over a total of 20 sessions from September 2024 to October 2025 and has now completed the necessary deliberations. During this period, based on the results of each deliberation and the Interim Report issued in February 2025, a number of measures have been implemented successively. This report presents the results of the deliberations, including these measures, as the final report.

I. Purpose, etc. of the Governance Enhancement Special Committee

1. The Governance Enhancement Special Committee (hereinafter referred to as “the Committee”) is a committee whose purpose is to strengthen governance. It is not an investigation committee whose purpose is to investigate past incidents and hold those involved accountable. However, the Committee was set up in response to those incidents to establish systems and mechanisms that would prevent similar incidents from occurring again. Therefore, we believe that the Committee is required to study the background and other factors of the incidents to the extent necessary for its purpose and draw lessons from them. The incidents referred to are the following cases:

- (i) Around 2016, TOHO PHARMACEUTICAL CO., LTD. (hereinafter referred to as “TOHO PHARMACEUTICAL”) joined a distribution channel for delivering prescription pharmaceuticals to a hospital operated by a private university, which was formed by individuals associated with an affiliated company established by the said university. However, this deal was actively and proactively promoted by a former manager after being approached by the individuals associated with the affiliated company. TOHO PHARMACEUTICAL was asked by these individuals for a steep discount when joining this distribution channel, but in the end agreed to a discount equivalent to 2% of its annual sales to the hospital. At that time, TOHO PHARMACEUTICAL was requested by these individuals to pay 1% of the discount amount to Company A, which had a close relationship with them, and accepted the request. However, since the deal had originally been promoted by the former manager, the contract with Company A was concluded not with TOHO PHARMACEUTICAL but with TOHO HOLDINGS CO., LTD. (hereinafter referred to as “HOLDINGS”), where the former manager served as representative director, as the contracting party. Consequently, an amount equivalent to 1% of the annual sales to the hospital was paid from HOLDINGS to Company A as remuneration under a consulting commission contract.

Later, around 2020, the aforementioned individuals became subjects of an investigation by authorities on suspicion of breach of trust in relation to the university. In the course of this investigation, personnel in charge of the above payments from HOLDINGS to Company A were questioned by authorities. It also became clear that Company A had no actual business operations (hereinafter referred to as the “Pharmaceutical Supply-Related Case”).

- (ii) TOHO PHARMACEUTICAL was involved in bid-rigging in connection with the tender for supply of prescription pharmaceuticals conducted by the Japan

Community Healthcare Organization in June 2016 and June 2018. Meanwhile, KYUSHUTOHO CO., LTD. (hereinafter referred to as “KYUSHUTOHO”) was involved in bid-rigging in connection with the tender for supply of prescription pharmaceuticals conducted by the National Hospital Organization in July 2016, July 2017 and July 2019. The former was subject to an on-site investigation by the Japan Fair Trade Commission in November 2019, and the latter, in November 2021. As a result, TOHO PHARMACEUTICAL and KYUSHUTOHO received cease and desist orders and surcharge payment orders by the Japan Fair Trade Commission in 2022 and 2023, respectively. In addition, in 2020, TOHO PHARMACEUTICAL and its employees were indicted for violating the Antimonopoly Act, and in 2021, the guilty verdict became final (suspended sentences for employees; hereinafter referred to as the “Bid-Rigging Case”). Prompted by the on-site investigation of TOHO PHARMACEUTICAL, HOLDINGS announced on July 3, 2020 compliance enhancement measures centered on (i) Appointing the Representative Director as Chairperson of the Group Compliance Risk Management Committee to strengthen its functions; (ii) Ensuring Group subsidiaries establish robust compliance systems; and (iii) Enhancing compliance training, and ensuring thorough awareness and implementation of reporting to the internal contact points for whistleblowing. On December 16 of the same year, HOLDINGS announced the specific implementation status of the above measures (i), (ii) and (iii).

2. Pharmaceuticals Supply-Related Case

(1) Whether a violation of laws or regulations occurred (Whether the crime of breach of trust was committed)

Theoretically, if the individuals concerned were obligated to transfer the full 2% discount amount to the university, paying 1% of that amount to Company A would constitute breach of trust on the part of the individuals concerned in their relationship with the university. If TOHO PHARMACEUTICAL paid Company A the equivalent of 1% knowing that the individuals concerned were committing breach of trust in their relationship with the university, TOHO PHARMACEUTICAL would be an accomplice to that breach of trust. It is not difficult to imagine that the authorities questioned TOHO PHARMACEUTICAL on such grounds. However, since TOHO PHARMACEUTICAL had absolutely no such understanding, complicity in breach of trust cannot be established against TOHO PHARMACEUTICAL. This is readily apparent from the fact that the authorities limited their actions to questioning. (Note: No charges were filed against

the individuals concerned in this matter either.)

In light of the above, it is clear that the payment to Company A does not constitute a violation of law or regulations. (It does not constitute complicity in the crime of breach of trust.)

(2) Whether there are compliance issues

The basis of compliance is “Avoid actions that might raise suspicion.” In short, the core of compliance lies not only in refraining from actions that violate laws or social ethics, which is a given, but also in avoiding any actions that might be suspected of violating them. From this perspective, the payment to Company A must be considered a compliance problem in itself, in that it aroused the suspicion of the authorities.

In particular, even if it was found out after the fact, it is clear that there is a compliance problem with the payment to Company A, which had no actual business operations. The payment of a certain amount of money to the individuals concerned is deemed somewhat reasonable and necessary as remuneration for securing ongoing substantial sales and profits through their mediation and to express the desire for continued cooperation in generating sales. That being said, if this is the case, a contract consistent with the cause of the payment should have been concluded. But that consistency is not clear in the consulting commission contract that was actually concluded. In that sense, the payment to Company A has a compliance problem.

(3) Whether there are governance issues

From the perspective of governance, which is a mechanism for making appropriate and sound decisions, a company must have a system in place to ensure that diverse opinions from diverse perspectives are reflected throughout the process leading up to the final decision on any matter, thereby avoiding inappropriate or unjust decisions in advance.

However, in the Pharmaceutical Supply-Related Case, payments to Company A, which, as previously stated, did not violate laws or regulations but raised compliance concerns, were made as requested by the individuals concerned. This clearly indicates there lies a governance issue.

(4) Cause or background of payments that involved governance and compliance issues

Given that this deal was not made by general employees but was instead proactively driven from the outset by an executive who wielded exceptionally strong influence and authority within the then TOHO HOLDINGS Group (hereinafter referred to as

the “TOHO Group”), it is easy to infer that the fundamental cause or background of this incident likely lies in the fact that, from the very beginning, the option to reverse course midway against the executive’s will was considered virtually nonexistent. Another contributing factor to the incident appears to be insufficient recognition of the fact that paying 1% of the 2% discount to Company A, as requested by the individuals concerned, could lead to the authorities forming the aforementioned assessment.

(5) What to take away from this case

Based on the above analysis, for a company to develop soundly, it is essential to establish governance and compliance. For these to be truly established, it is indispensable to foster a corporate culture where employees feel free to voice dissent even to superiors, and to have executives whose duty is not only to pursue business expansion but also to detect potential risks lurking beyond it at an early stage and to speak out about them.

3. Bid-Rigging Case

It is common knowledge that collusive bidding in public tenders is illegal. Even before this incident occurred, TOHO PHARMACEUTICAL had established the Antimonopoly Act Compliance Regulations and conducted regular training sessions to instruct employees not to engage in bid-rigging. Therefore, it is reasonable to assume that employees were fully aware that bid-rigging constitutes illegal activity. The fundamental question is why, despite this awareness, did bid-rigging continue to occur. The background to this is that bid-rigging is not undertaken by a single individual or company, but is typically carried out through collusion among multiple companies within the same industry. Therefore, it is inherently difficult for a single individual or company to avoid it through their own resolve. Furthermore, considering that the prime motive of employees participating in bid-rigging is not to pursue personal gain, but rather to maintain the company’s interests, there is no doubt that the formation of a counter-motive (a motivation to desist from the act) may be weaker than in crimes that pursue personal gain. Given this, to eradicate bid-rigging, management must issue clearer and more compelling messages than ever before (e.g., that bid-rigging undermines the company’s long-term interests and that illegal acts should be avoided even if short-term gains are sacrificed). At the same time, measures must be taken to ensure all employees perceive these messages as reflecting management’s genuine intent.

II Specific Measures Required

Both of the aforementioned cases occurred approximately five years ago. It should be appreciated that the management structure has changed since then, efforts are underway to shift to a free and open-minded corporate culture, training content has been improved to help form counter-motives, and appropriate improvement measures have been taken, such as encouraging the use of the whistleblowing system. With that being said, it is difficult to completely change the corporate culture formed over many years in a short period of time. We believe that the following specific measures are required in order to achieve a shift to a free and frank corporate culture and to create an organization in which the above incidents will never occur again.

Measure 1 Strengthening and Enhancing Board of Directors, etc.

To transform the corporate culture, it is essential that all officers and employees of HOLDINGS work with a firm and lasting commitment. The Board of Directors has a particularly important responsibility to fulfill. For an open and candid corporate culture to take root in the TOHO Group, the Board of Directors must be filled with a free-spirited atmosphere where executives can express their thoughts without any hesitation. Since the current management structure has been in place, discussions at the Board of Directors have become more active. It is desirable for this to take root as a part of corporate culture. From this perspective, we believe the following measures would be beneficial.

1. The Representative Director shall place the highest priority on governance and compliance, consciously refraining from acting arbitrarily while constantly encouraging the expression of opposing and minority opinions and striving to evaluate them appropriately.
2. Add investment, finance and legal experts to the Board of Directors.
3. Clarify the areas of responsibility of Directors and have them assume responsibility in their respective areas.
4. Reconsider the ratio of inside Directors to outside Directors to ensure that discussions at board meetings are active and useful.
5. Provide sufficient internal information to outside Directors to enable them to express accurate opinions and judgments.
6. Strengthen the independence of outside Directors.
7. In order to ensure transparency and clarity in the decision-making process, all important decisions shall be made through the institutionally established decision-making

procedures. This prevents decisions from being made de facto within informal groups such as personal circles not formally established, thereby avoiding the institutional decision-making bodies becoming mere formalities. If such de facto decision-making forums are absolutely necessary, they shall be institutionalized and their scope of authority and responsibility shall be clearly defined.

8. The Board of Directors shall ensure that opposing views and minority opinions are encouraged at all levels of internal meetings and properly evaluated.
9. Strengthen the independence of the Nomination and Compensation Committee and ensure that the opinions of outside Directors are fully reflected.

Measure 2 Strengthening and Clarifying Authority of the Chief Governance Officer (CGO)

To create a frank and open-minded corporate culture, it is vital that the office of the newly established Chief Governance Officer (CGO) functions effectively. It is only natural that profit-making enterprises should make the pursuit of profits their primary goal, but it is also natural that their profit-seeking activities should be conducted in accordance with various laws and regulations and social ethics. Nevertheless, it is not uncommon for companies to become so enthusiastic about profit-seeking that they neglect compliance with laws and regulations and adherence to social ethics. Therefore, for corporate activities to be conducted soundly, it is essential to have a position whose duty is to constantly monitor corporate activities from the perspective of legal and ethical compliance, detect various types of potential hazards in corporate activities as early as possible, and sound the alarm to protect the company's survival and interests. It is desirable that the newly established CGO fulfills this responsibility. In that regard, the following roles must be assigned to the CGO, and a system must be established to enable the CGO to fully fulfil these roles.

- (1) Oversee the governance of the entire Group.
 - (i) Lead the overall design, establishment, maintenance and improvement of the Group's overall governance structure.
 - (ii) Collaborate with various departments and committees related to governance, including legal affairs, risk management, compliance, internal audit, finance, public relations, and human resources, and understand their respective situations.
- (2) Promote and supervise legal compliance.

Establish, strengthen, and supervise compliance systems to ensure that corporate activities are conducted in accordance with relevant laws and regulations, internal regulations, and ethical standards.
- (3) Oversee the handling of serious governance and compliance issues or misconduct when

they arise.

- (4) Contribute to the formation of an open-minded corporate culture by taking into account minority opinions within the Group.
- (5) Establish and oversee a system for the timely and appropriate disclosure of governance-related information.
- (6) Receive and respond appropriately to whistleblower reports on events that pose governance problems.
- (7) Promote the measures in this report and supervise their progress.

Measure 3 Clarification of Criteria for Appointment and Roles of Consultants, Corporate Advisors, and Other Advisory Personnel

It is recognized that there is a need to appoint capable individuals possessing the insight, expertise, capabilities, information, and other assets that contribute to the sound development of the TOHO Group as consultants, corporate advisors, or other advisory personnel (hereinafter referred to as “Advisors, etc.”). However, if the management of the TOHO Group is unduly or excessively influenced by the Advisors, etc., or if they are paid excessive compensation relative to their role, problems may arise in the governance and compliance of the TOHO Group. In order to prevent these negative aspects, the criteria for appointment, roles, specific job descriptions, terms of office, and other details for each position must be clearly defined. However, the current Corporate Advisor Appointment Regulations and the implementation of the regulations are ambiguous in all these areas and lack uniformity across departments. Accordingly, the current Corporate Advisor Appointment Regulations shall be abolished and new appointment regulations shall be established to clearly define the criteria and procedures for appointment of Advisors, etc. as well as their authority and roles. The new regulations shall include at least the following matters. On top of that, contracts with all currently-commissioned Advisors, etc. shall promptly be reviewed in accordance with the new appointment regulations. However, when retaining professionals such as attorneys, certified public accountants, or tax accountants as corporate advisors, the previous practice shall apply.

- (1) Regarding the roles of consultants, corporate advisors, or other advisory personnel, clearly define each position’s role and responsibilities. Ensure that the role aligns with the actual duties performed. Prohibit the use of different titles externally that do not correspond to the defined roles.
- (2) With regard to the criteria for appointment of an Advisor, etc., (i) Avoid personal connections; (ii) Evaluate the individual’s insight, expertise, capabilities, information,

and other assets in a concrete and objective manner; (iii) Specifically examine how they will contribute to the sound development of the TOHO Group; (iv) For individuals who were public officials, quasi-public officials, deemed public officials, medical professionals, hospital personnel, etc., ensure that their selection does not raise suspicions of collusion with public institutions or medical organizations, or conflicts of interest; and (v) Determine compensation based on fair market value.

- (3) Decisions regarding the appointment of an Advisor, etc. shall be made by the Board of Directors in the case of a consultant or corporate advisor, and through internal approval procedures involving HOLDINGS' legal department, officers and the Group CEO in the case of other advisory personnel.
- (4) Individuals who have served as Representative Director, Chairman, or President of a Group company shall, as a general rule, not be appointed as an Advisor, etc. Exceptions may be made only when the Nomination and Compensation Committee determines that the insight, expertise, and information possessed by such an individual cannot be replaced by others for the development of the TOHO Group, in which case the individual may be appointed as a consultant or corporate advisor.
- (5) Other advisory personnel shall be commissioned only for specific and concrete projects, and any other comprehensive assignment shall be prohibited regardless of the length of the term.
- (6) Payment of compensation to other advisory personnel shall be made after verifying records such as documents, audio recordings, and submitted deliverables, and the supporting documentation for calculating such compensation must be retained by HOLDINGS.
- (7) The term of office for consultants and corporate advisors shall be one year, with term limits established.
- (8) Automatic renewal of terms shall be abolished. Instead, the necessity of renewal shall be determined after deliberating on performance, necessity, compensation amount, etc., through the bodies and procedures prescribed in (3) above, upon the expiration of each contract period.
- (9) Consultants and corporate advisors shall provide advice and recommendations at the request of Corporate Officers.
- (10) Consultants, corporate advisors, and other advisory personnel shall, as a general rule, not attend internal decision-making meetings or committee meetings such as those of the Management Committee. They may attend only exceptionally when requested by such meetings or committees, solely for the purpose of providing advice and offering reference opinions, and shall speak only when specifically called upon.

Measure 4 Reorganization of Committees and Clarification of Their Authority and Roles

To make swift and accurate decisions in accordance with the principles of organizationalism, it is necessary that the required information be promptly and accurately provided to decision-makers at each level, and that decisions made based on this information be swiftly and appropriately communicated to lower levels for implementation. To this end, it is necessary to streamline committees, clarifying their authority and responsibilities to prevent the existence of multiple similar committees that could lead to overlapping or ambiguous scopes of authority and responsibility.

1. Group Compliance Risk Management Committee

Compliance and risk are fundamentally different concepts, and it is inherently impractical for the same committee to handle both compliance and risk management. Therefore, the Group Compliance Risk Management Committee will be split into a Compliance Committee and a Risk Management Committee. This structure will enable each committee to specialize in its respective purpose and to perform its respective roles efficiently and effectively.

2. Compliance Committee

The Compliance Committee shall be chaired by the CGO. The committee's authority and roles shall primarily include (i) Formulating basic policies and regulations concerning compliance; (ii) Confirming the status of compliance promotion; (iii) Deliberating on and formulating countermeasures and recurrence prevention measures for compliance violations; (iv) Supervising the Compliance Promotion Department; and (v) Regularly reporting to the Board of Directors on matters such as the operational status of the whistleblowing system.

3. Compliance Promotion Department

The primary authority and roles of the Compliance Promotion Department shall be (i) Operating the whistleblowing system; (ii) Planning and conducting compliance training; and (iii) Serving as the secretariat for the Compliance Committee.

4. Risk Management Committee

The Risk Management Committee shall be chaired by the CGO. The committee's authority and roles shall primarily include (i) Identifying, evaluating, and prioritizing various risks; (ii) Formulating countermeasures for various risks identified; (iii) Monitoring activities and providing advice/guidance to risk-related committees (Sustainability Promotion Committee, Kyoso Mirai Group Disaster Countermeasures Committee, Compliance Committee, Investment Committee, Information Security

Committee, etc.); and (iv) Determining whether or not there is a need for a review of all regulations and manuals of risk-related committees and providing relevant instructions. (The Kyoso Mirai Group Disaster Countermeasures Manual is considered to require urgent review.)

Measure 5 Strengthening Governance of Subsidiaries. etc.

The TOHO Group has an increasing number of subsidiaries as its business expands, and it is imperative that the following systems be established to ensure adequate governance of these subsidiaries.

1. Unify governance standards and other related matters.

As the TOHO Group expands through acquisitions, post-merger integration (PMI) of absorbed companies remains incomplete. Particularly in the Dispensing Pharmacy business, pre-merger management continues to operate independently as before. As a result, the pace of the TOHO Group's business expansion has outstripped the development of its compliance and governance frameworks. Therefore, it is necessary to promptly establish unified governance regulations and standards across the entire TOHO Group to standardize governance criteria, and clarify the authority and responsibilities of each subsidiary and department.

2. Establish a specialized department in charge of subsidiary management.

The absence of a specialized department to manage and oversee subsidiaries indicates that group governance is not fully effective. Therefore, the following department and positions shall be newly established within HOLDINGS.

(i) Specialized department in charge of subsidiary management

(ii) Directors or Corporate Officers in charge of subsidiaries

(iii) Directors or Corporate Officers in charge of Dispensing Pharmacy business

3. Unify financial accounting systems.

The financial accounting systems are not unified, and HOLDINGS is unable to centrally monitor the financial status of subsidiaries. Therefore, the financial accounting systems shall be unified across the entire TOHO Group to establish a system enabling HOLDINGS to centrally monitor the financial status of subsidiaries.

4. Apply the same compliance rules to all subsidiaries as to HOLDINGS.

5. Dispatch personnel with strong financial and accounting skills from HOLDINGS to subsidiaries.

Measure 6 Enhancing Audit Effectiveness

The primary purpose of auditing is not to detect illegal, fraudulent, or improper acts after the fact, but to deter such acts before they occur. To this end, it is necessary to conduct effective audits, not just following predetermined audit procedures. From this perspective, the following measures are considered necessary.

1. Conduct thematic audits and unannounced inspections, and provide educational opportunities for auditors to enhance and strengthen accounting and operational audits.
2. Expand the internal audit department's personnel and regularly audit operational conditions at the field level.
3. Regarding audit resource shortages, review the positioning of audit department personnel. This includes recruiting external talent and promoting young and talented individuals to the audit department, recognizing that those gaining experience there could become future compliance personnel.
4. Since issues identified in audits may be re-identified in subsequent audits, establish a new system to confirm the status of improvements made regarding audit findings.

Measure 7 Objectivity and Fairness in Personnel Management

Personnel management is often influenced by personal relationships or reflect individual preferences and biases. However, whether employees' abilities are evaluated objectively and fairly, free from such personal ties or favor, whether they are assigned positions commensurate with their capabilities, and whether employees trust the company's approach to personnel management directly impacts the organization's rise or fall. From this perspective, it is necessary to introduce the following systems.

- (1) Just as the stone walls of castles are composed of stones of various shapes, a wide variety of human resources are required for the sound development of an organization. Create a system that allows employees' abilities to be evaluated not only from one angle but from as many angles as possible.
- (2) As the saying goes, "Where there is a god who throws away, there is a god who picks up," the evaluation of people varies depending on the person who evaluates them. Create a system that evaluates employees not just through their supervisors' eyes, but through as many eyes as possible. From this perspective, it is desirable for senior management to have as many opportunities as possible to interact directly with employees.
- (3) To accurately evaluate employees' abilities, evaluators themselves must possess a certain level of competence; therefore, implement a system to enhance evaluators' capabilities.

- (4) Establish a system that allows employees to cultivate their abilities and provides them with fair opportunities to demonstrate them.
- (5) Establish a system that also evaluates whether employees can speak frankly to their superiors and whether superiors can properly evaluate frank feedback from subordinates.
- (6) To make the shift in personnel policy visible to employees, appoint capable individuals from outside the organization to handle personnel affairs, free from existing constraints.

Measure 8 Stricter Contract Procedures

In light of the Pharmaceutical Supply-Related Case, it is only natural that contract procedures should be tightened. At the very least, for contracts with new counterparties, the following matters should be institutionalized for verification.

- (i) The counterparty has a verifiable existence.
- (ii) The counterparty possesses the appropriate track record to enter into the contract in question.
- (iii) The contract terms are reasonable and appropriate.
- (iv) No anti-social individuals or organizations are involved with the counterparty (the individual in the case of a natural person, or all officers in the case of a corporation) or in the contracting process.
- (v) The performance status of the contract.

Measure 9 Rationalization and Objectification of Investment Committee Decisions

In general, the unreasonable or arbitrary use of company assets tends to occur under autocratic management, and there have been numerous examples of this in the past. To avoid such a mistake, it is necessary to take this opportunity to review the way in which the Investment Committee makes decisions and establish institutional safeguards to ensure such decisions are made solely on the basis of economic rationality. From this perspective, it is considered necessary to fundamentally revise the Investment Committee Regulations and establish new regulations that include the following matters.

- (1) They should include strict and rational investment and exit criteria.
- (2) They should clearly stipulate that there are no interests, personal relationships, etc. among the investment project in question, the committee members, and the proposer, eliminating any possibility of arbitrary or personal judgments being made.
- (3) They should designate a responsible person to manage the progress of invested projects.

Measure 10 Continuous Review of Various Regulations and Thorough Implementation and Enhancement of Training

To prevent illegal acts and other misconduct before they occur, it is essential that officers and employees thoroughly understand what constitutes illegal behavior. This requires the establishment of appropriate regulations and the thorough implementation of effective training based on those regulations. Furthermore, these regulations must be continuously reviewed to reflect changes in social conditions, amendments to laws and regulations, the enactment of new laws, new court cases, etc. Training on the Antimonopoly Act and bribery has been provided for a long time, but in light of the Pharmaceutical Supply-Related Case, the scope of training needs to be expanded. From this perspective, the following measures are considered to be urgent issues.

1. Proceed with the review of regulations.

Promptly revise the current “Anti-Bribery and Anti-Corruption Regulations” and “Antimonopoly Act Compliance Regulations.” For the former, improve them to accurately reflect the bribery provisions of the Penal Code. For the latter, improve them to more clearly state that acts such as bid-rigging are against the company’s long-term interests.

2. Strengthen training on offenses against property.

Traditionally, the TOHO Group has conducted training on the Antimonopoly Act, bribery, etc., and it is believed that a basic understanding exists regarding what actions constitute bid-rigging or bribery. However, among illegal acts arising in corporate management, the most common types are offenses against property such as breach of trust and embezzlement. Particularly regarding the crime of breach of trust, there have been many cases involving executives and other senior management personnel. Reviewing past training records reveals that training on these offenses against property, such as breach of trust, has been insufficient. In particular, the crime of breach of trust involves abstract elements, making it difficult to determine applicability. Accordingly, in future training, we must not only cover the Antimonopoly Act and bribery offenses under the Penal Code, but also provide sufficient training on offenses against property centered on the crime of breach of trust. This is essential to ensure each employee can accurately determine whether or not certain crimes fall under the category of breach of trust.

3. Promote improvements to training content to encourage the formation of counter-motives.

As the Bid-Rigging Case shows, illegal acts cannot be prevented simply by making

employees aware that the act in question is illegal. To prevent illegal acts, it is necessary not only to make them aware that the act in question is illegal, but also to ensure that they form counter-motives that will deter them from committing the act. Accordingly, in future training, it is essential not only to thoroughly inform employees that the act in question is illegal, but also to make them fully aware of matters that lead to the formation of counter-motives (such as fully conveying the severity of the psychological, physical, economic, and social disadvantages that perpetrators, related parties, and the organization will suffer if the illegal act is discovered). While training content has now been improved to promote the formation of counter-motives, it is necessary to further enhance the training content in this direction going forward.

4. Provide special targeted training on a regular basis.

In addition to training for all employees, special training must be conducted for employees in departments prone to specific types of incidents (such as bid-rigging or breach of trust). This training is necessary to instill the company's commitment to preventing illegal acts and compliance violations more deeply and thoroughly.

Measure 11 Accelerating, Standardizing, and Documenting Responses to Misconduct

It goes without saying that misconduct must not occur, but unfortunately, it is difficult to completely eradicate the occurrence of misconduct. Therefore, even more important than preventing misconduct is how to respond when it does occur. In the past, some companies have failed to survive owing to mishandling misconduct. To minimize the various risks arising from misconduct, it must be understood that there is no alternative but to disclose its occurrence and recurrence prevention measures in a timely and appropriate manner. From this perspective, the following measures are required.

1. Clarify the department that will deal with misconduct.

Establish a designated department for handling misconduct in advance and clearly define its authority and responsibilities to ensure swift and optimal response.

2. Formulate a manual for handling misconduct.

Establish response manuals in advance to ensure swift and appropriate response.

3. Clarify disclosure standards.

Establish disclosure standards in advance based on the nature and severity of the incident to prevent arbitrary judgments regarding disclosure appropriateness.

4. Document cases of misconduct and responses thereto.

Document the causes, background, response process and outcomes, and established recurrence prevention measures for each case of misconduct. Utilize these documents

in internal training sessions to prevent the forgetting or fading of past misconduct and to ensure employees maintain a constant awareness of issues while performing their duties.

Measure 12 Establishment of Effective Whistleblowing System

The whistleblowing system in place at the time of the two aforementioned cases is considered to have been insufficiently effective, given that whistleblowers were required to identify themselves and that the designated contact points were internal company departments or the company's legal counsel. An effective whistleblowing system inherently deters illegal acts and similar misconduct merely by its existence. Even if such deterrence fails and an illegal act or similar misconduct occurs, an effective system enables early detection and prompt response. Considering this, the whistleblowing system can be regarded as the last line of defense for preventing illegal acts and similar misconduct, enabling their early detection and prompt response. Therefore, to make the whistleblowing system effective, it is necessary to at least operate it as follows.

- (i) Make anonymous reporting the standard practice.
- (ii) Establish contact points for whistleblowing outside the company as well.
- (iii) Introduce a leniency program and a reward system for whistleblowers.
- (iv) Establish a department dedicated to compliance (Compliance Promotion Department) to manage and administer the whistleblowing system.
- (v) Appoint a Director or Corporate Officer in charge of compliance to strengthen the reliability of the whistleblowing system and ensure prompt responses.
- (vi) Promote employee understanding by widely publicizing the operation method of the whistleblowing system through posters and other means.

Conclusion

The Chinese classics state: “If an Emperor has seven contending vassals, he will not lose his kingdom even if he is a fool.” It means that if a ruler has seven subjects who speak frankly and offer counsel, the state will be secure, but this is based on the assumption that the ruler is willing to listen to and accept such frankness and counsel. Looking at actual history, there are countless states that perished because their rulers refused to heed frank advice, or because fear of punishment silenced those who might have offered it. Even today, few subordinates dare to speak frankly without fear of displeasing their superiors, and few superiors possess the magnanimity to properly evaluate and accept such frankness when warranted. However, for the TOHO Group to achieve sound and sustainable growth, it is essential to foster an open and candid culture where such frank feedback from subordinates is welcomed and appropriately valued. Upon this foundation, flexible and resilient corporate governance must be established. Unfortunately, cultivating such a corporate culture is no easy task. While several of the measures called for in this report are already being implemented, maintaining this direction and achieving a transformation of corporate culture going forward will require unwavering commitment from the current management. From this perspective, executives who have personally experienced the necessity of a free and open-minded corporate culture bear significant roles and responsibilities. On the other hand, even if the current management demonstrates unwavering resolve, the culture will not change unless that resolve is trusted by all employees. We believe whether the current management’s resolve will earn the trust of all employees depends on how fully the measures called for in this report are implemented going forward. It depends particularly on 1) whether the newly established CGO fulfills the role as a “canary in a coal mine” by appropriately reflecting sincere minority and dissenting opinions in management, thereby convincing all employees that the corporate culture is really changing; and 2) whether the new whistleblowing system functions effectively and produces outcomes that will satisfy the whistleblowers.

We hope that this report will make even a small contribution to the sound and lasting development of the TOHO Group.

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