The 76th Annual General Meeting of Shareholders

Other Matters Subject to Measures for Electronic Provision

(Matters Not Included in Delivered Documents)

TOHO HOLDINGS CO., LTD.

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

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

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

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

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

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

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

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

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

6) In order to ensure that the Company group's directors and employees execute their duties in compliance with laws, regulations, the Articles of Incorporation, and other rules, the Company shall introduce an internal reporting system, establish internal and external reporting contacts, and ensure that whistleblowers are not treated disadvantageously.

7) The Company shall establish four committees as an advisory body to the Board of Directors as follows:

a. the Nomination and Compensation Committee, whose purpose is to contribute to transparency of management by having necessary discussions about nominations for candidates for directors, a policy on compensation for directors and other matters (It is composed of three or more members who are directors, a majority of which are appointed from among outside directors.).

b. the Sustainability Promotion Committee, whose purpose is to recognize responses pertaining to sustainability as important issues in management and promote sustainability management.

c. the Investment Committee, whose purpose is to have discussions about the appropriateness of investment projects in making a decision on the investment projects.

d. the Management Strategy Committee, whose purpose is to consider important management and business strategies, etc., connected with the Company and the Group toward sustained enhancement of corporate value.

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

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

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

3) By periodically conducting internal audits, the Company checks whether the execution of duties by employees of the Company group complies with laws and regulations, the Articles of Incorporation, and various

rules, and maintains and strengthens the proper execution of duties.

(3) System to preserve and control information concerning the Directors' execution of their duties
1) The Company properly preserves and controls the documents (including electronic records) related to the Directors' execution of their duties and other important information in accordance with laws and regulations and the "Document Handling Rules."
2) By undergoing audits conducted by the Audit and Supervisory Committee Members, the Company ensures the appropriateness of the creation, preservation, and control of information concerning the Directors' execution of duties.

(4) Rules and other systems related to the control of the risk of loss
1) Pursuant to the "Risk Management Basic Rules," the Company promotes the establishment of the Company group's risk management system, and makes efforts for early detection and understanding of any actual or potential risks that come to exist within the Company group, and for taking proper measures for such risks.
2) Through the Group Compliance Risk Management Committee, Group Disaster Countermeasure Committee, etc., the Company provides the Group Management Committee with risk information, and makes efforts for maintaining and improving the risk management system by taking appropriate measures.
3) If any unexpected circumstance occurs to the Company group, a task force will be established at the Company or a business operating company. The task force will be directed by the President (or a person appointed by the President) and take swift actions to organize a system to minimize damage and to maintain and establish the supply system for pharmaceuticals.
4) In order to maintain the normal operation of the computer processing systems, the Company introduced a back-up system by maintaining multiple data centers and has properly established a system in preparation for accidents.
5) In order to maintain information security, the company establishes "Basic Rules on Information Security" and information security committee, which maintains company-wide management system to protect information assets.

(5) System to ensure that the Directors execute their duties in an efficient manner
1) As the basis for the system to ensure the Directors execute their duties in an efficient manner, the Company holds the Board of Directors meeting on a specified date each month, and extraordinary meetings of the Board of Directors as necessary. The Board of Directors meeting deliberates important issues related to business management, passes resolutions for such issues, and supervises the Directors' execution of their duties, etc.
2) The Group Management Committee sufficiently examines in advance any matters to be discussed and reported to the Board of Directors, so that the Company will be able to maintain the efficient and practical operation of the Board of Directors meeting.
3) In order to ensure that the Directors execute their duties in an efficient manner, the Company stipulates the "Organizational Rules," "Rules on Division of Duties," and "Rules on Duties and Authorities," appoints a person in charge of each set of rules, and formulates procedures for the enforcement of each set of rules.
4) Through the Board of Directors meeting, the Company periodically checks the progress of the Company group's business activities based on a medium-term management plan and an annual management plan.

(6) System to ensure the proper business execution of the Company group
1) System under which the Directors, etc., of subsidiaries report to the Company about matters related to the execution of their duties
The Company has established decision-making standards for business execution by subsidiaries. Any business execution that is considered important under the standards will be discussed at and reported to the Group Management Committee, and where necessary, discussed at and reported to the Board of Directors meeting. Subsidiaries are required to make reports pursuant to the "Affiliates Management Rules," for the purpose of subsidiary management.
2) Rules and other systems concerning the management of the risk of loss of subsidiaries
In order to properly address the "management risk" referred to in the "Risk Management Basic Rules," the Company has established the Group Compliance Risk Management Committee, for the purpose of promoting group-wide risk management.
3) System to ensure that the Directors, etc., of subsidiaries execute their duties in an efficient manner
Pursuant to the basic policies stipulated in the "Affiliates Management Rules," the Company has established the reporting system shall have the Company's Board of Directors approve and receive reports on important matters connected with subsidiaries' business and management.
4) System to ensure that the Directors, etc., and employees of subsidiaries execute their duties in compliance with laws and regulations and the Articles of Incorporation

a. The Company shall have its subsidiaries be thorough in practicing behavior standards under the ethical standards as specified in the Code of Ethics to secure properness of operations.
b. Through internal audits periodically conducted by the Company, the Company audits the business of subsidiaries in order to ensure the proper business execution of subsidiaries.

(7) System related to certain employees to be assigned to assist with the duties of the Audit and Supervisory Committee
1) Where necessary, the Company appoints certain employees to be assigned to assist the Audit and Supervisory Committee.
2) When the Company appoints certain employees to be assigned to assist with the duties of the Audit and Supervisory Committee, matters related to the personnel changes and personnel evaluations and other personnel affairs of such employees will be determined through discussion with the Audit and Supervisory Committee or with the Full-time Audit and Supervisory Committee Member.

(8) Matters concerning reports to the Audit and Supervisory Committee
1) The Audit and Supervisory Committee Members attend important decision-making meetings including the Board of Directors meetings or inspect minutes and other materials thereof as necessary, and receive reports on important matters from the Directors and employees of the Company group.
2) If there is any significant event that may cause considerable damage to the Company, such as a violation of laws and regulations and the Articles of Incorporation, the Directors and any equivalent employees will immediately report such event to the Audit and Supervisory Committee or to the Full-time Audit and Supervisory Committee Member.
3) Decision-making documents (*Ringi* documents) are forwarded to the Audit and Supervisory Committee Members immediately after the final decision has been made on the decision-making documents.

(9) System to ensure that any person who has made a report to the Audit and Supervisory Committee will not be treated disadvantageously on the grounds of having made such report
When any of the officers and employees of the Company group has made a report to the Audit and Supervisory Committee or to the Full-time Audit and Supervisory Committee Member, it is prohibited to treat him/her disadvantageously on the grounds of having made such report, and all the officers and employees of the Company will be fully familiarized with such prohibition.

(10) Matters related to the advance payment or reimbursement procedures for expenses incurred for the Audit and Supervisory Committee Members' execution of their duties, and other policies concerning the processing of expenses or obligations incurred for the Audit and Supervisory Committee Members' execution of their duties
1) The Company bears the expenses necessary for the audits conducted by the Audit and Supervisory Committee, including expenses for lawyers, certified public accounts, consultants, etc., exclusively hired by the Audit and Supervisory Committee.
2) In addition to the expenses described above, the Company also bears any other expenses necessary for the Audit and Supervisory Committee Members' execution of their duties.

(11) Other systems to ensure that the Audit and Supervisory Committee will conduct the audits in an effective manner
1) The Representative Director exchanges opinions and communicates with the Audit and Supervisory Committee, by holding periodical meetings with the Audit and Supervisory Committee to discuss various issues, including issues to be addressed by the Company, the status of improvement of the environment for the Audit and Supervisory Committee's audits, and important issues related to the audits.
2) The Audit and Supervisory Committee periodically receives reports from the Accounting Auditors about plans, methods and results of the accounting audits, and exchanges information with the Accounting Auditors, for the purpose of conducting audits in an efficient manner.
3) The Internal Audit Division provides the Audit and Supervisory Committee with internal audit results, internal audit information and other necessary information, and maintains close collaboration with the Audit and Supervisory Committee. Furthermore, the Audit and Supervisory Committee may request investigation on audit matters and other relevant issues to the Internal Audit Division as necessary.
4) The Company assures the Audit and Supervisory Committee Members that the Audit and Supervisory Committee Members are entitled to conclude a consultancy contract with lawyers who are dedicated to the Audit and Supervisory Committee, in addition to the corporate lawyers hired by the Company.

(12) Basic concept and system for the elimination of antisocial forces
The Company will stand firmly against antisocial forces and organizations that threaten the order and safety of

civil society. In order to prevent antisocial forces and organizations from being involved in the Company's management activities and from harming the Company, the Company will stipulate, as its basic policy, in the Ethical Code that it thoroughly cuts off relations with antisocial forces and organizations. At the same time, the Company will work to eliminate relations with them by developing its organizational system, collecting information on them in cooperation with the police, and raising awareness among its directors and employees.

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

(1) Efforts to ensure the properness and efficiency of business execution
In addition to holding Board of Directors once a month, as a rule, the Company secures proper business execution and aims at quick decision-making by holding an extraordinary Board of Directors, as necessary. In the fiscal year under review, it held 13 Board of Directors.
Also, to make decisions efficiently at Board of Directors, the Company has established the Group Management Committee that is composed of the directors and corporate officers, etc., of the Group companies, in addition to Directors and Corporate Officers, as a panel to in advance discuss subjects to be presented to Board of Directors, and a Group Management Committee meeting is held once a month, as a rule.Three of the Company's nine Directors are Outside Directors, all three of whom serve as Audit and Supervisory Committee Members. They attend important meetings, including the aforementioned meetings, and express their opinions as necessary from time to time. With regard to other important matters, the Company has established and operated a system to circulate requests for approval and other information necessary for audits to Audit and Supervisory Committee Members.

(2) Compliance promotion and risk management system
1) Compliance
a. The Group obligates all employees to receive training in compliance and provides the training monthly. In addition, it obligates employees engaged in sales work to receive training focusing on compliance with industry-related laws and regulations, including the Antimonopoly Act, twice a year.
b. The Company takes advantage of the code of ethics to provide training and mount information campaigns, among other awareness-raising and knowledge-building efforts across the Group.
c. The Company has established an internal reporting system can be used by employees of the Group and by employees of the Company's our business partners, etc., with the aim of early detection and prevention of violations of laws and regulations, misconduct, etc., as well as enhancement of self-purification. Moreover, the state of operation of the system is reported to the Group Compliance Risk Management Committee and the Board of Directors.

2) Risk management
a. Important issues about risk management at the Company and the Group companies are discussed at Group Compliance Risk Management Committee meetings, which are held twice a year to resolve on a policy.
b. Risks related to sustainability and climate change are under the responsibility of the Sustainability Promotion Committee, which identifies and assesses business risks and revenue opportunities arising from sustainability issues. The Committee reports the results to the Board of Directors in cooperation with the Group Compliance and Risk Management Committee and the Group Disaster Countermeasures Committee.
c. With regard to information security, the Company has formulated the "Basic Information Security Policy" and the "Basic Information Security Rules", considering the protection of information assets entrusted to us by suppliers and information assets held by the Company in the course of business as our responsibility. The Information Security Committee also plans and promotes information security measures to ensure information security throughout the Group.

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

(4) Efforts to ensure the effectiveness of audits
The Company's Audit and Supervisory Committee Members attend important meetings such as the Board of Directors meetings and the Group Management Committee meetings, to obtain information regarding business execution and management and information relevant to the effectiveness of the internal control system.

Furthermore, in order to ensure the effectiveness of audits, the Company has ensured close cooperation, including a system where the Audit and Supervisory Committee Members receive reporting on a periodical and occasional basis from, and exchange opinions with, the Accounting Auditor and the Group Audit Office, as well as a system where the Audit and Supervisory Committee Members periodically hold meetings and exchange opinions with the Representative Director, the head of each division and other employees.

Consolidated Statement of Changes in Shareholders' Equity

(April 1, 2023 - March 31, 2024)

(In millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2023	10,649	49,146	191,531	-23,107	228,219
Changes of items during the consolidated fiscal year					
Dividends from surplus			-2,235		-2,235
Profit attributable to owners of parent			20,657		20,657
Purchase of treasury stock				-12,002	-12,002
Disposal of treasury stock		7		29	37
Cancellation of treasury stock		-3,941	-230	4,172	-
Change in the scope of consolidation			17		17
Reversal of revaluation reserve for land			6		6
Net changes of items other than shareholders' equity during the consolidated fiscal year					
Total changes of items during the consolidated fiscal year		-3,933	18,215	-7,800	6,481
Balance as of March 31, 2024	10,649	45,212	209,746	-30,907	234,701

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for sale securities	Revaluation reserve for land	Total accumulated other comprehensive income			
Balance as of April 1, 2023	18,734	-4,276	14,458	146	92	242,916
Changes of items during the consolidated fiscal year						
Dividends from surplus						-2,235
Profit attributable to owners of parent						20,657
Purchase of treasury stock						-12,002
Disposal of treasury stock						37
Cancellation of treasury stock						-
Change in the scope of consolidation						17
Reversal of revaluation reserve for land						6
Net changes of items other than shareholders' equity during the consolidated fiscal year	35	-6	28	-2	12	38
Total changes of items during the consolidated fiscal year	35	-6	28	-2	12	6,520
Balance as of March 31, 2024	18,770	-4,283	14,486	144	104	249,437

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

Notes to Consolidated Financial Statements

1. Basis for Preparation of Consolidated Financial Statements

(1) Scope of consolidation

1) Consolidated subsidiaries

• Number of consolidated subsidiaries: 23

• Names of principal consolidated subsidiaries:

TOHO PHARMACEUTICAL
Kyushu Toho
SAYWELL
Koyo
SQUARE-ONE
Toho System Service
Pharma Cluster
Pharma-Daiwa
J. Mirai Medical
Shimizu Pharmacy
Pharma Mirai
Seiko Medical Brain
Strelitzia
VEGA PHARMA
Cure
Aobado
Kosei
KYOSOMIRAI PHARMA
Tokyo Research Center of Clinical Pharmacology
ALF
Nextit Research Institute
eKenkoshop
eHealthcare

2) Non-consolidated subsidiaries

• Names of principal non-consolidated subsidiaries:

Okinawa Toho Co., Ltd.

• Reason for exclusion from the scope of consolidation:

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

(2) Application of the equity method

1) Number of affiliates to which the equity method is applied: 3

• Names of principal companies:

SAKAI MEDICINES CO., LTD.

AYUMI Pharmaceutical Holdings

AYUMI Pharmaceutical Corporation

The goodwill of AYUMI Pharmaceutical Holdings arising from the application of the equity method is amortized on a straight-line basis over 20 years.

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

• Names of principal non-consolidated subsidiaries:

Okinawa Toho Co., Ltd.

• Names of principal affiliates:

Wakaba

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

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

(3) Fiscal year, etc. of consolidated subsidiaries

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

(4) Accounting standards

1) Standards and methods for the valuation of securities

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

Other securities

• Securities other than shares, etc. without market value:

The fair value method based on the market price, etc., as of the last day of the consolidated fiscal year (All valuation differences are reported as a component of net assets, with the cost of securities sold calculated according to the moving-average method.)

• Shares, etc. without market value:

The cost method using the moving-average method.

For securities with no market value, the Company compares the amount of net assets per share with the acquisition cost and considers whether or not impairment is necessary if the amount of net assets per share is less than 50% of the acquisition cost. However, if it is deemed reasonable to take the value reflecting future excess earning power, etc. as the real value, the Company considers whether or not impairment is necessary for the real value to be applied instead of the amount of net assets.

As for investments in limited liability investment partnerships and other similar partnerships (considered as securities according to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount equivalent to equity based on the most recent available financial report of the partnership, according to the reporting date stipulated in the partnership contract, is recorded.

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

KYOSOMIRAI PHARMA CO., LTD. is stated at cost method of the first-in, first-out basis (method of write-down of book value due to decline in profitability).

The cost method using the last cost method is used for other consolidated subsidiaries (The method of writing down the book value due to decreased profitability).

3) Depreciation method for fixed assets

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

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

Principal useful lives are as follows:

Buildings and structures: 8-50 years

Machinery, equipment and vehicles: 4-8 years

Furniture and fixtures: 5-15 years

ii) Intangible assets (excluding lease assets)

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

iii) Lease assets

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

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

4) Standards for reporting significant allowances and provisions

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for directors' bonuses

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

iv) Provision for loss on the Antimonopoly Act

To prepare for the occurrence of losses related to the Antimonopoly Act, an estimated amount is recorded as of the end of consolidated fiscal year under review.

v) Provision for loss on guarantees

To provide for losses on debt guarantees, an estimated amount of losses borne is recorded by taking into account the financial condition of guaranteed parties and other factors.

5) Revenue and expense recording standards

The details of major performance obligations of major businesses relating to revenue arising from contracts with customers of the Company and its consolidated subsidiaries and the ordinary time of fulfillment of such performance obligations (ordinary time of recognition of revenue) are as follows.

i) Pharmaceutical Wholesaling

In Pharmaceutical Wholesaling, the Company sells prescription pharmaceuticals, reagents, test equipment, customer support systems, etc. to medical institutions, etc., and provides maintenance services related to customer support systems. In addition, equipment manufacturers, etc. are involved in some of the sales of test equipment, etc., and the Company group's performance obligation is to arrange for the equipment manufacturers, etc. to provide test equipment, etc. to customers and collect the money from the customers. For this reason, the Company has determined that the Company's group engages in transactions as an agent in such transactions. In addition, the Company group is obligated to accept returns under its sales contract for prescription pharmaceuticals, and is obligated to refund the price of the product when the product is returned from the customer.

Sales of prescription pharmaceuticals, reagents, test equipment, customer support systems, etc. are recognized as revenues at the time of delivery or acceptance of the product to the customer, since control over the product is transferred to the customer through delivery or acceptance of the product and the performance obligation is satisfied. However, these transactions are all domestic sales and are delivered to customers on the day of shipment or the following day. Therefore, revenue is recognized at the time of delivery based on the judgment that it is the normal number of days required for shipment and delivery. An obligation to perform maintenance services, etc. that is satisfied for a certain period of time is recognized as revenue on a straight-line basis according to the period in which the obligation to perform is deemed to have been satisfied because the customer receives benefits throughout the service provision period.

ii) Dispensing Pharmacy

In Dispensing Pharmacy, prescription pharmaceuticals are mainly prescribed to patients with dosing guidance, and dispensing fees are received based on the points of dispensing fees stipulated in the Health Insurance Act.

Prescriptions for prescription pharmaceuticals are recognized as revenues when the drugs are delivered to patients and dosing guidance is implemented, because the control over the drugs is transferred and the performance obligation is satisfied.

iii) Pharmaceutical Manufacturing and Sales

In Pharmaceutical Manufacturing and Sales, the Company manufactures and sells prescription pharmaceuticals, mainly generic drugs.

Prescription pharmaceuticals sales are recognized as revenue when a product is delivered to a customer because the delivery of the product transfers control over the product to the customer and fulfills performance obligations. However, since this transaction is a domestic sale and is delivered to the customer on the day of shipment or the following day, the Company judges that it is a normal number of days required for shipment and delivery, and recognizes the time of shipment as the time of delivery to determine the time of revenue recognition.

iv) Other peripheral businesses

In other peripheral businesses, the Company sells customer support systems and information processing equipment, etc., creates websites for medical institutions, and provides maintenance services related to customer support systems.

In the sales of customer support systems, information processing equipment, etc., and the creation of websites for medical institutions, revenue is recognized at the time of delivery of products to customers or acceptance of products, since control over the products is transferred to customers through delivery or acceptance of products, and performance obligations are satisfied. An obligation to perform maintenance services, etc. that is satisfied for a certain period of time is recognized as revenue on a straight-line basis according to the period in which the obligation to perform is deemed to have been satisfied because the customer receives benefits throughout the service provision period.

6) Other significant matters for preparation of consolidated financial statements

i) Accounting treatment method for retirement benefits

When calculating retirement benefit obligations and costs, 9 consolidated subsidiaries (Pharma-Daiwa, J. Mirai Medical, Pharma Mirai, Strelitzia, VEGA PHARMA, KYOSOMIRAI PHARMA, Tokyo Research Center of Clinical Pharmacology, ALF and Nextit Research Institute) are subject to the application of the simplified method, under which the hypothetical amount required to be paid for all employees upon their retirement for personal reasons as of the end of the fiscal year is considered to be the amount of retirement benefit obligations.

In line with the full transition to the defined contribution pension system, the Company and two consolidated subsidiaries (TOHO PHARMACEUTICAL and Toho System Service) have introduced an interim measure for compulsory retirees, who were employed at the time of the transition. Under the interim measure, part of the retirement benefits payable for past services rendered by the employees is paid as a retirement lump-sum payment. Accordingly, the retirement benefit obligations as of the end of March 2023 are provided to cover the payment of the retirement benefits for the employees. Because the actuarial differences are minor, they are treated as costs in each year when actuarial differences arise.

ii) Depreciation method and period of goodwill and negative goodwill

Goodwill is evenly depreciated over 5 or 10 years.

2. Notes on change in presentation method

The Group recorded revenues from information service fees earned from pharmaceutical manufacturers, etc., as “commission income” under “non-operating income” and membership revenues earned from medical institutions, etc., as “other” under “non-operating income.”

The Group has formulated the Medium-term Management Plan 2023-2025 “Create the Next Generation” with the fiscal year ended March 31, 2024 as the first year and the fiscal year ending March 31, 2026 as the final year and has been promoting measures to achieve continuous growth and increase profitability over the medium to long term since April 2023. In the transformation of pharmaceutical wholesaling business, one of the concrete measures, TOHO PHARMACEUTICAL, a consolidated subsidiary, has made organizational changes to strengthen planning, promotion, and management of strategies to accelerate income, including revenues from information service fees.

In this way, since we handle information services, which are expected to become even more important going forward owing to changes in the information business environment, as one of our main business activities, positioning revenues from information service fees earned from pharmaceutical manufacturers, etc., as main business activities, we have changed the method of presenting revenues from information service fees to be included in “net sales” (3,457 million yen in the fiscal year under review) since the fiscal year under review to present the result of the Group's sales activities more appropriately.

In addition, we have positioned membership revenues earned from medical institutions, etc., as income from main sales activities and have changed the method of presenting membership revenues to be included in "net sales” (291 million yen in the fiscal year under review) since the fiscal year under review.

And, in the consolidated balance sheet, we have changed the method of presenting accounts receivable, which were recorded in “other" under current assets, to be included in “accounts receivable - trade" (494 million yen in the fiscal year under review).

Furthermore, as the importance of “loss on valuation of shares of subsidiaries” (212 million yen in the previous fiscal year), which was included in “other” under “extraordinary loss” in the previous fiscal year has increased, we record loss on valuation of affiliates’ shares independently in the fiscal year under review.

3. Notes on Accounting Estimates

Items for which an amount has been recorded in the consolidated financial statements for the consolidated fiscal year under review based on accounting estimates and which may have a significant effect on the consolidated financial statements for the following consolidated fiscal year are as follows:

(1) Valuation of stocks of non-consolidated subsidiaries without market value

1) The amount recorded in the consolidated financial statements for the consolidated fiscal year under review

Investment securities: 1,600 million yen

2) Information contributing to understand the content of accounting estimates

The Company group adopts the cost method using the moving-average method for stocks of its nonconsolidated subsidiaries and affiliates without market value. When the net asset value per share is lower than 50% of the acquisition cost, it will be examined for impairment loss. In addition, if it is judged that it is reasonable to take the value reflecting future excess earning power, etc. as the real value, the Company examines the necessity of impairment accounting using the real value instead of the amount of net assets. In assessing the need for impairment, the Company has a policy not to recognize impairment losses if it determines that future excess earning power, etc. has not been impaired and the real value has not declined significantly, taking into account the status of achievement of business plans obtained from the investee and the feasibility of future plans, or if it prepares an investment value recovery plan for the Group and, although the real value is more than 50% below the acquisition cost, there is a feasible and reasonable investment value recovery plan and the recoverability is supported by sufficient evidence.

The major assumptions in the business plan of investee and the adjusted investment value recovery plan that form the basis for future calculation of excess earning power are the sales growth rate and gross profit margin. In formulating the investment recovery plan, the sales growth rate and the gross profit margin will reflect the past performance and the effects of specific support measures, and targets without specific support measures will be adjusted to a reasonable and practicable level by being stressed.

The key assumptions of estimates of the sales growth rate and gross profit margin are highly uncertain. If the Company is unable to achieve its investment recovery plan or business plan of investee due to changes in the sales growth rate and gross profit margin, it may record impairment loss of stocks of non-consolidated subsidiaries without market value.

(2) Provision for loss related to the Antimonopoly Act to JCHO

1) The amount recorded in the consolidated financial statements for the consolidated fiscal year under review

Provision for loss related to the Antimonopoly Act 3,639 million yen

2) Information contributing to understand the content of accounting estimates

Provision for loss related to the Antimonopoly Act is recorded in order to prepare for the payment of penalty charges pursuant to the contract with the Japan Community Health care Organization (“JCHO”) for the violation of the Antimonopoly Act with respect to bidding for prescription pharmaceuticals ordered by JCHO. TOHO PHARMACEUTICAL, a consolidated subsidiary, received a cease and desist order and a surcharge payment order under the Antimonopoly Act from the Japan Fair Trade Commission on March 30, 2022. The amount of penalty is estimated to accrue in the future based on the terms of the contract with JCHO, hearing of opinions from legal counsel, etc., covering transactions for four years prior to June 2020. However, the scope of penalty calculation is currently under negotiation and these estimates include uncertainties such as the intentions of the counterparty. Accordingly, additional provision or reversal of provision for loss related to the Antimonopoly Act may be required due to unpredictable changes in assumptions and other factors.

(3) Provision for loss related to the Antimonopoly Act to NHO

1) The amount recorded in the consolidated financial statements for the consolidated fiscal year under review

Provision for loss related to the Antimonopoly Act 1,210 million yen

2) Information contributing to understand the content of accounting estimates

Provision for loss related to the Antimonopoly Act is recorded in order to prepare for the payment of penalty charges pursuant to the contract with the National Hospital Organization ("NHO") for the violation of the Antimonopoly Act with respect to bidding for prescription pharmaceuticals ordered by NHO for hospitals in the Kyushu area operated by NHO or the Japan Organization of Occupational Health and Safety.

Kyushu Toho Co., Ltd. ("Kyushu Toho"), a consolidated subsidiary, received a cease and desist order and a surcharge payment order under the Antimonopoly Act from the Japan Fair Trade Commission on March 24, 2023. The amount of penalty is estimated to accrue in the future based on the terms of the contract with NHO, hearing of opinions from legal counsel, etc., covering transactions for four years and one month prior to September 2020. However, these estimates include uncertainties such as the intentions of the counterparty. Accordingly, additional provision or reversal of provision for loss related to the Antimonopoly Act may be required due to unpredictable changes in assumptions and other factors.

4. Notes to the Consolidated Balance Sheet

(1) Outstanding receivables arising from contracts with customers

Notes receivable-trade	2,107 million yen
Accounts receivable-trade	336,618 million yen
(2) Accumulated depreciation of property, plant and equipment	66,834 million yen

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

1) Assets provided as security

Fixed-term deposits	105 million yen
Buildings	752 million yen
Land	1,377 million yen
Investment securities	2,624 million yen
Total	4,860 million yen

2) Obligations pertaining to security

Notes payable and accounts payable	14,502 million yen
Short-term borrowings	80 million yen
Long-term borrowings (including those to be reimbursed within 1 year)	800 million yen
Total	15,383 million yen

(4) Guarantee obligations

Bank guarantee obligations	435 million yen
Joint and several suretyship obligations for rents pertaining to fixed-term building lease contracts during the remaining term under the contracts	2,381 million yen

Sub total 2,817 million yen

Provision for loss on guarantees -148 million yen

Total 2,669 million yen

(5) Land revaluation

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

Revaluation method

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

Date of revaluation March 31, 2002

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

135 million yen

5. Notes to Consolidated Profit and Loss Statement

The amount of revenue generated from contracts with customers in net sales 1,476,510 million yen

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

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

Type of shares	Number of shares at the beginning of the fiscal year under review	Number of increased shares during the fiscal year under review	Number of decreased shares during the fiscal year under review	Number of shares at the end of the fiscal year under review
Shares issued				
Common stocks	78,270 thousand shares	—	1,838 thousand shares	76,431 thousand shares
Total	78,270 thousand shares	—	1,838 thousand shares	76,431 thousand Shares
Treasury shares				
Common stocks (Notes)	11,302 thousand shares	4,201 thousand shares	1,852 thousand shares	13,650 thousand shares
Total	11,302 thousand shares	4,201 thousand shares	1,852 thousand shares	13,650 thousand shares

(Notes) 1.A decrease in common stocks issued according to a resolution of the Board of Directors is 1,838 thousand shares.

2. The increase of 4,201 thousand shares of common stock in treasury stock was due to an increase of 4,199 thousand shares as a result of a resolution of the Board of Directors, an increase of 1 thousand shares as a result of free acquisition of shares related to restricted stock compensation, and an increase of 0 thousand shares as a result of purchase of odd-lot shares.

3. The decrease in treasury stock of 1,852 thousand shares of common stock was a decrease of 1,838 thousand shares due to a resolution of the Board of Directors and decrease of 13 thousand shares due

to the disposal as restricted stock compensation and a decrease of 1 thousand shares due to the exercise of stock options.

(2) Subscription rights to shares, etc.

Company name	Breakdown	Type of target shares	Number of target shares (Thousand shares)				Balance as of the end of the consolidated fiscal year under review (Million yen)
			Beginning of the consolidated fiscal year under review	Increase	Decrease	End of the consolidated fiscal year under review	
Filing company	Euro-yen convertible corporate bonds due 2023 with subscription rights to shares (Notes 1,2,3,4)	Common stocks	6,000	6	6,007	-	-
	Euro-yen convertible corporate bonds due 2028 with subscription rights to shares (Notes 1,2)	Common stocks	-	7,868	-	7,868	-
	Share acquisition rights as stock options (Notes 5)	Common stocks	70	-	1	69	144
Total			6,071	7,875	6,008	7,937	144

(Notes)
1. The above number of the target shares of share acquisition rights is the number of shares calculated based on the presumption that the subscription rights to shares options have been exercised.
2. For the convertible bonds with share subscription rights, the all-inclusive method is used.
3. An increase of 6 thousand shares in the number of shares that are the purpose of Euro-yen convertible bonds due 2023 is due to the conversion value adjusted in accordance with conversion value adjustment matters included in the main points of the corporate bonds.
4. A decrease of 6,007 thousand shares in the number of shares that are the purpose of Euro-yen convertible bonds due 2023 is due to a decrease resulting from redemption at maturity.
5. The decrease of 1 thousand shares in the number of target shares of share acquisition rights as stock options is attributable to exercise of the rights.

(3) Dividends from surplus

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

Resolution	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 12, 2023	Common stocks	1,071 million yen	16 yen	March 31, 2023	June 9, 2023
Meeting of the Board of Directors held on November 10, 2023	Common stocks	1,163 million yen	18 yen	September 30, 2023	December 1, 2023

(Note) A commemorative dividend of 2 yen for the 75th anniversary of the foundation of the Company is included in the amount of dividend per share according to the resolution at the Board of Directors held on November 10, 2023.

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

Resolution	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 10, 2024	Common stocks	1,381 million yen	22 yen	March 31, 2024	June 6, 2024

(Note) A commemorative dividend of 2 yen for the 75th anniversary of the foundation of the Company is included in the amount of dividend per share.
It is planned that retained earnings will be the divided resource.

7. Notes to Financial Instruments

1. Status of financial instruments

(1) Policies toward financial instruments

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

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

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

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

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

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

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

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

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

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

2. Fair value, etc., of financial instruments

The amounts reported in the consolidated balance sheet, fair values, and differences between them as of March 31, 2024 are as follows. "Cash and deposits," "Notes receivable-trade," "Accounts receivable-trade," "Purchase rebates receivable" and "Notes and accounts payable-trade" are omitted because they are cash and are settled in a short period of time, and their fair values approximate their book values.

(Unit: Million yen)

	Amount reported in the consolidated balance sheet	Fair value	Difference
(1) Securities and investment securities Other securities	39,512	39,512	—
(2) Corporate bonds	22,092	29,194	7,101
(3) Long-term borrowings	6,487	6,462	-24

(Note) Matters concerning securities

(1) Securities and investment securities

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

1) Other securities

(Unit: Million yen)

Category	Type	Acquisition cost	Amount reported in the consolidated balance sheet	Difference
Item for which the amount reported in the consolidated balance sheet exceeds the acquisition cost	Shares	12,630	39,273	26,642
	Government bonds, municipal bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Others	14	31	17
	Subtotal	12,644	39,304	26,659
Item for which the amount reported in the consolidated balance sheet is no more than the acquisition cost	Shares	291	208	-83
	Government bonds, municipal bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Others	—	—	—
	Sub total	291	208	-83
Total		12,936	39,512	26,576

2) Other securities sold during the consolidated fiscal year (From April 1, 2023 to March 31, 2024)

(Unit: Million yen)

Category	Sales value	Total profit on sales	Total loss on sales
Shares	13,115	9,639	—
Bonds	—	—	—
Others	—	—	—
Total	13,115	9,639	—

(Note 2) Shares, etc. without market value are not included in "(1) Securities and investment securities."

The amounts recorded in the consolidated balance sheets of the financial instruments are as follows.

(Unit: Million yen)

Category	Amount
Unlisted stocks, etc.	30,699

(Note 3) Investments in partnerships and other similar entities, the net amount of which is recorded on the consolidated balance sheets, are not included in "(1) Securities and investment securities." The amount of these investments reported on the consolidated balance sheets is 454 million yen.

(Note 4) In accordance with generally accepted accounting principles, the net asset value of investment trusts is deemed to be the market value and is included in "(1) Securities and investment securities."

(Note 5) The reimbursement schedule of monetary claims and securities with a maturity date, after the consolidated settlement date

(Unit: Million yen)

Category	Within 1 year	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Deposits	132,649	—	—	—
Notes receivable-trade	2,107	—	—	—
Accounts receivable-trade	336,618	—	—	—
Purchase rebates receivable	12,171	—	—	—
Securities and investment securities				
Held-to-maturity bonds	—	—	—	—
Other securities	2	—	—	—

(Note 6) The reimbursement schedule of corporate bonds, long-term borrowings, lease obligations and other interest-bearing debts, after the consolidated settlement date

(Unit: Million yen)

Category	Within 1 year	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Corporate bonds	—	22,000	—	—
Long-term borrowings	413	4,884	880	308

3. Matters concerning the breakdown, etc. of fair value of financial instruments by appropriate category
The fair values of financial instruments are classified into the following three levels according to the observability and significance of the inputs used to calculate the fair values.

Level 1 Fair Value: Market value of the same asset or liability, as determined by the unadjusted market value of the same asset or liability in an active market

Level 2 Fair Value: Calculated using directly or indirectly observable inputs other than Level 1 inputs Fair value

Level 3 Fair Value: Calculated using inputs for which no significant observations can be made

If multiple inputs that have a significant impact on the calculation of fair value are used, the fair value is classified to the level with the lowest priority in the calculation of market value among the levels to which the inputs belong.

(1) Financial instruments reported on the consolidated balance sheet at fair value

(Unit: Million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Other securities	39,512	—	—	39,512

(2) Financial instruments other than financial instruments reported on the consolidated balance sheet at fair value

(Unit: Million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Corporate bonds	—	29,194	—	29,194
Long-term borrowings	—	6,462	—	6,462

(Note) Explanation of valuation techniques and inputs used to calculate fair value

Securities and investment securities

Listed shares are valued at quoted prices. As listed stocks are traded in active markets, their fair values are classified as Level 1 fair values.

Corporate bond

Corporate bonds issued by the Company are valued at quoted prices. Corporate bonds issued by the Company are classified into Level 2 fair values because the frequency of transactions in the market is low and they are not recognized as quoted prices in active markets.

Long-term borrowings

The fair value of long-term borrowings is calculated using the discounted present value method based on the total amount of principal and interest, and the interest rate that takes into account the remaining term of the debt and credit risk, and is classified into the level 2 fair value.

8. Notes to Rental Real Property

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

9. Notes to Revenue Recognition

(1) Breakdown of revenue arising from contracts with customers

(Unit: Million yen)

	Reportable segments				Total
	Pharmaceutical Wholesaling	Dispensing Pharmacy	Pharmaceutical Manufacturing and Sales	Other Peripheral Businesses	
Prescription pharmaceuticals	1,216,951	72,320	2,358	—	1,291,630
Reagents	75,565	—	—	—	75,565
Other	83,082	21,454	83	4,693	109,314

Revenue from customer contracts	1,375,599	93,774	2,442	4,693	1,476,510
Other revenue	195	—	—	7	202
Sales to external customers	1,375,794	93,774	2,442	4,701	1,476,712

(2) Information that forms the basis for understanding revenue

1) Pharmaceutical Wholesaling

In Pharmaceutical Wholesaling, the Company sells prescription pharmaceuticals, reagents, test equipment, customer support systems, etc. to medical institutions, etc., and provides maintenance services related to customer support systems.

Sales of prescription pharmaceuticals, reagents, test equipment, customer support systems, etc. are recognized as revenues at the time of delivery or acceptance of the product to the customer, since control over the product is transferred to the customer through delivery or acceptance of the product and the performance obligation is satisfied. However, these transactions are all domestic sales and are delivered to customers on the day of shipment or the following day. Therefore, revenue is recognized at the time of delivery based on the judgment that it is the normal number of days required for shipment and delivery. An obligation to perform maintenance services, etc. that is satisfied for a certain period of time is recognized as revenue on a straight-line basis according to the period in which the obligation to perform is deemed to have been satisfied because the customer receives benefits throughout the service provision period. Advances may be received for some of the sales of maintenance services, etc., but the usual due date for payment is 60 to 90 days from the time of delivery or acceptance of the product, and the transaction price does not include any significant financial element.

In the sale of prescription pharmaceuticals, there is a practice in which the transaction price is determined through price negotiation after delivery, and as a result of price negotiation, the transaction price may change due to a discount, and this is recognized as variable compensation. For this reason, the transaction price is estimated based on the price that is most likely to be reached through price negotiation, taking into consideration the past sales performance by customer and product. The amount of variable consideration shall be included in the transaction price only to the extent that there is a high possibility that there will be no significant reduction in revenue recorded by the time when the uncertainty concerning the variable consideration is resolved ex post facto. At the end of the term, the transaction price tends to be almost decided, although the settlement will be in the next term.

Under the terms of the agreement of prescription pharmaceuticals, the Company group is obligated to accept returns, and if the customer returns the product, it is obligated to refund the price of the product. For returns, the Company calculates the expected refund amount that may occur in light of the actual returns, etc., and calculates the transaction price using the method of deducting it from revenue. As a result, the Company recognizes liability for returns and recognizes revenue only to the extent that there is a high probability that no material returns will occur.

In part of the sale of test equipment, etc., equipment manufacturers are involved in the transaction, and the Company group's performance obligation is to arrange for the equipment manufacturers, etc. to provide test equipment, etc. to customers and collect the money from the customers. For this reason, the Company has determined that the Company’s group engages in transactions as an agent in such transactions. As a result, for a portion of sales of test equipment, etc., the transaction price is calculated based on the net amount obtained by deducting the amount to be paid to the equipment manufacturer, etc. from the amount of consideration received from customers.

Sales of test equipment and customer support systems and the provision of maintenance services related to customer support systems are included in "Other" in the breakdown of earnings.

2) Dispensing Pharmacy

In Dispensing Pharmacy, prescription pharmaceuticals are mainly prescribed to patients with dosing guidance and dispensing fees are received based on the points of dispensing fees stipulated in the Health Insurance Act.

Prescriptions for prescription pharmaceuticals are recognized as revenues when the drugs are delivered to patients and dosing guidance is implemented, because the control over the drugs is transferred and the compliance obligation is satisfied.

The payment of prescription pharmaceuticals and dispensing fees at health insurance pharmacies is mainly received 30% from patients at the time of prescription, and 70% from the Federation of National Health Insurance Associations or the Social Insurance Medical Fee Payment Fund approximately two months later. Therefore, none of the payments are made for a period longer than one year, and the transaction price does not include any significant financial element.

Dispensing fees are included in “Other” in the breakdown of earnings.

3) Pharmaceutical Manufacturing and Sales

In Pharmaceutical Manufacturing and Sales, the Company manufactures and sells prescription pharmaceuticals, mainly generic drugs.

Prescription pharmaceuticals sales are recognized as revenue when a product is delivered to a customer because the delivery of the product transfers control over the product to the customer and fulfills performance obligations. However, since this transaction is a domestic sale and is delivered to the customer on the day of shipment or the following day, the Company judges that it is a normal number of days required for shipment and delivery, and recognizes the time of shipment as the time of delivery to determine the time of revenue recognition.

The receivables corresponding to these revenues are normally due for payment of approximately 60 days from the date of delivery of the products, none of the payments are made for a period longer than one year, and the transaction price does not include a significant financial element.

4) Other peripheral businesses

In other peripheral businesses, the Company sells customer support systems and information processing equipment, etc., creates websites for medical institutions, and provides maintenance services related to customer support systems.

In the sales of customer support systems, information processing equipment, etc., and the creation of websites for medical institutions, revenue is recognized at the time of delivery of products to customers or acceptance of products, since control over the products is transferred to customers through delivery or acceptance of products, and performance obligations are satisfied. An obligation to perform maintenance services, etc. that is satisfied for a certain period of time is recognized as revenue on a straight-line basis according to the period in which the obligation to perform is deemed to have been satisfied because the customer receives benefits throughout the service provision period.

Advances may be received for some of the sales of maintenance services, etc., but the usual due date for payment is 60 to 90 days from the time of delivery or acceptance of the product, and the transaction price does not include any significant financial element.

Sales of customer support systems, information processing equipment, etc., creation of medical institution websites, provision of maintenance services related to customer support systems, etc. are included in "Other" in the breakdown of earnings.

(3) Information for understanding the amount of revenue for the relevant consolidated fiscal year and the following consolidated fiscal year and thereafter

1) Balance of contractual liabilities, etc.

(Unit: Million yen)

Claims arising from contracts with customers (beginning balance)	317,205
Claims arising from contracts with customers (year-end balance)	338,725
Contract Liabilities (beginning balance)	259
Contract liabilities (year-end balance)	180

Contractual liabilities mainly relate to advances received from customers for unexpired periods in relation to contracts with customers who are provided maintenance services, etc. for a certain period of time, and are reversed in accordance with recognition of income.

Of the amount of revenue recognized in the current consolidated fiscal year, the amount included in the balance of contractual liabilities at the beginning of the period was 208 million yen.

There are no significant changes in the balance of contractual liabilities.

The amount of revenue (mainly changes in transaction prices) recognized in the current consolidated fiscal year is immaterial due to performance obligations satisfied (or partially satisfied) in the past period.

Moreover, as mentioned in Change in Presentation Method, the Company has changed the method of presenting revenues from information service fees and the like to be included in net sales, not in non-operating income, since the fiscal year under review. In order to reflect this change in the presentation method, figures for the previous fiscal year have been reclassified. As a result, “claims arising from contracts with customers (beginning balance)” increased by 473 million yen compared with those before the reclassification.

2) Transaction price allocated to remaining performance obligations

The transaction price allocated to the Company group's remaining performance obligation is omitted because the amount is immaterial.

10. Notes to Per Share Information

(1) Net assets per share:	3,969.20 yen
(2) Net income per share:	320.14 yen

11. Notes to Significant Subsequent Events

Not applicable.

Statement of Changes in Shareholders’ Equity

(April 1, 2023 - March 31, 2024)

(In millions of yen)

	Shareholders’ Equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry of land	General reserve	Retained earnings brought forward	Total retained earnings
Balance as of April 1, 2023	10,649	46,177	3,933	50,110	664	1,379	6,336	87,510	95,890
Changes of items during the fiscal year									
Dividends from surplus								-2,235	-2,235
Net income								13,118	13,118
Reversal of revaluation reserve for land								6	6
Reversal of reserve for reduction entry of land						-23		23	—
Purchase of treasury stock									
Disposal of treasury stock			7	7					
Cancellation of treasury stock			-3,941	-3,941				-230	-230
Net changes of items other than shareholders’ equity during the fiscal year									
Total changes of items during the fiscal year			-3,933	-3,933		-23		10,682	10,659
Balance as of March 31, 2024	10,649	46,177	—	46,177	664	1,356	6,336	98,193	106,550

	Shareholders’ Equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders’ equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance as of April 1, 2023	-23,147	133,504	22,902	-4,253	18,649	146	152,299
Changes of items during the fiscal year							
Dividends from surplus		-2,235					-2,235
Net income		13,118					13,118
Reversal of revaluation reserve for land		6					6
Reversal of reserve for reduction entry of land		—					—
Purchase of treasury stock	-12,002	-12,002					-12,002
Disposal of treasury stock	29	37					37
Cancellation of treasury stock	4,172	—					—
Net changes of items other than shareholders' equity during the fiscal year			-1,162	-6	-1,169	-2	-1,171
Total changes of items during the fiscal year	-7,800	-1,074	-1,162	-6	-1,169	-2	-2,245
Balance as of March 31, 2024	-30,947	132,429	21,740	-4,260	17,479	144	150,054

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

Notes to Non-consolidated Financial Statements

1. Notes to Significant Accounting Policies

(1) Standards and methods for the valuation of securities

Shares of subsidiaries and affiliates

The cost method using the moving-average method.

For shares of subsidiaries and affiliates with no market value, the Company compares the amount of net assets per share with the acquisition cost and considers whether or not impairment is necessary if the amount of net assets per share is less than 50% of the acquisition cost. However, if it is deemed reasonable to take the value reflecting future excess earning power, etc. as the real value, the Company considers whether or not impairment is necessary for the real value to be applied instead of the amount of net assets.

Other securities

• Securities other than shares, etc. without market value:

The fair value method based on the market price, etc., as of the last day of the fiscal year (All valuation differences are reported as a component of net assets, with the cost of securities sold calculated according to the moving-average method.)

• Shares, etc. without market value:

The cost method using the moving-average method.

For securities with no market value, the Company compares the amount of net assets per share with the acquisition cost and considers whether or not impairment is necessary if the amount of net assets per share is less than 50% of the acquisition cost. However, if it is deemed reasonable to take the value reflecting future excess earning power, etc. as the real value, the Company considers whether or not impairment is necessary for the real value to be applied instead of the amount of net assets.

For investments in an investment limited partnership or other similar partnerships (Securities as defined in Article 2, paragraph 2 of the Securities Exchange Law), the Company books the net value of proportional holdings based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.

(2) Depreciation method for fixed assets

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

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

Principal useful lives are as follows:

Buildings and structures: 8-50 years

Furniture and fixtures: 5-15 years

2) Intangible assets

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

3) Lease assets

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

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

4) Long-term prepaid expenses

Evenly depreciated.

(3) Standards for reporting significant allowances and provisions

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for directors' bonuses

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

4) Provision for retirement benefits

In line with the full transition to the defined contribution pension system in April 2005, the Company has introduced an interim measure for compulsory retirees, who were employed at the time of the transition. Under the interim measure, part of the retirement benefits payable for past services rendered by the employees is paid as a retirement lump-sum payment. Accordingly, the retirement benefit obligations as of the end of March 2023 are provided to cover the payment of the retirement benefits for the employees. Because the actuarial differences are minor, they are treated as costs in each year when actuarial differences arise.

5) Provision for loss on guarantees

To provide for losses on debt guarantees, an estimated amount of losses borne is recorded by taking into account the financial condition of guaranteed parties and other factors.

(4) Revenue and expense recording standards

The Company provides consulting and other services to Group companies.

As the Group companies receive benefits from the performance obligations of consulting services, etc. over a certain period of time, the Company considers that the performance obligations have been satisfied during the period of service provision and recognizes revenue at a fixed amount according to the period.

2. Notes on Changes in Accounting Policies

The Group recorded revenues from information service fees earned from pharmaceutical manufacturers, etc., as "commission income" under "non-operating income."

The Group has formulated the Medium-term Management Plan 2023-2025 "Create the Next Generation" with the fiscal year ended March 31, 2024 as the first year and the fiscal year ending March 31, 2026 as the final year, has been promoting measures to achieve continuous growth and increase profitability over the medium to long term since April 2023, and has been strengthening working out, promotion and management of a profit strategy, including revenues from information service fees.

In this way, since we handle information services, which are expected to become even more important going forward owing to changes in the information business environment, as one of our main business activities, positioning revenues from information service fees earned from pharmaceutical manufacturers, etc., as main business activities, we have changed the method of presenting revenues from information service fees to be included in “operating revenue” (290 million yen in the fiscal year under review) since the fiscal year under review to present the result of the Company's sales activities more appropriately.

In addition, in the balance sheet, we have changed the method of presenting accounts receivable, which were recorded in “other" under current assets, to be included in “trade accounts receivable" (20 million yen in the fiscal year under review).

As the amount of “short-term loans receivable” (1,941 million yen in the fiscal year under review), which was recorded independently in the previous fiscal year, became small, we present short-term loans to be included in “other” under “current assets” in the fiscal year under review.

As the amount of “loss on sale of investment securities” (0 million yen in the fiscal year under review), which was recorded independently in the previous fiscal year, became small, we present loss on sale of investment securities to be included in “other” under “extraordinary loss” in the fiscal year under review.

As the amount of “loss on valuation of shares of subsidiaries” (11 million yen in the fiscal year under review), which was recorded independently in the previous fiscal year, became small, we present loss on valuation of affiliates’ shares to be included in “other” under “extraordinary loss” in the fiscal year under review.

3. Notes on Accounting Estimates

Items for which an amount has been recorded in the financial statements for the fiscal year under review based on accounting estimates and which may have a significant effect on the financial statements for the following fiscal year are as follows:

Valuation of stocks of non-consolidated subsidiaries without market value

1) The amount recorded in the financial statements for the fiscal year under review

Investment securities: 1,605 million yen

2) Information contributing to understanding the content of accounting estimates

This is the same as stated in Notes to Consolidated Statements, “3. Notes on Accounting Estimates (1) Valuation of stocks of non-consolidated subsidiaries without market value.”

4. Notes to the Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment: 21,813 million yen

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

Assets provided as security

Buildings	150 million yen
Land	440 million yen
Total	590 million yen

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

Fixed-term deposits	105 million yen
Buildings	89 million yen
Land	282 million yen
Investment securities	2,624 million yen
Total	3,101 million yen

(3) Guarantee obligations

Guarantee obligations to banks	5,973 million yen
Guarantee obligations to accounts payable	37,109 million yen
Joint and several suretyship obligations for rents pertaining to fixed-term building lease contracts during the remaining term under the contracts	2,381 million yen
Sub total	45,464 million yen
Provision for loss on guarantees	-148 million yen
Total	45,316 million yen

(4) Monetary receivables and monetary obligations to affiliates

Short-term monetary receivables	2,189 million yen
Long-term monetary receivables	4,142 million yen
Short-term monetary obligations	77,062 million yen

(5) Land revaluation

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

Revaluation method

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

Date of revaluation March 31, 2002

The difference between the fair value of the revaluated land as of the end of the fiscal year under review and the book value after the revaluation of the revaluated land 317 million yen

5. Notes to the Non-consolidated Profit and Loss Statement

Amount of transactions with affiliates

Amount of business transactions

Business revenue	11,932 million yen
Amount of transactions other than business transactions	678 million yen

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

Number of treasury shares

Type of shares	Number of shares at the beginning of the fiscal year under review	Number of increased shares during the fiscal year under review	Number of decreased shares during the fiscal year under review	Number of shares at the end of the fiscal year under review
Common stocks (Notes)	11,291 thousand shares	4,201 thousand shares	-1,852 thousand shares	13,639 thousand shares

(Notes)1. The increase of 4,201 thousand shares of common stock in treasury stock was due to an increase of 4,199 thousand shares as a result of a resolution of the Board of Directors, an increase of 1 thousand shares as a result of free acquisition of shares related to restricted stock compensation, and an increase of 0 thousand shares as a result of purchase of odd-lot shares.

2. The decrease in treasury stock of 1,852 thousand shares of common stock was a decrease of 1,838 thousand shares due to a resolution of the Board of Directors and decrease of 13 thousand shares due to the disposal as restricted stock compensation and a decrease of 1 thousand shares due to the exercise of stock options.

7. Notes to Deferred Tax Accounting

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

(Millions of yen)

Deferred tax assets	
Accrued enterprise tax	181
Provision for bonuses	21
Allowance for doubtful accounts	606
Investment securities	802
Stocks of subsidiaries and affiliates	1,530
Other noncurrent liabilities	1
Impairment loss	38
Asset retirement obligations	614
Stock options	28
Restricted stock compensation	22
Others	315
Subtotal of deferred tax assets	4,163
Valuation reserve	-3,692
Total of deferred tax assets	471
Deferred tax liabilities	
Reserve for reduction entry of land	-598
Valuation differences on available-for-sale of securities	-9,640
Valuation differences of securities resulting from merger of subsidiaries	-301
Asset retirement obligations	-484
Investment securities returned from retirement benefit trust	-60
Others	-4
Total of deferred tax liabilities	-11,088
Net amount of deferred tax liabilities	-10,617

8. Notes concerning Related Party Transactions

Subsidiaries and affiliates, etc.

Attribute	Company name, etc.	Ownership ratio of voting rights, etc. (%)	Relationship with related party	Transaction content	Transaction amount (million yen)	Item	Balance as of the end of the fiscal year (million yen)
Subsidiary	TOHO PHARMACEUTICAL	Ownership Direct 100.0%	Conclusion of business management contract Financial support Leasing of real estate properties Interlocking officers	Lending of funds	13,802	Deposits (CMS deposits)	13,802
				Interest income (Notes 1)	5		
				Consulting fee income (Notes 2)	1,336		
				Real estate lease revenue (Notes 3)	3,771		
				Dividend income (Notes 4)	6,171		
				Debt guarantees (Notes 5)	37,109		
Subsidiary	Kyushu Toho	Ownership Indirect 100.0%	Financial support Interlocking officers	Deposits of funds	2,180	Deposits (CMS deposits)	10,124
				Interest due (Notes 1)	60		
Subsidiary	SAYWELL	Ownership Indirect 100.0%	Financial support	Deposits of funds	3,262	Deposits (CMS deposits)	24,544
				Interest due (Notes 1)	136		
Subsidiary	SQUARE-ONE	Ownership Direct 100.0%	Financial support	Debt guarantees (Notes 6)	3,319	—	—
Subsidiary	Pharma Mirai	Ownership Indirect 100.0%	Financial support	Deposits of funds	1,311	Deposits (CMS deposits)	18,603
				Interest due (Notes 1)	93		

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

1. Interest rates are determined through discussion pursuant to the Company's rules, taking into consideration market interest rates, etc. A transaction amount represents a net increase or net decrease during the fiscal year.
2. The amount of consulting fee income is determined based on the costs associated with business advisory.
3. The amount of the real estate lease revenue is determined through discussion based on current conditions of transactions in the neighboring areas.

4. The amount of the dividend income is determined based on prescribed dividend standards.

5. Debt guarantees were provided for accounts payable.

6. Debt guarantees were provided for borrowings from banks.

9. Notes to Revenue Recognition

The Company provides consulting and other services to Group companies.

As the Group companies receive benefits from the performance obligations of consulting services, etc. over a certain period of time, the Company considers that the performance obligations have been satisfied during the period of service provision and recognizes revenue at a fixed amount according to the period.

The deadline for payment of consulting fees is the last day of the month in which consulting services are provided, and the Company receives monthly payments from Group companies. None of the payments are made for a period longer than one year, and the transaction price does not include significant financial factors.

10. Notes to Per Share Information

(1) Net assets per share	2,387.40 yen
(2) Net income per share	203.27 yen

11. Notes to Significant Subsequent Events

Not applicable.