

Corporate Governance Report

Last Update: December, 24, 2015

TOHO HOLDINGS CO., LTD.

President and Representative Director: Norio Hamada

Contact: Corporate Planning Office 03-6838-2830

Securities Code: 8129

<http://www.tohohd.co.jp>

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

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

1. Basic Views

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

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

[Supplementary Principle 1-2(2)]

The Company is working to ensure that shareholders receive notices of convocation of General Meeting of Shareholders at least three (3) weeks prior to the date of such meetings to give shareholders sufficient time to consider any resolutions proposed for such meetings so that they can exercise their voting rights properly.

From now on, information described in such notices will be published electronically prior to distribution.

[Supplementary Principle 1-2(4)]

The Company is currently using the platform for electronic exercise of voting rights in order to enhance the convenience of institutional investors.

From now on, the Company will create such notices in English, in consideration of the increasing proportion of overseas investors among our shareholders.

[Principle 3-1 Enhancing Information Disclosure]

(v) The Company discloses in notices of convocation of General Meeting of Shareholders the reasons for appointment of candidates for the positions of outside director and outside auditor. The Company will disclose in such notices the explanation of individual appointment and nomination when appointing candidates for the positions of directors and auditors.

[Supplementary Principle 4-11(3)]

The Company will analyze and evaluate the effectiveness of the Board of Directors as a whole every year from now on, in order to enhance the effectiveness of the Board of Directors.

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

[Principle 1-4 Cross-shareholdings]

The Company may, based on comprehensive consideration of management strategy and of establishing, maintaining, and strengthening relationships with business partners, hold stocks in other companies when judging that holding stocks in other companies contributes to the enhancement of the Group's corporate value over the medium to long term.

The Company determines whether to exercise its voting rights after fully considering various factors, such as whether holding stocks in other companies will contribute to the sustainable growth of the Group and to the enhancement of the corporate value of the invested companies over the medium to long term.

[Principle 1-7 Related Party Transactions]

Based on the Board of Directors rules, the Company obtains approval from the Board of Directors concerning competing transactions by a director and transactions involving any conflict of interest between the Company and a director. The Board of Directors conducts appropriate supervision in accordance with relevant laws and regulations.

[Principle 3-1 Enhancing Information Disclosure]

(i) Management Philosophy, Management Strategy, etc.

The Management Philosophy and Management Strategy are disclosed on the Company's website, and in its CSR Report and Financial Results Briefing Documents. The Medium-term Management Plan is made public and also included in the CSR report.

The Management Philosophy "Mission Statement" is posted on the Company's website.

<http://www.tohohd.co.jp/en/company/policy/>

The Management Strategy is posted on the Company's website.

<http://ir.tohohd.co.jp/en/Management/Strategy.html>

The CSR Report is posted on the Company's website (Japanese only).

<http://www.tohohd.co.jp/csr/03/>

The Financial Results Briefing Documents are posted on the Company's website.

<http://ir.tohohd.co.jp/en/IRFiling/Presentation.html>

The press release concerning the Medium-term Management Plan is posted on the Company's website.

http://www.tohohd.co.jp/en/news/20130620_E.pdf

(ii) Policy on Corporate Governance

The basic policy on corporate governance is disclosed on the Company's website, and in the report concerning corporate governance and the CSR report.

The Company's basic policy on corporate governance and the report concerning corporate governance are posted on the Company's website (Japanese only).

<http://ir.tohohd.co.jp/ja/Management/CorporateGovernance.html>

The CSR report is posted on the Company's website as described in the above 3-1(i) (Japanese only).

(iii) Policy and Procedure on Compensation for Directors

Compensation for directors of the Company comprises monthly compensation and bonuses. The amount paid is calculated based on evaluation of the responsibilities and performance of individual directors, the Company's operating results and economic situation, trends among other companies, medium- to long-term results, and past payment results, etc., and decided by the board within the limited compensation amount resolved at the General Meeting of Shareholders.

(iv) Policy and Procedure on Appointment of Director and Auditor Candidates

The Company appoints director candidates at the Board of Directors after taking into consideration whether they can make accurate and prompt decisions and whether they can serve as "the right person in the right position" and consulting with the Group's Management Committee.

The Company appoints auditor candidates at the Board of Directors after taking into consideration whether they have sufficient knowledge on financing and accounting and on the Company business, consulting with the Group's Management Committee and gaining the consent of the Board of Auditors in

advance.

[Supplementary Principle 4-1(1)]

The Company, according to the Board of Directors rules, specifies matters to be decided and those to be reported at the Board of Directors concerning legally required matters or important management matters. The Company also specifies matters to be decided and those to be reported by executive persons from the President and CEO down, according to the authority rules and the decision-making rules.

[Principle 4-9 Independence Standards and Qualification for Independent Outside Directors]

The Company appoints independent outside directors according to the requirements for outside directors as prescribed in the regulation and to the Independence Standards stipulated by the financial instruments exchanges.

[Supplementary Principle 4-11(1)]

In order to achieve efficient and prompt Group operations, the Company appoints as its directors the representative directors of major subsidiaries and appoints outside directors with different viewpoints, including those managing a business, experiences, and high-level skills.

At the Board of Directors, these members hold discussions based on their individual knowledge, experiences, and abilities, make legal and managerial decisions, and supervise business execution.

[Supplementary Principle 4-11(2)]

The information on the Company's directors and auditors with concurrent duties at other companies is included in the Business Report and Reference Documents attached to notices of convocation of General Meeting of Shareholders and in the Annual Securities Reports, and is disclosed every year.

Notices of convocation of General Meeting of Shareholders are posted on the Company's website (Japanese only).

<http://ir.tohohd.co.jp/ja/Stock/Meeting.html>

Annual Securities Reports are posted on the Company's website (Japanese only).

<http://ir.tohohd.co.jp/ja/IRFiling/SecuritiesReport.html>

[Supplementary Principle 4-14(2)]

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

[Principle 5-1 Policy on Constructive Dialogues with Shareholders]

The Company responds positively to dialogue (or interview) requests from shareholders, which is specifically done by the Public and Investor Relations Office. Also, the representative director and the directors responsible for information disclosure respond as often as possible to some demands from shareholders or investors in the form of interview.

The Company has adopted the following policies in order to enhance constructive dialogues with shareholders:

(i) Appoints a director as a person responsible for information disclosure and establishes the Public and Investor Relations Office under the direction of the person as the department in charge of investor relations.

(ii) Makes efforts to enhance organic coordination under the direction of the person by sharing information more effectively between the Public and Investor Relations Office and other related departments.

(iii) Holds biannual financial results briefings for investors and analysts to offer direct explanations from top management and the person responsible for information disclosure. Furthermore, the Company holds

tours of facilities to offer a deeper understanding of the Company's management strategy. In addition, based on the Company's shareholder composition and capital policy, the Company arranges visits for foreign investors three or four times a year mainly by using the opportunity to attend the conference sessions held by securities companies in North America, Europe, and Asian regions.

(iv) Properly feeds investor relations activities and opinions from investors back to the management and the Board of Directors.

(v) Stringently manages information in accordance with internal regulations concerning those involved in handling insider information in order to prevent selective disclosure of insider information only to some market participants, and in dialogue with investors, tries hard to make into dialogue topics the Company's sustainable growth and the matters contributing to corporate value enhancement over the medium to long term.

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%
----------------------------	---------------------------

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Shionogi & Co., Ltd.	4,650,112	5.94
Mitsubishi Tanabe Pharma Corporation	3,573,456	4.56
Astellas Pharma Inc.	2,000,470	2.55
Japan Trustee Services Bank, Ltd. (Trust account)	1,779,200	2.27
Trust & Custody Services Bank, Ltd. as trustee for Daiichi Sankyo Company, Limited Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,637,000	2.09
The Master Trust Bank of Japan, Ltd. (Trust account)	1,536,300	1.96
TOHO HOLDINGS Employees Shareholders' Association	1,384,528	1.76
Hiroyuki Kono	1,330,560	1.69
State Street Bank and Trust Company 505041	1,243,800	1.58
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd., Limited Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,126,000	1.43

Controlling Shareholder (except for Parent Company)	-
Parent Company	none

Supplementary Explanation

-

3. Corporate Attributes

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

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

-

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

-

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

1. Organizational Composition and Operation

Organization Form	Company with <i>Kansayaku</i> Board
-------------------	-------------------------------------

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	40
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	13
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Shunsuke Watanabe	Other								○			
Shosaku Murayama	From another company								○			
Toru Nagasawa	From another company								○			

* Categories for "Relationship with the Company"

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

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

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Shunsuke Watanabe	○	Mr. Watanabe is appointed as a professor at the Graduate School at the International University of Health and Welfare, a customer of one of the Company's consolidated subsidiaries.	(Reasons for being appointed as an outside director) Mr. Watanabe worked as a reporter for Nikkei Inc., covering issues of medicine, social welfare, and pension and was appointed as a member of medicine-related councils of various organizations, such as the Ministry of Health, Labour and Welfare and Japan Medical Association. The Company has appointed Mr. Watanabe as an outside director because the Company judges that he is able to reflect in the Company's business his abundant experience gained in his career and broad expertise as a university professor.

			<p>In addition, although he has no experience in being directly involved in corporate management other than by being an outside director, the Company judges that he can carry out his duty as an outside director properly because of the above reasons.</p> <p>(Reasons for being appointed as an independent director) Transactions between the Company and the Graduate School at the International University of Health and Welfare are not so conspicuously numerous as those between the Company and other customers, and do not significantly affect the Company's business. In addition, persons from the University have not constantly been appointed as directors of the Company and there is little human interaction. Based on the above reasons, Mr. Watanabe has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders.</p>
Shosaku Murayama	○	Mr. Murayama is appointed President and Representative Director at iPS PORTAL, Inc., a customer of one of the Company's consolidated subsidiaries.	<p>(Reasons for being appointed as an outside director) Mr. Murayama has acquired broad expertise at the Bank of Japan concerning fiscal and monetary policies and the general state of the economy. He currently serves as President and Representative Director at another company. The Company judges that he will be able to contribute to the Company's management with his abundant knowledge and experience. Therefore, the Company has appointed Mr. Murayama as an outsider director.</p> <p>(Reasons for being appointed as an independent director) The Company conducts very few business transactions with iPS PORTAL, Inc., which holds no stock in the Company. In addition, persons from iPS PORTAL, Inc. have not constantly been appointed as directors of the Company and there is little human interaction. Based on the above reasons, Mr. Murayama has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with</p>

			ordinary shareholders.
Toru Nagasawa	○	-	<p>(Reasons for being appointed as an outside director)</p> <p>Mr. Nagasawa has a high level of legal knowledge and abundant experience he accumulated as a lawyer and the Company judges that he will be able to contribute to the Company's management with his knowledge and experience concerning corporate legal work. Therefore, the Company has appointed him as an outsider director. Moreover, he has been involved in corporate management as a corporate reorganization trustee and the Company judges that he can carry out his duties as an outside director properly.</p> <p>(Reasons for being appointed as an independent director)</p> <p>Mr. Nagasawa had been under contract as a legal adviser to the Company; however, the contract was canceled after being appointed an outside director of the Company as of June 26, 2015. Accordingly, Mr. Nagasawa has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders</p>

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

[Kansayaku]

Establishment of <i>Kansayaku</i> Board	Established
Maximum Number of <i>Kansayaku</i> Stipulated in Articles of Incorporation	5
Number of <i>Kansayaku</i>	4

Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments

As for the cooperation between auditors and accounting auditor, auditors and the Board of Auditors receive timely reports from the Company's accounting auditor concerning the annual audit plan, the priorities for audit, and the results of audit, and meet as necessary to exchange opinions so that they can cooperate closely with the accounting auditor. Moreover, auditors and the Board of Auditors are committed to performing an extensive audit by asking the accounting auditor to provide information about the progress of audit from time to time to support their audit activities.

As for the cooperation between auditors and the internal auditing department (or the Group Audit Office),

auditors and the Board of Auditors receive timely reports concerning the results of audit by the internal audit department. Moreover, auditors and the internal auditing department reinforce mutual cooperation, for example, by properly communicating to the General Manager of the Group Audit Office of the audit results and making the Manager attend the Board of Auditors as an observer. The Manager provide timely reports to the Board concerning the internal control involved in financial reporting in order to ensure an extensive audit system.

Appointment of Outside <i>Kansayaku</i>	Appointed
Number of Outside <i>Kansayaku</i>	2
Number of Independent <i>Kansayaku</i>	2

Outside *Kansayaku*'s Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yoshio Matsumoto	From another company										△			
Kazuo Takeda	From another company										△			

* Categories for "Relationship with the Company"

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

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

Outside *Kansayaku*'s Relationship with the Company (2)

Name	Designation as Independent <i>Kansayaku</i>	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshio Matsumoto	○	Mr. Matsumoto belonged to Sankyo Co., Ltd. (now Daiichi Sankyo Co., Ltd.), a	(Reasons for being appointed as an outside auditor) As Mr. Matsumoto participated in the management of Kyushu Sankyo Co.,

		<p>customer of one of the Company's consolidated subsidiaries. He left Sankyo in July 2006, and took up a post as an outside auditor (full-time) of the Company in June 2007.</p>	<p>Ltd. and Kurihara Bentendo Ltd., the Company expects that he will contribute to the Company's audit function, based on his experience and knowledge as an expert on business management that he has accumulated through his career. Therefore, the Company has appointed him an outside auditor.</p> <p>(Reasons for being appointed as an independent director) Transactions between the Company's consolidated subsidiary and Daiichi Sankyo Co., Ltd. are not so conspicuously numerous as those between the Company and other customers, and do not significantly affect the Company's business. In addition, persons from Daiichi Sankyo Co., Ltd. have not constantly been appointed as directors of the Company and there is little human interaction. Based on the above reasons, Mr. Matsumoto has been appointed as an independent director because the Company judges that he will have no risk of having conflicts of interest with ordinary shareholders.</p>
Kazuo Takeda	○	<p>Mr. Takeda worked as a senior advisor at MSD K.K., a customer of one of the Company's consolidated subsidiaries. He left MSD K.K. in June 2014.</p>	<p>(Reasons for being appointed as an outside auditor) Mr. Takeda has abundant knowledge about the pharmaceutical industry and experience in corporate activities, and the Company judges that he can carry out his duties properly in the Company's auditing. Therefore, the Company has appointed him as an outsider director.</p> <p>(Reasons for being appointed as an independent director) Transactions between the Company's consolidated subsidiary and MSD K.K. are not so conspicuously numerous as those between the Company and other customers, and do not significantly affect the Company's business. In addition, persons from MSD K.K. have not constantly been appointed as directors of the Company and there is little human interaction. Based on the above reasons, Mr. Takeda has been appointed as an independent director because the Company judges that he will have no risk of having</p>

			conflicts of interest with ordinary shareholders.
--	--	--	---

[Independent Directors/*Kansayaku*]

Number of Independent Directors/ <i>Kansayaku</i>	5
---	---

Matters relating to Independent Directors/ <i>Kansayaku</i>

The Company appoints as independent officers all the outside directors and outside auditors that are qualified to be independent officers.
--

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration / Stock Options
----------------------------------	---

Supplementary Explanation

In order to enhance willingness to contribute more than ever to raising stock prices and increasing corporate value.
--

Recipients of Stock Options	Inside Directors
-----------------------------	------------------

Supplementary Explanation

None

[Director Remuneration]

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

Supplementary Explanation

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

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

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods
--

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

Moreover, officers' bonus is decided upon according mainly to their contribution to the Company's performance.

[Supporting System for Outside Directors and/or *Kansayaku*]

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

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

- The Company has appointed three outside directors in order to further enhance the system for supervising and monitoring the execution of operation by directors and also enhance the system for reflecting the opinions of external experts.

- The Company has set the terms of directors at one year to establish a flexible management system for responding swiftly to changes in business environments and to clarify the responsibility and evaluation of each director.

- As a general rule, the Company holds regular meetings of the Board of Directors each month, and by holding special meetings of the Board of Directors as needed, the Company ensures the proper execution of operations and makes swift decisions.

In order to realize efficient decision making at meetings of the Board of Directors, the Company has established the "Group Management Committee" consisting of directors and executive officers as well as directors and executive officers of the Group companies, as an organization tasked with deliberating in advance the proposals that are to be submitted to the Board of Directors, and has introduced a system for holding regular meetings of the "Group Management Committee" twice per month, in principle. The Company ensures the proper execution of operations by thoroughly deliberating on relevant issues at this "Group Management Committee."

Moreover, with the shift to a holding company structure, the Company carried out an absorption-type company split whereby Toho Pharmaceutical Co., Ltd. succeeded to the Company's pharmaceutical wholesaling business and PharmaCluster Co., Ltd. to the Company's management operations of the dispensing pharmacy business. By providing Toho Pharmaceutical Co., Ltd. and PharmaCluster Co., Ltd. with the functions of the intermediary holding company, respectively, the "Group Management Committee" thoroughly deliberates the proposals and the relevant important matters to be submitted to each Board of Directors of the three companies in total; that is, the Company, Toho Pharmaceutical Co., Ltd., and PharmaCluster Co., Ltd.

- The Company ensures the proper execution of operations by proactively utilizing its corporate lawyers and following advice from more than one lawyer for each specialized area.

- The Company establishes the Board of Auditors and has the auditors audit the execution of duties by directors.

Auditors, conforming to the auditing policies and the allocation of duties, etc., conduct strict audits by attending the Board of Directors, receiving reports mainly from directors concerning the execution of operations, reading important decision-making documents, and inspecting the state of business and assets.

- The Company ensures that, aside from the Company's corporate lawyers, the Board of Auditors has its own legal advisors and takes legal counsels needed in the position of an auditor.

- The Company establishes the "Group Audit Office" independent of business operations in order to secure sound management and proper business operations, and conducts regular audits based on the annual auditing plan and conducts irregular special audits in order to enhance and implement internal audits thoroughly.

- The Company's consolidated financial statements and non-consolidated financial statements are audited by Ernst & Young ShinNihon LLC. There are no interest relationships between the Company and the audit corporation and between the Company and the managing partners that are required to be reported by the Certified Public Accountant Law.

The name of the certified public accountants who executed audit operations, the number of continuous audit years, and audit corporation to which the certified public accountants belong are as follows:

(Name of the certified public accountant, etc.)

Appointed limited liability employees (Managing Partners): Koichiro Watanabe

Ditto	Kiyonobu Takeuchi
Ditto	Satoru Fukuda
(Audit corporation to which they belong)	
Ernst & Young ShinNihon LLC.	
(Number of continuous audit years)	
Description is omitted because the number is less than seven years.	
Composition of assistants of audit engagement: eight certified public accountants and six other staff members	
The six other staff members include four successful candidates for certified public accountants.	

3. Reasons for Adoption of Current Corporate Governance System

The Company as a company with a Board of Auditors judges that the Company sustains a good corporate governance system through each of the features for the Board of Directors to supervise and monitor business operations and for the Board of Auditors to audit business operations.

Among thirteen directors are three outside directors, who aim to strengthen the management supervision function. The term of each director is limited to one year, and each director shall be approved at the Annual General Meeting of Shareholders.

Moreover, the Company ensures a system for monitoring thoroughly the state of business operations by having all of the four auditors, including two outside auditors (full-time), attend the Board of Directors.

The Company's auditors do not only audit the Company, but also concurrently serve as auditors (part-time) of the fourteen consolidated subsidiaries, each playing their role.

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company is working to send notices of convocation of General Meeting of Shareholders a little more than two weeks prior to the date of the Statutory General Meeting of Shareholders. In 2015, the date for sending notices of convocation was June 5, and the date of the General Meeting of Shareholders was June 26.
Allowing Electronic Exercise of Voting Rights	The Company has adopted the system for the exercise of voting rights by electromagnetic means since the 63rd Ordinary General Meeting of Shareholders held on June 28, 2011.
Participation in Electronic Voting Platform	The Company has participated in the platform for electronic exercise of voting rights since the 63rd Ordinary General Meeting of Shareholders held on June 28, 2011, and has prepared an environment that provides institutional investors at home and abroad with a wide range of opportunities to exercise their voting rights.
Other	Notices of convocation and resolution of General Meeting of Shareholders are posted on the Company's website (Japanese only).

2. IR Activities

	Supplementary Explanations
Regular Investor Briefings for Analysts and Institutional Investors	The Company, after disclosing the final financial statements and the interim financial statements, continuously holds financial results briefings for securities analysts and institutional investors. Moreover, the Company holds meetings individually with institutional

	investors when needed.
Regular Investor Briefings for Overseas Investors	The Representative Director and the Director in Charge of Investor Relations conduct individual visits to institutional investors abroad.
Posting of IR Materials on Website	The Company posts its consolidated financial statements, annual securities reports, timely disclosure of information, notices of convocation of General Meeting of Shareholders, etc. on its website and provides audio recordings of presentations at the financial results briefings.
Establishment of Department and/or Manager in Charge of IR	The department that specializes in investor relations includes the Corporate Planning Division, the Public and Investor Relations Office, and the Investor Relations Section.

3. Measures to Ensure Due Respect for Stakeholders

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

IV. Matters Related to the Internal Control System

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

1. Basic Policy on Internal Control System and its State of Establishment

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

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

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

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

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

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

(5) Based on the Financial Instruments and Exchange Act, directors are continuously engaged in preparing,

managing, and evaluating a system for implementing effective and proper internal control related to the Group's financial reporting in order to ensure the reliability and appropriateness of the contents of the Group's financial reports.

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

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

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

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

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

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

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

(1) In accordance with the laws and regulations as well as the "Rules for the Management of Documents," the Company properly stores and manages documents related to the execution of duties by directors (including electromagnetic records), and other important information.

(2) The Company ensures the appropriateness of the contents concerning the creation, storage, and management of information in relation to the execution of duties by directors by having them audited by the auditors.

[4] Regulations for Management of Risk of Loss and Other Systems

(1) The Company reinforces the risk-management system of the Group in accordance with the "Basic Rules on Risk Management" and deals with risks properly by early detecting and grasping those risks which emerged or may emerge in the Group.

(2) The Company reports risk information to the Group Management Committee through the Group Compliance Risk Management Committee and the Group Disaster Prevention Committee, etc. in order to take appropriate actions and maintain and enhance the risk management system.

(3) Upon the occurrence of an unexpected event within the Group, the Company establishes a special headquarters led by the President (or those assigned by the President) in-house or in other companies conducting business to take prompt actions, thereby organizing a system which will keep loss to a minimum, along with establishing and maintaining the delivery system of prescription pharmaceuticals.

(4) In order to maintain the normal operation of its computer processing system, the Company locates multiple data centers and launches a backup system to properly build up a robust framework for accidents.

[5] System for Ensuring that the Duties of Directors are Exercised Efficiently

(1) As a basis of the system for ensuring that the duties of Directors are exercised efficiently, the Board of Directors meeting is normally held on a monthly basis, and an extraordinary meeting is held when necessary. In these meetings, important matters concerning the management are deliberated and voted, and the business execution by the Directors is supervised.

(2) The Company leaves it to the Group Management Committee in advance to take into full consideration the items referred to or reported to the Board of Directors in order to maintain the effective and substantial operation of the Board of Directors.

(3) In order to ensure that the duties of Directors are exercised efficiently, the Company establishes the "Organization Regulations," the "Regulation Concerning the Division of Duties," and "Regulations for Authority of Duties," designating a responsible party for each regulation and defining the details of responsibilities and execution procedures.

(4) The Company holds the Board of Directors periodically to confirm the progress of business activities of the Group based on the Mid-term Management Plan and the Annual Management Plan.

[6] System for Ensuring Proper Operations within the Corporate Group

(1) System for reporting to the Company on matters relating to the execution of duties by Directors of subsidiaries

- The Company establishes the criteria for decision making relating to the execution of business operations by subsidiaries, whereby the execution of important business operations is discussed at and reported to the Group Management Committee, and referred to and reported to the Board of Directors if necessary. The Company manages its subsidiaries by requiring its subsidiaries to report to the Company important matters related to management in accordance with the "Management Rules of the Affiliated Companies."

(2) Regulations and other systems with regard to managing the risk of loss for subsidiaries

- The Company establishes a Group Compliance Risk Management Committee and promotes risk management across the entire Group in order to deal properly with "Management Risks" described in the "Basic Policy of Risk Management."

(3) System for ensuring that the duties of directors of subsidiaries are exercised efficiently

- The Company, based on the basic policy on the "Management Rules of the Affiliated Companies," develops a reporting system and manages its subsidiaries. Major items are discussed in the Group Management Committee.

(4) System for ensuring that the duties of directors and employees of subsidiaries are executed in compliance with laws and regulations and the Articles of Incorporation.

- The Company requires its subsidiaries to strictly follow the Code of Conduct based on the ethical standards defined in the Code of Ethics, in order to ensure the proper business operations.

- The Company conducts periodic internal audits of the Company to perform operating audits for its subsidiaries, and ensure the appropriate execution of duties.

[7] System Related to Employees to Assist Duties of Auditors when Auditors Request them to Do So

(1) The Company designates an employee to support the duties of auditors if necessary.

(2) The Company, if it designates an employee to support the duties of auditors, makes decisions regarding the appointment, transfer, and other personnel issues after consultation with auditors.

[8] Matters Relating to Reporting to Auditors

(1) Auditors attend important decision making meetings such as the Board of Directors to receive reports on important matters from directors and the Group's employees.

(2) Directors and employees with the same authority report to auditors immediately after occurrence of important facts such as violation of laws and regulations and the Articles of Incorporation that may result in significant damage to the Company.

(3) The decision-making document is submitted to auditors immediately after approval.

[9] System for Ensuring that the Informants who Submit Reports to Auditors are Protected against Retaliatory Actions for Filing Such Reports

The Company prohibits the Group's officers and employees who submit reports to auditors from being treated unfairly for filing such reports, and the Company makes the Group's officers and employees fully aware of this.

[10] Matters Relating to the Policy for Settlement of Expenses or Debts Arising from the Execution of Auditors' Duties, such as the Advancement or Indemnification of Expenses Arising from the Execution of the Auditors' Duties

(1) The Company shall bear the expenses needed for audits by auditors such as the expenses of lawyers, certified public accountants, and consultants working only for the Board of Auditors.

(2) In addition to the measures mentioned above, the Company shall also bear the expenses needed by auditors when executing their duties.

[11] Other Systems for Ensuring the Effective Execution of Audits by Auditors

(1) The Representative Director regularly meets with the Board of Auditors and exchanges opinions on issues to be tackled by the Company, the progress in developing an environment for auditors to conduct audits, and crucial auditing issues, in an effort to deepen mutual understanding.

(2) Auditors regularly receive reports on audit plans, methods, and results from the accounting auditor and exchange information to conduct efficient auditing.

(3) The Internal Audit Division submits internal audit information and other necessary information to auditors to maintain close contact with auditors.

(4) The Company ensures that auditors concludes an advisory contract not with a corporate lawyer but with a lawyer working only for the Board of Auditors, and uses the services of such lawyer.

2. Basic Views on Eliminating Anti-Social Forces

[1] Basic Policy for Eliminating Antisocial Forces

The Company recognizes that one of the most important management issues is to contribute to ensuring the order and safety of society in terms of promoting compliance management with an awareness of responsibility for all stakeholders.

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

[2] Current State of the Company's Preparedness for Elimination of Antisocial Forces

(1) In the "Code of Ethics" defining the code of conduct with which the Company and all its employees must comply and in its "Commentary," the Company declares that it will never respond to any demands for an unusual deal or money from antisocial individuals or organizations, and it has defined countermeasures.

(2) The Company has established the "Group Compliance Risk Management Committee" with the aim to build up and maintain the Company's risk management system, and makes efforts to reply to the demands from society and to develop a workable system for eliminating antisocial forces.

(3) The Company, when contacted by antisocial forces, builds a close cooperation system with the police to swiftly cope with the situation.

V. Other

1. Adoption of Anti-Takeover Measures

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

Supplementary Explanation

-

2. Other Matters Concerning to Corporate Governance System

Outline of the Setup for Timely Disclosure
--

1. Basic Policy on Timely Disclosure

The Company regards the timely and appropriate disclosure of information as one of the most important

responsibilities of a listed company, and makes constant efforts to improve the Company's internal system to ensure the prompt and accurate disclosure of corporate information to investors in accordance with the Financial Instruments and Exchange Act and other laws and regulations and relevant rules of the stock exchange on which shares of the Company are listed.

2. Internal System for Ensuring the Timely Disclosure

Important matters of the Company are approved at ordinary meetings of the Board of Directors held once a month, as a rule, and at the Group Management Committee held twice a month, and also at extraordinary meetings of the Board of Directors when necessary.

Disclosure procedures for those information and other important information reported by each department of the Group are executed by:

- 1) A General Manager of the Corporate Planning Division, who is responsible for disclosing information, the Public and Investor Relations Office, and the Administration Division, in case related to financial results, or
- 2) The General Manager of the Corporate Planning Division who is responsible for disclosing, the Public and Investor Relations Office, and each relevant division in disclosing corporate information other than information related to financial results. They examine whether to disclose information, what to disclose, and when to disclose, and if disclosure is judged to be necessary, they prepare the disclosure materials concerning corporate information and disclose those in a timely and appropriate manner under the instruction of President and Representative Director.