

This presentation is a translation of the Japanese version that was published on Jan 19,2026.

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# Explanatory Materials Regarding Our Additional Acquisition of Toho HD Shares

19 January 2026



# Executive Summary

We Submitted an Explanatory Statement on Large-Scale Purchase Actions, Etc. to Toho HD.

In Connection With the Submission of This Statement, We Will Provide Shareholders With an Overview of the Statement, Etc. (1/2)

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## We Will Just Respond in Good Faith to Toho HD's **Self-Staged "Fabricated Emergency"**

### Strong Suspicion Regarding the Self-Staging of a "Fabricated Emergency"

- We had submitted a draft written pledge on the purchase cap prior to the adoption of the takeover defense measures, in order to avoid raising any concerns about an attempt to obtain control of management.
- Toho HD disregarded this, concealed the existence of the draft pledge from shareholders, and adopted takeover defense measures based on a "fabricated emergency."

### Compliance with the Takeover Defense Measures Process and Flexibility Regarding the Purchase Cap

- However, we complied with the process set out in the takeover defense measures and submitted a Large-Scale Purchase Actions Explanation Statement, even though it was not ordinarily required.
- Furthermore, we set the purchase cap at 27%, which is below the "de facto veto threshold" claimed by Toho HD.

### Submission of Specific Recommendations on Strengthening the Governance Framework

- Toho HD states that we have not articulated any objective beyond "encouraging the establishment of a governance framework," and that it is concerned about a lack of information provided to shareholders.
- Because it is based on the "fabricated emergency," that assertion is unreasonable. Nevertheless, we determined to respond in good faith and publish detailed, specific recommendations for governance enhancement.

We Submitted an Explanatory Statement on Large-Scale Purchase Actions, Etc. to Toho HD.

In Connection With the Submission of This Statement, We Will Provide Shareholders With an Overview of the Statement, Etc. (2/2)

2

## The Purpose of the Additional Share Acquisitions is to Invest in Toho HD's Potential for Further Corporate Value Enhancement.

We Believe that Toho HD Has Significant Upside Potential for Corporate Value Enhancement, Given Its High Business Value-Added and Strong Business ROIC, Through Appropriate Reflection of Value-Added and Improved Capital Efficiency

### Appropriate Reflection of Value-Added

- ✓ The pharmaceutical wholesale industry is critical social infrastructure that supports Japan's healthcare system and, by nature, has very high value-added.
- ✓ However, a mechanism to secure appropriate return commensurate with this high value-added has yet to be established, and Toho HD's gross profit margin has continued to decline for many years.
- ✓ Management should articulate a clear vision to restore an earnings structure commensurate with the value it provides; we believe that this is just the expected from of a sound pharmaceutical wholesale business from a sustainability perspective.

### Improvement of Capital Efficiency

- ✓ Toho HD's asset-based ROIC is 15%, reflecting inherently strong capital efficiency.
- ✓ However, even after review by the Management Strategy Committee, the current management has kept the ROE target unchanged at 8%, as set forth in the medium-term management plan.
- ✓ Given the high level of business ROIC, materially higher capital efficiency should be achievable.

# A Request to Shareholders : Please Confirm the Objective Facts, Not the Company's Narrative

		Objective Facts
A	Regarding the Self-Staged "Fabricated Emergency" of an Alleged Attempt to Acquire Control	<ul style="list-style-type: none"><li>■ We have already submitted a draft "Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)," but Toho HD has not accepted it and has not disclosed this fact to shareholders.</li><li>■ We stated that, because Toho HD's share price is undervalued, we may purchase shares in the market, but we will not exceed 30%. However, Toho HD informed shareholders as if we had decided to increase our voting power up to 30%.</li></ul>
B	Regarding Concerns About the Motivation for Introduction (Potential Entrenchment of the Management Team)	<ul style="list-style-type: none"><li>■ Two months after we presented Toho HD with the written statement indicating that management had been involved in wrongdoing, Toho HD introduced takeover defense measures.</li></ul>
C	Regarding Criticism of Our Position "Changing repeatedly"	<ul style="list-style-type: none"><li>■ We have been consistent in our dialogue aimed at enhancing corporate value, and any shift in focus reflects an inevitable evolution based on a deeper understanding of Toho HD's issues.</li></ul>
D	Regarding Criticism that Our Investment in Fuji Soft Indicates a Pursuit of Short-Term Profits	<ul style="list-style-type: none"><li>■ Toho HD has not provided any basis for its claim that we are pursuing short-term profits, other than the Fujisoft case.</li><li>■ Even in that case, Toho HD can only "manufacture" a "short-term" narrative by arbitrarily selecting the time horizon.</li></ul>
E	Regarding the Mischaracterization that Our Proposal to Establish a Strategic Review Committee Is Intended to Favor Specific Shareholders	<ul style="list-style-type: none"><li>■ The Management Strategy Committee convened by Toho HD merely endorsed the status quo by leaving targets unchanged.</li><li>■ In light of that failure, we proposed an effective committee framework that genuinely serves corporate value and the common interests of shareholders.</li><li>■ Even in light of these facts, the claim that this constitutes preferential treatment of a specific shareholder is misleading to shareholders.</li></ul>
F	Regarding Concerns About Insufficient Information	<ul style="list-style-type: none"><li>■ We submitted a Large-Scale Purchase Actions Explanation Statement - though such a filing is ordinarily unnecessary for a purely investment position that does not involve acquiring control - and also presented detailed "specific recommendations on strengthening governance framework."</li></ul>

Accordingly, We Respectfully Request Fair Judgment of Wise Shareholders as to Whether Triggering the Takeover Defense Measures at This Time Truly Contributes to Enhancing Corporate Value

# To Date, We Have Consistently Engaged in Constructive Dialogue to Support Toho HD's Goal of Enhancing Corporate Value

## Document A

- Our Engagement Policy Has Been Consistently Guided by "Achieving Corporate Value Enhancement"
  - Phase1 : Approach to Proactive Governance (Layer 2) (From Mar 2023)
    - ✓ We proposed corporate value enhancement initiatives and integration measures on the premise that Toho HD had standard governance in place. However, the review process merely endorsed the status quo and the integration proposal was rejected immediately, revealing a failure of proactive governance.
  - Phase2 : Approach to Defensive Governance (Layer 1) (From Jun 2024)
    - ✓ Following misconduct reports, our verification found that internal controls and risk management were not functioning effectively. However, Toho HD denied the need for voluntary disclosure or an investigation, revealing a failure of defensive governance
  - Phase3 : Approach to the Governance Foundation (Layer 0) (From Mar 2025)
    - ✓ Because outside directors were unable to correct a situation in which the Board could not articulate strategy and refused to address misconduct, we deepened the discussion to focus on the governance foundation and have continued dialogue toward governance enhancement.
  - Phase4 : Arbitrary Distortion of Information and Introduction of Takeover Defense Measures Based on the "Fabricated Emergency" (From Aug 2025)
    - ✓ A written statement regarding the misconduct revealed discrepancies between objective facts concerning the CEO/COO and the explanations given at the shareholders' meeting. Despite our submission of a draft "Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)" and our provision of sufficient disclosures and proposals, Toho HD introduced takeover defense measures based on the "fabricated emergency".
  - Phase5 : Confirmation of the Lack of Self-Corrective Governance Due to Refusal to Investigate (From Dec 2025)
    - ✓ We made a final request for an independent third-party committee and presented key legal issues by exercising the right to demand litigation. However, Toho HD refused to investigate, dismissing it as "a matter of the past." By ignoring contradictions with objective evidence, we became convinced that Toho HD's self-corrective function is not working.
- Toho HD's Responses Since We Submitted the Written Statement Strongly Suggest Governance Failures. However, We Will Not Abandon Our Commitment to "Achieving Corporate Value Enhancement" at Toho HD

# Accordingly, We Believe that Restoring Toho HD's Corporate Value Requires a Two-Stage Process —Settling the Past and Rebuilding the Future—and We Hereby Publish Our “Specific Recommendations on Strengthening the Governance Framework”

## Document B

### ■ We Believe that Restoring Toho HD's Corporate Value Requires the Following Two-Stage Process

#### ① Settling the Past

- Fact-Finding, Root-Cause Analysis, and Development of Recurrence Prevention Measures by a Truly Independent Third-Party Committee that Meets the Following Requirements
  - ✓ Conduct an investigation by an independent third-party committee that fully complies with the Japan Federation of Bar Associations' Third-Party Committee Guidelines.
  - ✓ Set the scope with a focus on identifying organizational and structural issues.

#### ② Rebuilding for the Future

##### — Establishment of a Three-Layer Governance Infrastructure

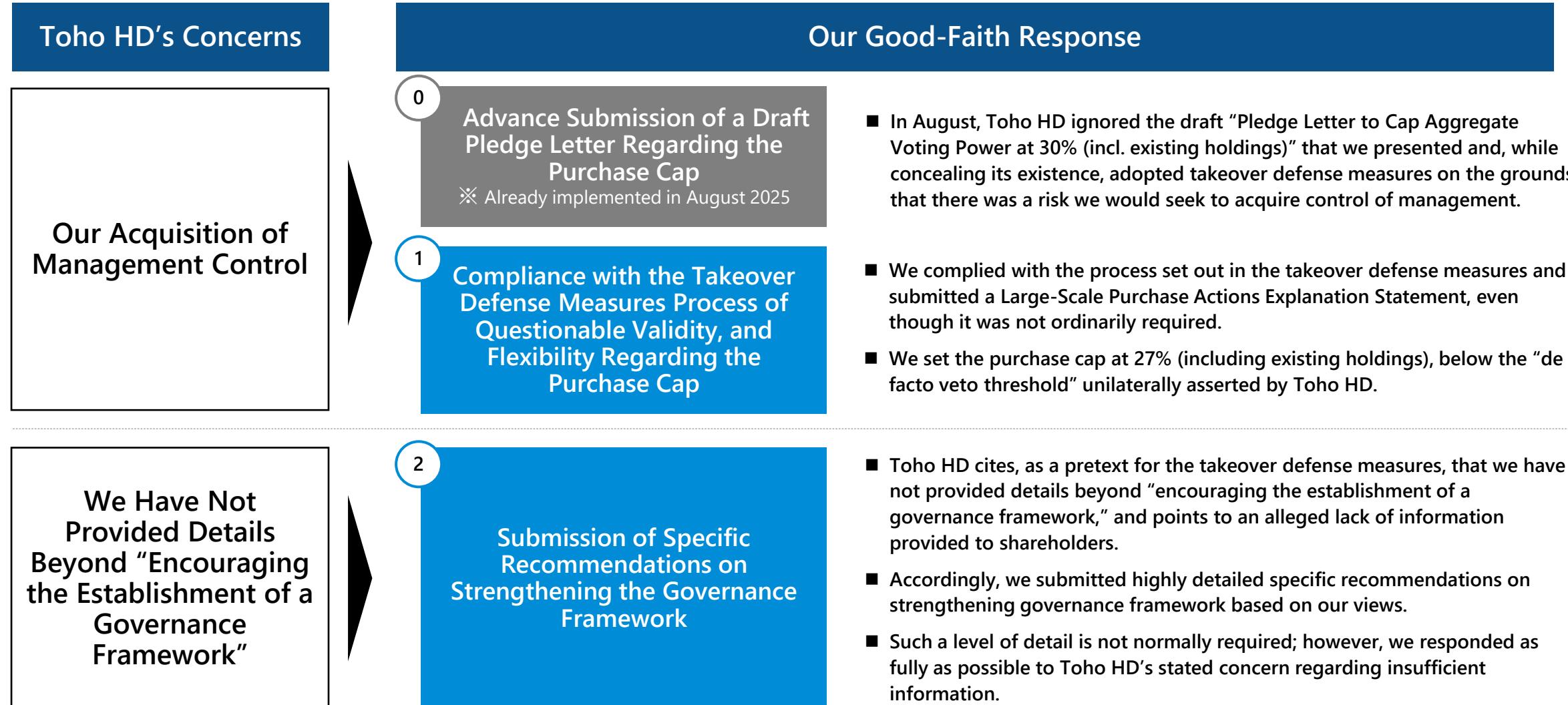
- ✓ Layer 0 : Governance Foundation (Basis of Supervision)
  - Evolving into a Board of Directors that can balance emergency response with strategic oversight and earn the trust of the market
- ✓ Layer1 : Defensive Governance (Normalization and Risk Management)
  - Normalizing governance to eliminate structural conflicts of interest and remove the conditions that give rise to misconduct
- ✓ Layer2 : Proactive Governance (Value Creation)
  - Achieving sustainable high capital efficiency by strengthening execution capabilities and incentives through the establishment of robust capital discipline

### ■ By Completing This Two-Stage Process, Toho HD Can Break Away from Status-Quo Management Built on Tolerance of Misconduct and Transition to Proactive Management with Appropriate Risk-Taking, Thereby **Naturally Achieving Sustainable Corporate Value Enhancement**

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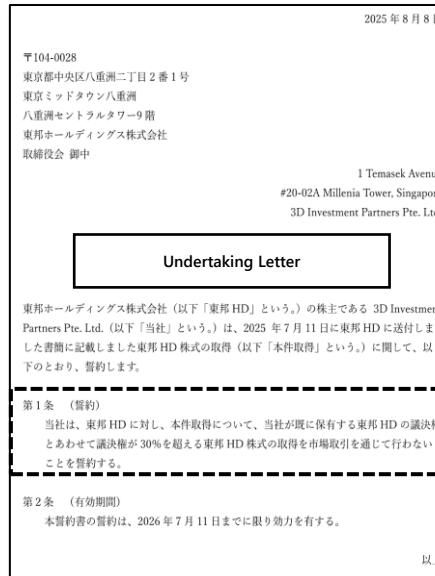
## Our Good-Faith Response

# To Fully Address Toho HD's Concerns (a Self-Staged "Fabricated Emergency") and Eliminate Them Entirely, We Took the Following Two Actions on January 16 2026



# ① In August 2025, We Submitted a Draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings),” but Toho HD Has Ignored It

In August 2025, We Submitted to Toho HD a Draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)”



## Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)

### 第1条（誓約）

当社は、東邦 HD に対し、本件取得について、当社が既に保有する東邦 HD の議決権とあわせて We undertake not to acquire Toho HD shares through on-market transactions in a manner

that would cause our voting rights to exceed 30%.

Toho HD was aware that we had submitted a draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings).”

- The email correspondence makes it clear that Toho HD had reviewed the “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings).”

### Correspondence regarding the Pledge letter (August 8, 2025)



“Could you please send (Omitted) the Pledge letter”

Toho HD  
Email to our representative (Translated)

“We would like to share the Pledge letter with you.”

3D  
Email to Toho HD's representative (Translated)

“We would like to inform you that your letter addressed to our Board of Directors (your response letter), which you sent to us today (the 8th), has been circulated to all directors.”

Toho HD  
Email to our representative (Translated)

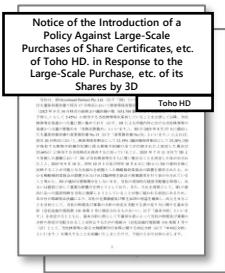
There Has Been No Subsequent Action by Toho HD  
Regarding the Draft Pledge Letter

# ① Toho HD Did Not Disclose the Draft Pledge Letter to Shareholders and Instead Adopted Takeover Defense Measures Based on a “Fabricated Emergency”

## Toho HD Made No Mention Whatsoever of the Existence of the Draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” When It Adopted the Takeover Defense Measures

- The materials regarding the adoption of the takeover defense measures do not mention the existence of the draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings).”
- Even the supplementary explanatory materials, which provide a more detailed explanation of the takeover defense measures, do not mention the existence of the draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings).”

### Notice Regarding the Adoption of Takeover Defense Measures



“We have received an explanation from 3D that *(Omitted)* as of this time, **no specific details regarding any additional acquisitions—such as the number of shares to be acquired—have been determined at all.**”

Toho HD

Notice Regarding the Introduction of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of Large-Scale Purchases of Our Shares by 3D, etc.  
(Translated)

### Supplementary Explanatory Materials Regarding the Adoption of Takeover Defense Measures



Developments to Date
24/6/24 大量保有報告書（議決権保有割合*5.45%）を提出
24/11/14 5ヶ月弱で議決権保有割合*20.78%に増加（変更報告書No.12）
25/3/25 「貴社の飛躍的な企業価値創造のために」を公表
25/5/27 枝廣氏、加茂谷氏、小谷氏の取締役選任反対を公表
25/6/27 定時株主総会。3Dを除く圧倒的多数の賛成で全取締役候補者を選任
25/7/11 今後1年間、議決権割合が最大30%となるまで追加取得の意向を伝達
25/8/27 議決権保有割合*23.28%に増加（変更報告書No.15(直近)）
25/10/3 枝廣CEOに戦略検討委員会の設置を具体的に要求 設置されない場合、臨時株主総会の開催を請求する意向を伝達
25/10/14 戦略検討委員会の設置を前提とした契約書案を提出

The fact that we submitted the draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” on August 8, 2025 has been concealed.

If Toho HD Is Concerned About an Acquisition of Control, Why Does It Not Accept Our Pledge Letter?  
If Toho HD Is Concerned About Insufficient Information for Shareholders,  
Why Does It Not Disclose Such Material Information?

# Moreover, Toho HD Has Made Statements Contrary to Fact, Claiming that We Decided to Increase Our Voting Power to 30%

## We Clearly Stated that "We May Purchase Shares in the Market, but We Will Not Exceed 30%"

- We have clearly informed Toho HD's Board of Directors on multiple occasions that, in acquiring additional Toho HD shares, our ownership will not exceed 30%.



"Until one year has elapsed after the delivery of this letter, **we intend to cap any additional acquisitions of your shares** through on-market transactions at a maximum aggregate voting rights ratio of 30%, including our existing holdings. If you deem it necessary, **we are also prepared to consider providing a pledge letter reflecting this.**"

3D  
Letter to Toho HD's Board of Directors (July 11, 2025) (Translated)

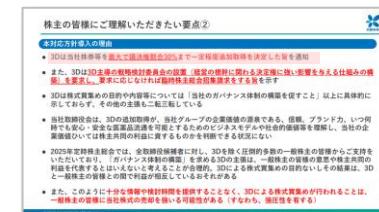


"These additional acquisitions would be made only in response to future circumstances and market conditions. Accordingly, as of this time, no specific details of any additional acquisitions—such as the number of shares to be acquired—have been determined at all. As stated in our letter, because we do not aim to acquire control of your Company's management or pursue short-term capital gains, **we have decided that we will not acquire shares through on-market transactions in excess of 30%.**"

3D  
Response to your questions addressed to Toho HD's Board of Directors (August 8, 2025) (Translated)

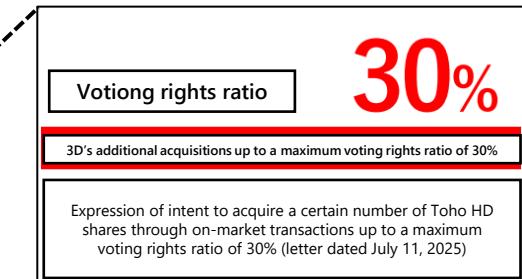
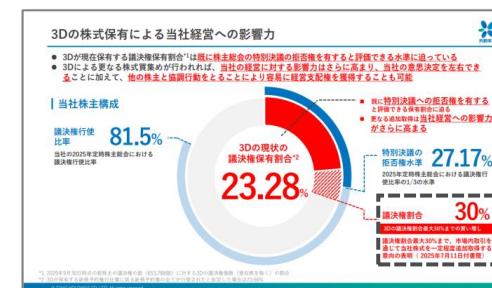
## Toho HD Informed Shareholders as If We Had "Decided to Increase Our Voting Power to 30%"

- Toho HD states that we have decided to acquire additional Toho HD shares "up to a maximum voting rights ratio of 30%," in a manner that could mislead shareholders into believing that we have decided to increase our voting power to 30%.



**"3D notified it that 3D had decided to acquire an additional number of our shares up to a maximum voting rights ratio of 30%"**

Toho HD  
Supplementary Explanatory Materials Regarding the **Introduction** of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of Large-Scale Purchases of Our Shares by 3D Investment Partners Pte. Ltd., etc. (Translated)



## Why Does Toho HD Seek to Portray the Situation as If We Had "Decided to Increase Our Voting Power to 30%"? Together with Its Refusal to Accept the Pledge Letter, Toho HD Is Arbitrarily Trying to Create the Conditions for an "Emergency", Isn't it?

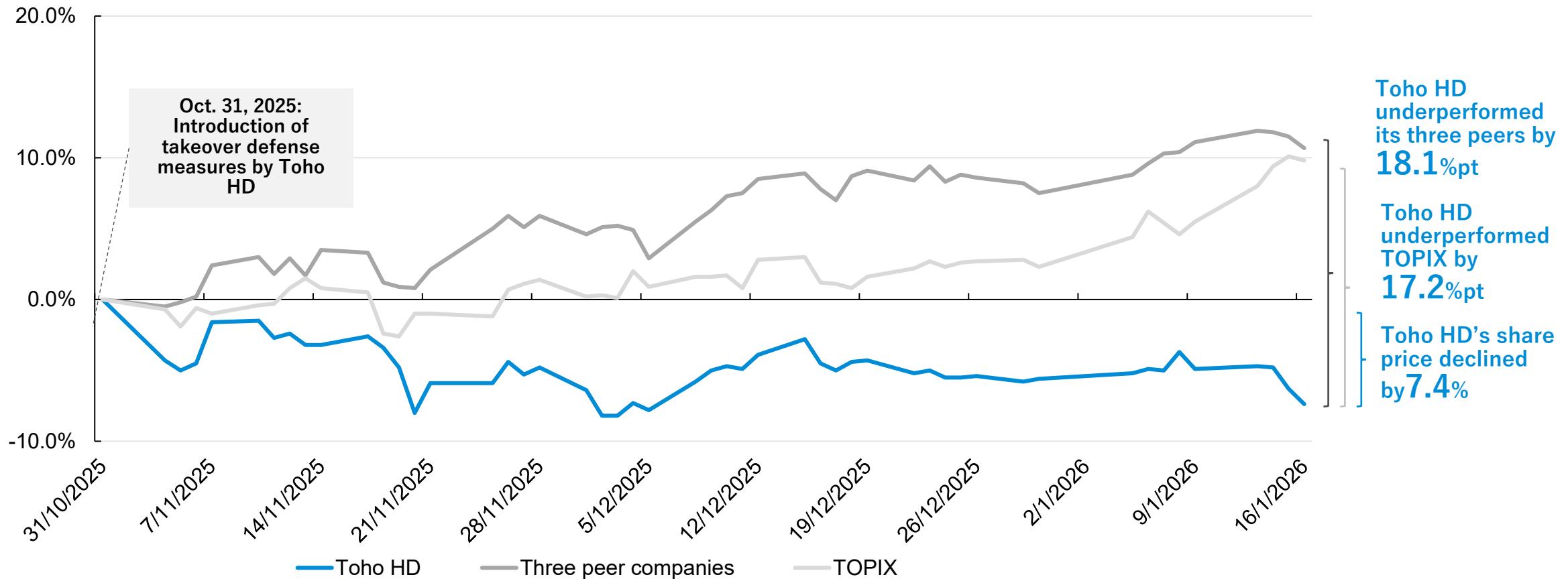
Note: Boldface, underlining, and similar emphasis in quoted text have been added by 3D

Source: Letter from 3D to the Board of Directors of Toho HD; Toho HD "Notice of the Introduction of a Policy Against Large-Scale Purchases of Share Certificates, etc. of TOHO"; Toho HD "Supplementary Explanation of Policy Against Large-Scale Purchases of Share Certificates, etc. of TOHO HOLDINGS CO., LTD. in Response to the Large-Scale Purchase, etc. of its Shares by 3D Investment Partners Pte. Ltd."

# After Introducing Takeover Defense Measures Based on the “Fabricated Emergency,” Toho HD’s Share Price Has Significantly Underperformed the Peer Average and the TOPIX

## Share price performance after the introduction of takeover defense measures

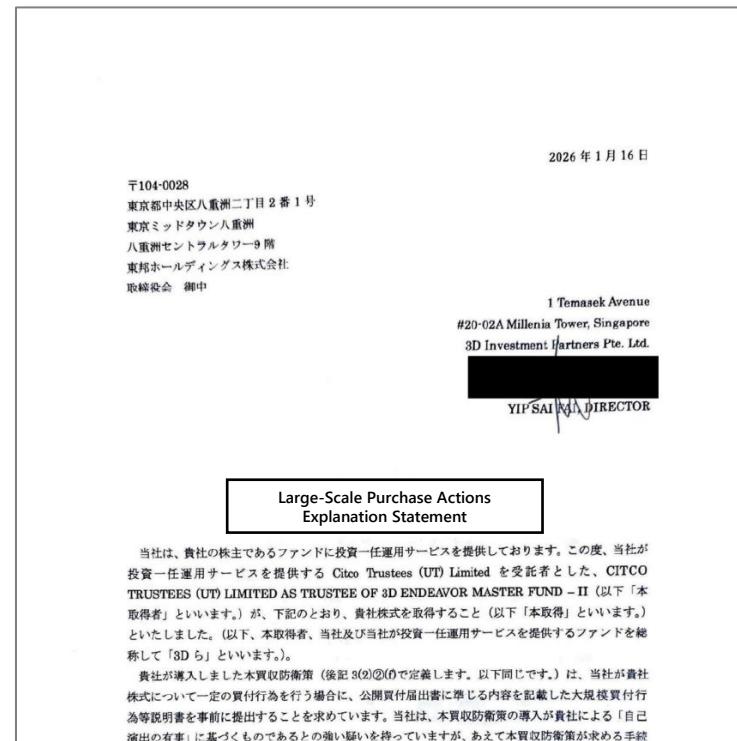
Share price performance since the adoption of takeover defense measures (Oct. 31, 2025 – Jan. 16, 2026)



# We complied with the process under the takeover defense measures and, in an effort to accommodate Toho HD regarding the acquisition cap, submitted a Large-Scale Purchase Actions Explanation Statement on January 16 2026

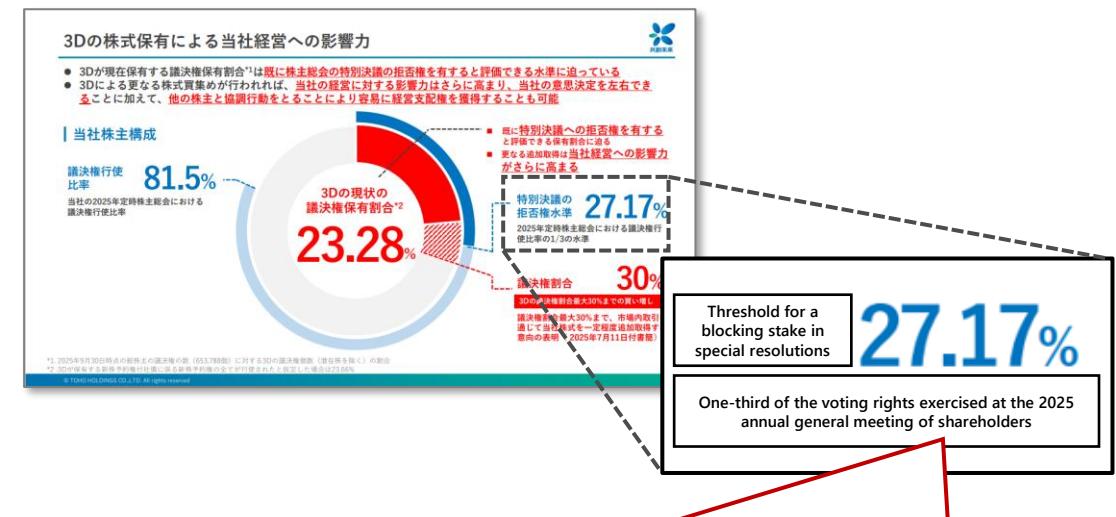
## In Accordance with the Takeover Defense Measures Process, We Submitted the Large-Scale Purchase Action Explanatory Statement in Connection with the Additional Acquisition

- We submitted a Large-Scale Purchase Actions Explanation Statement in accordance with the process set out in Toho HD's takeover defense measures.



## In This Case, to Address Toho HD's Concerns, We Set the Acquisition Ratio Below the "De facto Veto Right" Threshold Asserted by Toho HD

- This time, we set the acquisition cap at 27% (including existing holdings), which is below the level (27.17%) that Toho HD unilaterally claims constitutes a "de facto veto."

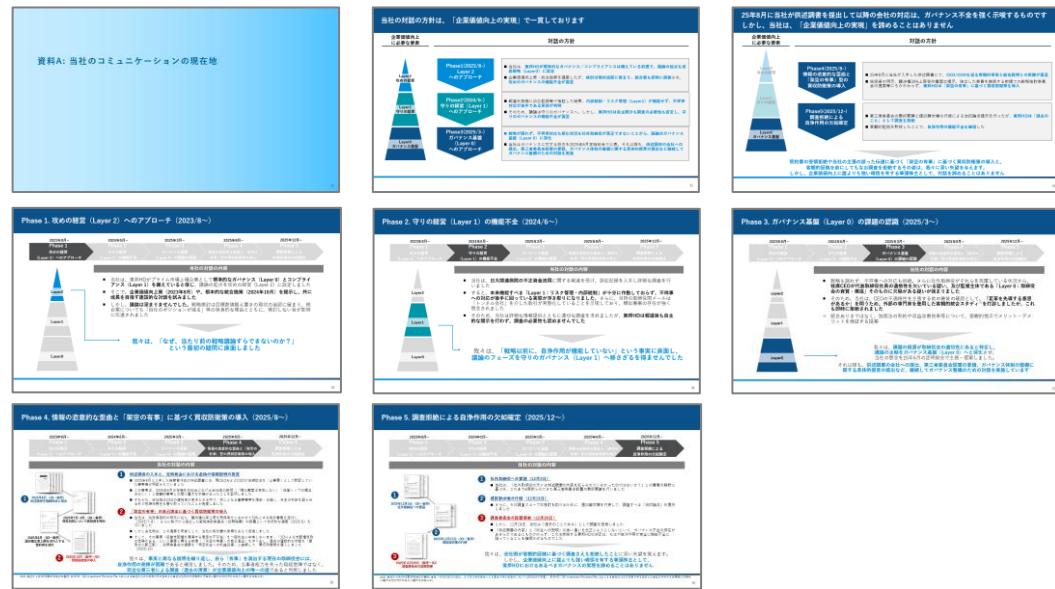


We believe Toho HD's determination that 27% constitutes a "de facto veto" is highly arbitrary and raises serious questions as to its validity. Nevertheless, in order to avoid unproductive confrontation, we have chosen to adhere to this threshold.

## 2 We Submit and Disclose Highly Detailed "Specific Recommendations on Strengthening the Governance Framework" (pp. 41–) at a Level of Granularity Not Typically Required

The Contents of These Recommendations Did Not Arise Suddenly; They Are the Culmination of Our Consistent Positions Based on the Accumulation of Prior Engagements

- Since 2023, we have consistently engaged in ongoing dialogue with Toho HD aimed at enhancing corporate value.
- Through our dialogue with Toho HD aimed at enhancing corporate value, we identified a lack of risk management and the underlying root cause—structural failures in governance functions—which led to these recommendations.
- Details are provided later in "Where Our Communications Stand Today" (p.33).



We made and submitted a Detailed Proposal on Strengthening the Governance Framework and Disclose it

- We identified the factors behind the governance failures at Toho HD and submitted an exceptionally detailed, 45-page recommendation report together with the Large-Scale Purchase Actions Explanation Statement.
- Details are provided later in "Specific Recommendations for Governance Enhancement" (p.41).



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## Purpose of the Acquisition

# The Purpose of the Additional Acquisition Is to Invest in Opportunities to Enhance Corporate Value

Reproduced

**We Believe that Toho HD Has Significant Upside Potential for Corporate Value Enhancement, Given Its High Business Value-Added and Strong Business ROIC, Through Appropriate Reflection of Value-Added and Improved Capital Efficiency**

## Appropriate Reflection of Value-Added

- ✓ The pharmaceutical wholesale industry is critical social infrastructure that supports Japan's healthcare system and, by nature, has very high value-added.
- ✓ However, a mechanism to secure appropriate return commensurate with this high value-added has yet to be established, and Toho HD's gross profit margin has continued to decline for many years.
- ✓ Management should articulate a clear vision to restore an earnings structure commensurate with the value it provides; we believe this is just the expected correct form of a sound pharmaceutical wholesale business from a sustainability perspective.

## Improvement of Capital Efficiency

- ✓ Toho HD's asset-based ROIC is 15%, reflecting inherently strong capital efficiency.
- ✓ However, even after review by the Management Strategy Committee, the current management has kept the ROE target unchanged at 8%, as set forth in the medium-term management plan.
- ✓ Given the high level of business ROIC, materially higher capital efficiency should be achievable.

# The Pharmaceutical Wholesaling Business Is a Critically Important Social Infrastructure Supporting Japan's Healthcare System and, By Nature, Has Very High Value-Added

## Advanced Logistics and Crisis Management Capabilities

- A high-quality logistics platform that complies with the strict quality and distribution control standards of GDP<sup>1</sup> (Good Distribution Practice), can also handle specialty pharmaceuticals<sup>2</sup>, and is not easily replicable by other industries.

"Pharmaceuticals, constrained by regulatory frameworks such as the pharmaceutical affairs system and the medical insurance system, **have distribution characteristics not found in other products.**"

Japan Pharmaceutical Wholesalers Association JPWA Guide: 2025 Edition (Translated)

- A resilient supply framework designed to ensure stable supply even in emergencies such as pandemics and natural disasters.

**"To enable a rapid response to disasters, we continually strengthen preparedness through various investments,** including seismic isolation and earthquake reinforcement of branches and logistics centers, and the installation of emergency power supply equipment."

Japan Pharmaceutical Wholesalers Association Future Actions in Light of the Current State and Challenges of Pharmaceutical Wholesalers (Translated)

## Information and Sales Hub Function

- As pharmaceutical manufacturers reduce their sales representatives<sup>3</sup>, sales representatives in the pharmaceutical wholesale industry<sup>4</sup> are increasingly serving as the primary channel connecting healthcare providers and manufacturers.

"Japan's pharmaceutical wholesalers (*Omitted*) have **the unique function of providing information**. They not only provide drug information such as adverse reactions to medical institutions and insurance pharmacies, but also perform work that **influences physicians' choice of medicines**, and are (*Omitted*) **highly valuable as social infrastructure.**"

Japan Pharmaceutical Wholesalers Association JPWA Guide: 2025 Edition (Translated)

- The pharmaceutical wholesale industry provides logistics and information services in an integrated manner, delivering essential and irreplaceable value.

"Japan's wholesalers have (*Omitted*) unique functions. These include **sales promotion centered on providing pharmaceutical information**, and they also **play a proxy role on behalf of pharmaceutical companies**"

Japan Pharmaceutical Wholesalers Association International Comparison of Function-by-Function Costs in Pharmaceutical Wholesaling (Translated)

## Financial and Social Efficiency Functions

- A role that minimizes society-wide transaction and logistics costs by **consolidating settlement and distribution for each healthcare provider and pharmacy**.

"If the pharmaceutical wholesale industry did not exist, each healthcare provider and pharmacy would have to transact individually with each pharmaceutical company, and **the various societal costs currently absorbed by pharmaceutical wholesalers** would become apparent."

Crecon Research & Consulting Environmental Changes Surrounding Pharmaceutical Distribution and the Potential of Wholesalers (Translated)

- A role that effectively supports healthcare providers' cash flow through the provision of credit.

"Because payments from healthcare providers and other customers are received after insurance claims and require time to be collected, pharmaceutical wholesalers perform a **financial function by bridging the timing gap between the payment terms for purchases (e.g., pharmaceuticals) and the collection period.**"

EY ShinNihon LLC Life Sciences (Vol. 8) (Translated)

# However, A Mechanism to Secure Appropriate Return Commensurate with This High Value-Added Has Yet to Be Established, and Gross Margin Has Continued to Decline Over Many Years

## The MHLW and Other Authorities Recognize the Infrastructure Nature of Pharmaceutical Wholesalers and Are Calling for Pass-Through of Rising Costs into Prices

- The Ministry of Health, Labour and Welfare has also called for pass-through of rising costs into pricing, thereby recognizing the infrastructure role of the industries.

"Wholesalers shall **set appropriate prices** for each pharmaceutical product, **taking into account the costs necessary to ensure a stable supply (including personnel costs and distribution costs that reflect regional differences and inflation, etc.)**."

Ministry of Health, Labour and Welfare  
Guidelines to Be Observed by Distribution Stakeholders for Improving the Distribution of Prescription Drugs (Translated)

"Because we handle life-related products, **ensuring a stable supply is an important responsibility**"

"It is also important to speak up **about setting drug prices that take additional costs into account**."

Japan Pharmaceutical Wholesalers Association  
Hilltop Seminar: In Search of Solutions for Pharmaceutical Distribution (Translated)

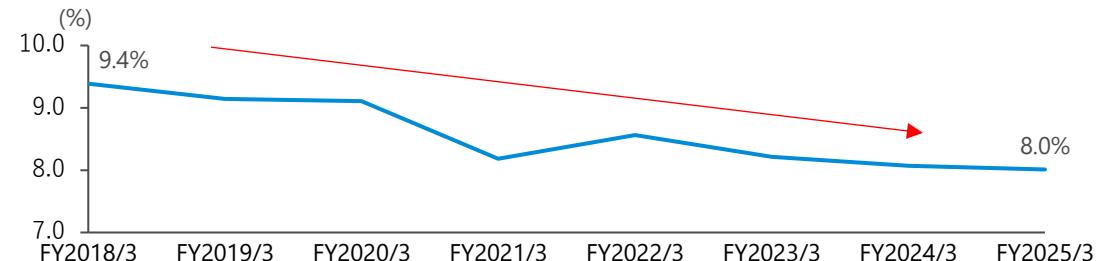
## Meanwhile, Pharmaceutical Wholesalers Have Continued to Absorb Rising Costs, and Gross Margin Has Declined Over Many Years

- A mechanism to secure fair return commensurate with this high value-added has yet to be established.

"Even **as required standards rise**—such as functioning as a lifeline during disasters and other emergencies, balancing supply and demand before shortages occur, and enhancing quality control—**these costs are being borne by the pharmaceutical wholesale industry.**"

Japan Pharmaceutical Wholesalers Association  
Hilltop Seminar: In Search of Solutions for Pharmaceutical Distribution (Translated)

- In fact, the gross profit margin<sup>1</sup> has been on a long-term declining trend.



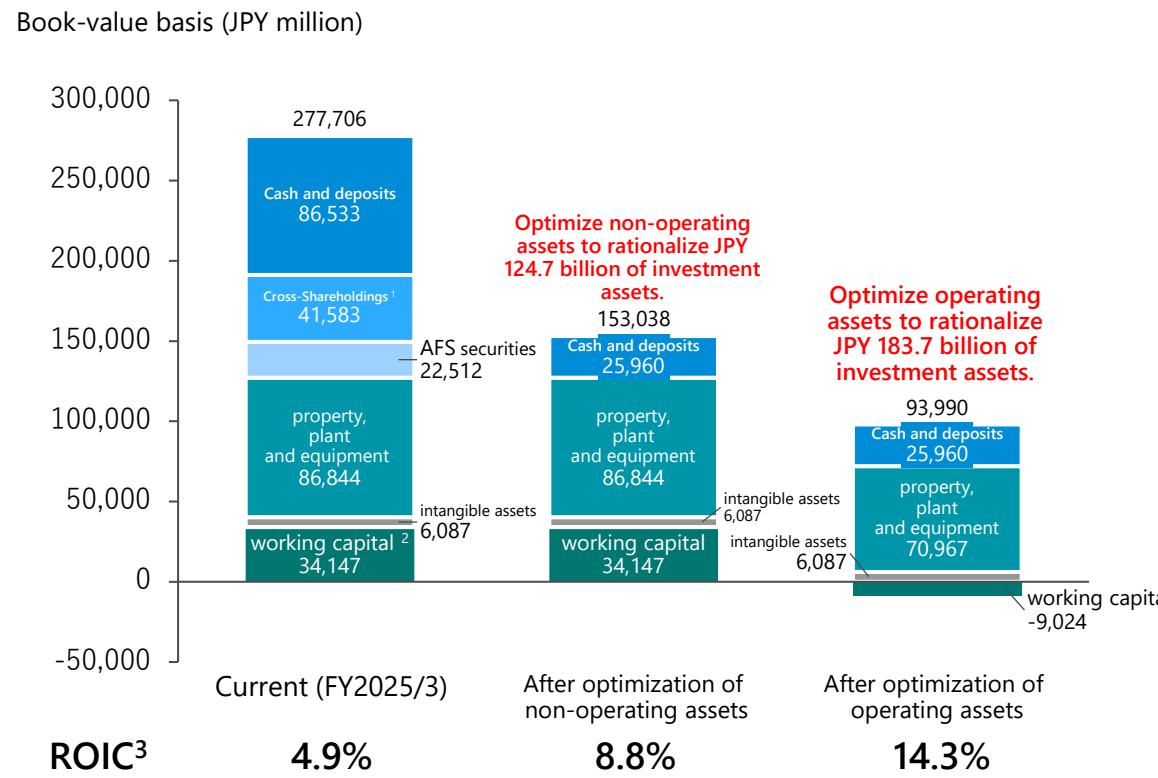
## The Management Team Should Present a Vision to Restore a Profit Structure Commensurate with the Value Provided. We Believe This Is Just the Expected Form of the Sound Pharmaceutical Wholesaling Business From a Sustainability Perspective.

Note: [1] For FY2018–2023, figures have been adjusted so that information provision fees are included in net sales and operating profit, as is currently the case.

Source; Ministry of Health, Labour and Welfare "Guidelines to Be Observed by Distribution Stakeholders for Improving the Distribution of Prescription Drugs" ; Japan Pharmaceutical Wholesalers Association "Hilltop Seminar: In Search of Solutions for Pharmaceutical Distribution"

# Moreover, Toho HD's ROIC, Adjusted for Asset Optimization, Is Approximately 15%, Reflecting Inherently High Capital Efficiency

## Upside Potential for ROIC Improvement Through Optimization of Non-Operating Assets and Operating Assets



### Non-operating assets: JPY 124.7 billion of potential optimization.

#### Cash and deposits: JPY 60.6 billion.

- Based on IR meetings with Toho HD, we assume that 70% of cash and deposits represents excess cash.

#### Cross-Shareholdings<sup>1</sup>: JPY 41.6 billion.

- Assumed to have no impact on operations and therefore to be fully divested.

#### AFS securities: JPY 22.5 billion

- Assuming these assets generate investment returns below the hurdle rate, we assume a full divestment.

### Operating assets: JPY 59.1 billion of potential optimization.

#### Property, plant and equipment : JPY 15.9 billion

- We assume the monetization of Toho HD's three logistics facilities (TBC Saitama, TBC Hanshin, and TBC Hiroshima) through sale-and-leaseback transactions.
- Surplus branch offices, the Daisawa Head Office, and rental and other real estate should also be subject to a review of the holding policy, but are not included in this estimate.

#### Intangible assets

- No changes in particular.

#### Working capital<sup>2</sup>: JPY 43.2 billion

- We assume CCC improves to the average level of SUZUKEN, Alfresa, and MEDIPAL.
- If CCC improves to MEDIPAL's level—the best in the industry—this would enable further optimization of investment assets.

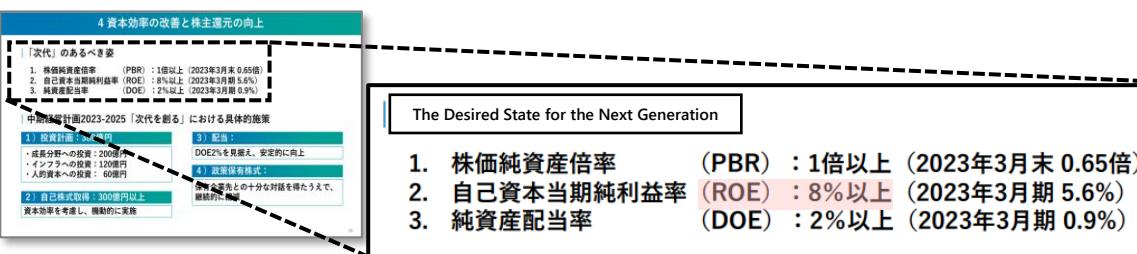
Note: [1] Items defined as specified investment securities in the Annual Securities Report [2] Notes and accounts receivable in core businesses + merchandise and finished goods + accrued purchase rebates – notes and accounts payable – accrued expenses [3] Calculated as (operating profit + fees received) × 0.7 / invested assets

# However, Even After Review by the Management Strategy Committee, the Current Management Team Has Kept the ROE Target at the 8% Level

## Toho HD Had Already Set a Target of ROE of 8% or Higher (FY2025) in Its Medium-Term Management Plan

- In its medium-term management plan (FY2023–FY2025) announced on May 12, 2023, Toho HD set ROE of 8% or higher as its target for FY2025.

### Findings of the Management Strategy Committee



## Even After Subsequent Review by the Management Strategy Committee, Toho HD's ROE Target Remained at 8%

- Toho HD established the Management Strategy Committee in April 2024.
- Toho HD explains that, based on the medium-term management plan (FY2023–FY2025), it has advanced discussions toward formulating concrete execution plans and implementation approaches.
- The ROE target—treated as the most important metric—remains at 8% (through FY2028).

### Findings of the Management Strategy Committee



"Targets: ROE of 8% and operating profit margin of 1.5% or higher (by FY2029/3)."

"In considering measures to address the above issues, we regarded "improving capital efficiency"—i.e., **achieving the ROE target through enhanced profitability**—as the most important perspective."

Toho HD

Findings of the Management Strategy Committee review (Translated)

Despite an Achievable ROE<sup>1</sup> Level of 15%,

the Medium-Term Plan Target of 8% Has Been Maintained Even After Review by the Management Strategy Committee, Making It Difficult to Say that Sufficient Consideration Has Been Given to Enhancing Corporate Value

Note: [1] As Toho HD is in a net cash position and has effectively sourced all of its capital from shareholders, the achievable ROIC level of 15% should broadly align with ROE.

Source: Toho HD Notice of Action Plan Developed Based on Verification Results of Management Strategy Committee - Aiming to Accelerate the Medium-Term Management Plan, Improve its Effectiveness and Further Enhance Corporate Value – (2024/11/8); Toho HD "Presentation Materials" (2024/11/8)

## What We Would Like Shareholders to Confirm

# At Present, None of the Concerns Cited by the Company as Grounds for Introducing Takeover Defense Measures Are Factual. We Will Address Each Misunderstanding Based on the Facts and Alleviate the Management Team's Concerns

	Objective Facts	Reproduced
A Regarding the Self-Staged “Fabricated Emergency” of an Alleged Attempt to Acquire Control	<ul style="list-style-type: none"><li>■ We have already submitted a draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings),” but Toho HD has not accepted it and has not disclosed this fact to shareholders.</li><li>■ We stated that, because Toho HD’s share price is undervalued, we may purchase shares in the market, but we will not exceed 30%. However, Toho HD informed shareholders as if we had decided to increase our voting power up to 30%.</li></ul>	
B Regarding Concerns About the Motivation for Introduction (Potential Entrenchment of the Management Team)	<ul style="list-style-type: none"><li>■ Two months after we presented Toho HD with the written statement indicating that management had been involved in wrongdoing, Toho HD introduced takeover defense measures.</li></ul>	
C Regarding Criticism of Our Position “Changing repeatedly”	<ul style="list-style-type: none"><li>■ We have been consistent in our dialogue aimed at enhancing corporate value, and any shift in focus reflects an inevitable evolution based on a deeper understanding of Toho HD’s issues.</li></ul>	
D Regarding Criticism that Our Investment in Fuji Soft Indicates a Pursuit of Short-Term Profits	<ul style="list-style-type: none"><li>■ Toho HD has not provided any basis for its claim that we are pursuing short-term profits, other than the Fujisoft case.</li><li>■ Even in that case, Toho HD can only “manufacture” a “short-term” narrative by arbitrarily selecting the time horizon.</li></ul>	
E Regarding the Mischaracterization that Our Proposal to Establish a Strategic Review Committee Is Intended to Favor Specific Shareholders	<ul style="list-style-type: none"><li>■ The Management Strategy Committee convened by Toho HD merely endorsed the status quo by leaving targets unchanged.</li><li>■ In light of that failure, we proposed an effective committee framework that genuinely serves corporate value and the common interests of shareholders.</li><li>■ Even in light of these facts, the claim that this constitutes preferential treatment of a specific shareholder is misleading to shareholders.</li></ul>	
F Regarding Concerns About Insufficient Information	<ul style="list-style-type: none"><li>■ We submitted a Large-Scale Purchase Actions Explanation Statement—though such a filing is ordinarily unnecessary for a purely investment position that does not involve acquiring control—and also presented detailed “specific recommendations on strengthening for governance framework.”</li></ul>	

## A Regarding the Self-Staged “Fabricated Emergency” of an Alleged Attempt to Acquire Control

# We Have Already Submitted a Legally Binding Draft Pledge Letter, but the Company Has Not Accepted It and Has Not Disclosed That Fact to Shareholders

We Submitted a Draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” and Toho HD Was Aware of It

- We presented a draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” on August 8, 2025.



“We undertake that, with respect to the acquisitions in question, **we will not acquire Toho HD shares through on-market transactions** in a manner that would cause our aggregate voting rights in Toho HD, together with the voting rights we already hold, to exceed 30%.”

3D  
Draft “Undertaking Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” (Translated)

- The email correspondence makes it clear that Toho HD had reviewed the draft pledge letter.



“Could you please send *(Omitted)* the pledge letter”

Toho HD  
Email to our representative (Translated)



“We would like to share the pledge letter with you.”

3D  
Email to Toho HD's representative (Translated)

Nevertheless, Toho HD Did Not Accept Our Pledge Letter and Concealed the Existence of the Draft When It Introduced the Takeover Defense Measures

- The materials regarding the introduction of the takeover defense measures do not mention the existence of the draft undertaking letter.

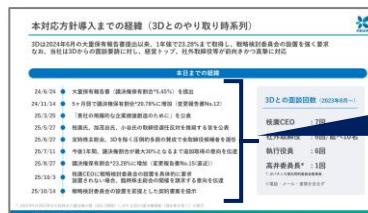


“We have received an explanation from 3D that *(Omitted)* as of this time, **no specific details regarding any additional acquisitions—such as the number of shares to be acquired—have been determined at all.**”

Toho HD

Notice Regarding the Introduction of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of Large-Scale Purchases of Our Shares by 3D, etc. (Translated)

- Even the supplementary explanatory materials, which provide a more detailed explanation of the takeover defense measures, do not mention the existence of the draft pledge letter.



The fact that we submitted the draft “Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)” on August 8, 2025 has been concealed.

By Declining to Accept Our Pledge Letter and “Deliberately” Leaving Room for Acquisitions Above 30%, Then Appealing to Shareholders About Concerns Over an Acquisition of Control. This Is the Self-Staging of a “Fabricated Emergency”, isn’t it?

## A Regarding the Self-Staged “Fabricated Emergency” of an Alleged Attempt to Acquire Control

# We Stated that “We Will Purchase Because the Shares Are Undervalued, but We Will Not Exceed 30%,” Yet the Company Has Told Shareholders that “We Will Increase Our Voting Power to 30%”

Reproduced

## We Clearly Stated that “We May Purchase Shares in the Market, but the Cap Will Not Exceed 30%”

- We have clearly informed Toho HD’s Board of Directors on multiple occasions that, in acquiring additional Toho HD shares, our ownership will not exceed 30%.



“Until one year has elapsed after the delivery of this letter, **we intend to cap any additional acquisitions of your shares** through on-market transactions at a maximum aggregate voting rights ratio of 30%, including our existing holdings. If you deem it necessary, **we are also prepared to consider providing a pledge letter reflecting this.**”

3D  
Letter to Toho HD’s Board of Directors (July 11, 2025) (Translated)

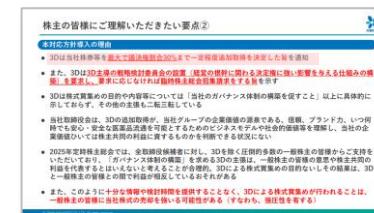


“These additional acquisitions would be made only in response to future circumstances and market conditions. Accordingly, as of this time, no specific details of any additional acquisitions—such as the number of shares to be acquired—have been determined at all. As stated in our letter, because we do not aim to acquire control of your Company’s management or pursue short-term capital gains, **we have decided that we will not acquire shares through on-market transactions in excess of 30%.**”

3D  
Response to your questions addressed to Toho HD’s Board of Directors (August 8, 2025) (Translated)

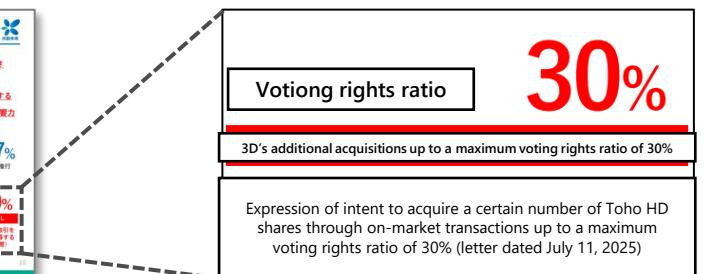
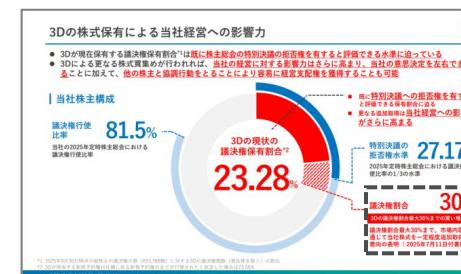
## Toho HD Informed Shareholders as If We Had “Decided to Increase Our Voting Power to 30%”

- Toho HD states that we have decided to acquire additional Toho HD shares “up to a maximum voting rights ratio of 30%,” in a manner that could mislead shareholders into believing that we have decided to increase our voting power to 30%.



“**3D notified that 3D had decided to acquire an additional number of our shares up to a maximum voting rights ratio of 30%**”

Toho HD  
Supplementary Explanatory Materials Regarding the Introduction of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of Large-Scale Purchases of Our Shares by 3D Investment Partners Pte. Ltd., etc. (Translated)



By Portraying Our Statement that “We Will Not Purchase Beyond 30%” as If We “Will Increase Our Voting Power to 30%,” and, Together with Concealing the Pledge Letter, Warning Shareholders of the Risk of an Acquisition of Control, This Is the Self-Staging of a “Fabricated Emergency”, isn’t it?

# Takeover Defense Measures Were Introduced Immediately After We Shared Information Unfavorable to the Management Team

## The Written Statement Included Facts Unfavorable to the Management Team

- The written statement states, among other things, that the current management, Mr. Edahiro and Mr. Mada, regarded bid rigging as a "necessary evil."

– Details are provided later in "Appendix 1: Facts Identified from the Written Statement" (pp.87-88)



- It also states that, despite having explained that there had been no similar misconduct, the CEO and COO acknowledged that order adjustments had occurred in the past.

"Through internal investigations and other measures (Omitted), we have confirmed that there are no other similar transactions."

Toho HD Our views on 3D's assertions(Translated)

(Mr. Edahiro) "I understood it to mean, among other things, that we should continue to manage things smoothly by coordinating orders(Omitted) with executives at competing companies, and I responded accordingly."

(Mr. Mada) "In the past,(Omitted) I had seen and heard about situations where order coordination was carried out,(Omitted) and I had experience being directly involved in such order coordination."

Written Statement (Translated)

Inconsistent explanations

## Just Two Months After We Shared the Written Statement, the Takeover Defense Measures Were Introduced

Only two months

August 14, 2025

We submitted to Toho HD a written statement, which constitutes key evidence of the misconduct.

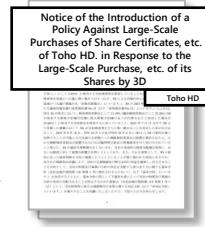


"We requested the Tokyo District Public Prosecutors Office Copying Center to make a copy of the written statement (Reiwa 2 (Tokuwa) No. 3100, criminal case concerning a violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), and we would like to share it via the link below."

3D  
Email to Toho HD's representative  
(Translated)

October 31, 2025

Toho HD introduced takeover defense measures.



Toho HD  
Notice Regarding the Introduction of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of Large-Scale Purchases of Our Shares by 3D, etc.

Immediately After We Shared Information Unfavorable to the Management Team, Takeover Defense Measures Were Introduced Based on the "Fabricated Emergency"—Are They Truly for the Benefit of Shareholders?

c Regarding Criticism of Our Position "Changing repeatedly"

Any Shift in Our Focus Is an Inevitable Evolution Driven by a Clearer Understanding of the Issues at Toho HD, and Our Objective Has Consistently Been to Enhance Corporate Value

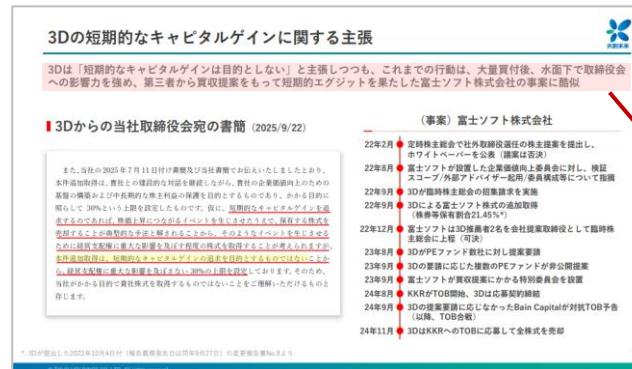
Our Engagement Initially Began with the Premise that the Governance Foundation Was in Place; However, As Compliance Issues Continued to Surface One After Another During the Dialogue, It Ultimately Extended to Discussions on the Foundation—Discussions That Should Have Been Unnecessary

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
March 2023~ Approach to proactive management (Layer 2)	June 2024~ Identification of failures in defensive management (Layer 1)	March 2025~ Recognition of issues in the governance foundation (Layer 0)	August 2025~ Arbitrary distortion of information and introduction of takeover defense measures	December 2025~ Confirmation of the absence of a corrective function due to refusal to investigate
<ul style="list-style-type: none"><li>■ We set <b>the starting point of our discussions at the growth strategy level (Layer 2)</b>, based on the premise that Toho HD had standard governance and compliance in place.</li><li>■ We proposed corporate value enhancement initiatives and integration measures; <b>however, the review merely endorsed the status quo and the integration proposal was rejected immediately.</b></li></ul>	<ul style="list-style-type: none"><li>■ Following media reports, our review of litigation records and other materials found that <b>internal controls and risk management (Layer 1)</b> were not functioning effectively, and that the response to misconduct was reactive and delayed.</li><li>■ Because Toho HD denied the need for voluntary disclosure or an investigation, <b>the discussion was forced to shift from Layer 2 to Layer 1.</b></li></ul>	<ul style="list-style-type: none"><li>■ Because outside directors were unable to correct a situation in which the Company could not articulate strategy and refused to address misconduct, <b>we identified the root cause as the suitability of the Representative Director and President and the appropriateness of the Board of Directors (Layer 0).</b></li><li>■ <b>We deepened the focus to Layer 0</b> and raised concerns and proposals at the June 2025 annual general meeting of shareholders.</li></ul>	<ul style="list-style-type: none"><li>■ A written statement revealed discrepancies between objective facts concerning the CEO/COO and the explanations given at the shareholders' meeting.</li><li>■ Despite our clear statement of a purely investment intent, our submission of a draft "Pledge Letter to Cap Aggregate Voting Power at 30%" (incl. existing holdings), and our proposal for an independent Strategic Review Committee, <b>Toho HD staged a "fabricated emergency" and adopted takeover defense measures.</b></li></ul>	<ul style="list-style-type: none"><li>■ We made a final request for an independent third-party committee and presented key legal issues by exercising the right to demand litigation; however, <b>Toho HD refused to investigate, dismissing it as "a matter of the past."</b></li><li>■ By disregarding objective evidence, <b>we became convinced that the Company's self-corrective function is not working.</b></li></ul>

Is It Constructive for Toho HD to Characterize the Evolution of Our Communications—Based on a Deeper Understanding of Toho HD—as "Changing repeatedly," and to Tell Other Shareholders that We Are a "Value-Destructive Shareholder with Other Motives"?

# D Regarding Criticism that Our Investment in Fuji-Soft Indicates a Pursuit of Short-Term Profits Toho HD Is Fabricating a Narrative that We Pursue Short-Term Profits by Arbitrarily Selecting a Time Horizon

## Toho HD Cites Only One Concern Regarding Our Investment Track Record: that the Holding Period in Our Investment in Fuji Soft Was Short

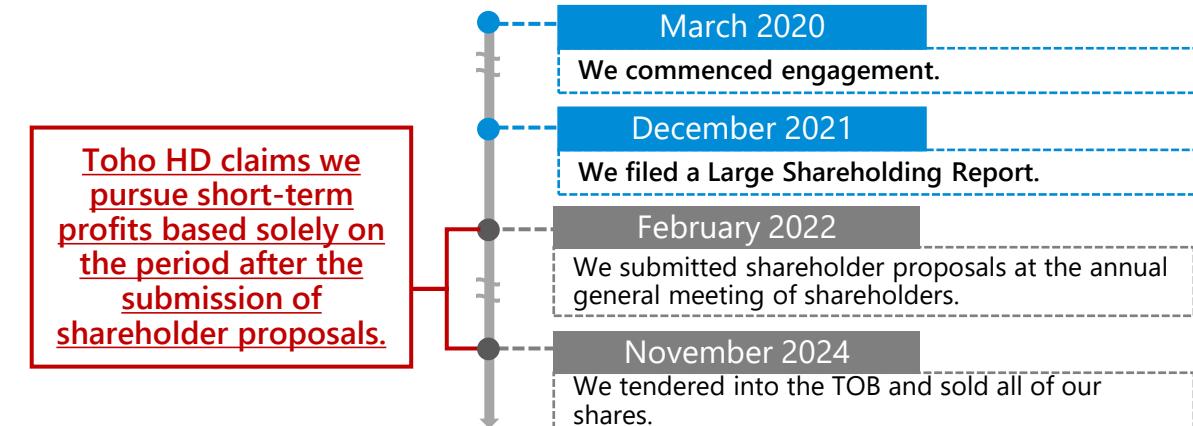


**"While 3D asserts it "does not aim to pursue short-term capital gains," its conduct to date closely resembles the Fujisoft Corporation case, where—after a large-scale share purchase—3D increased its influence over the board behind the scenes and then achieved a short-term exit through a third-party acquisition proposal."**

Toho HD  
Supplementary Explanatory Materials Regarding the Introduction of a Response Policy  
for Large-Scale Purchase Actions Concerning Our Share Certificates, etc., in Light of  
Large-Scale Purchases of Our Shares by 3D Investment Partners Pte. Ltd., etc.  
(Translated)

## However, That Time Horizon Has Been Cherry-Picked and Presented as Unduly Short-Term

- Toho HD describes our past investment in Fuji-soft as if the period from the submission of shareholder proposals to our sale of the shares constituted our investment holding period.
- However, we had been engaging in ongoing dialogue with Fuji-soft as a shareholder even before submitting shareholder proposals; accordingly, Toho HD's basic understanding of our investment holding period is incorrect.

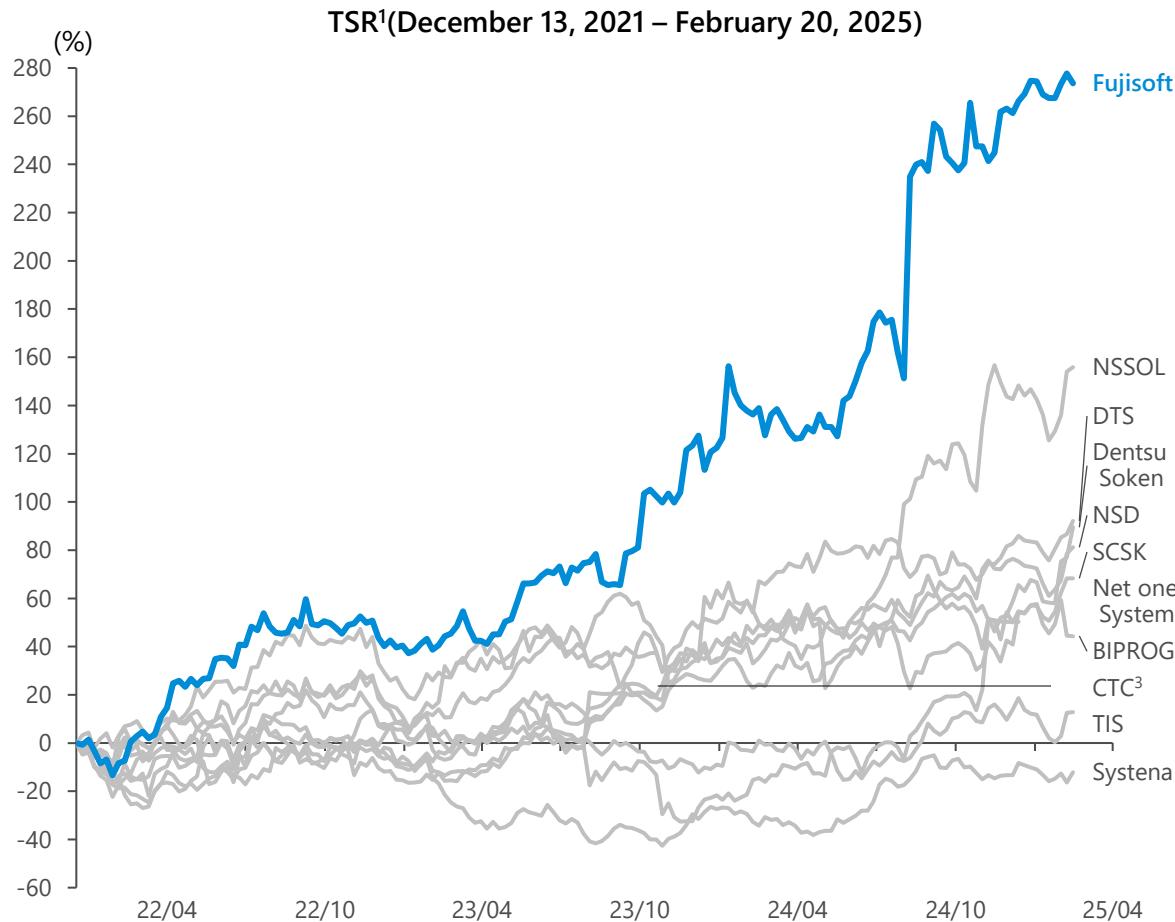


- The Fujisoft case also delivered benefits common to all shareholders and demonstrates our pursuit of mid- to long-term corporate value enhancement (discussed in detail on p.28).

## Is It Constructive to Cherry-Pick the Time Horizon to Label Us as "Short-Term Profit-Oriented" and Undermine Our Investment Track Record?

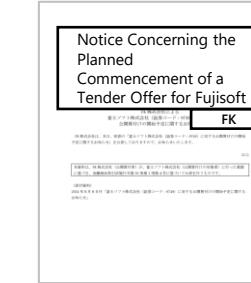
# ( Reference ) Moreover, the Fuji-Soft Case Has Delivered Shareholder Common Interests and Sustained Corporate Value Enhancement

## Following Our Large Shareholding Report, Fuji-Soft's TSR Has Significantly Outperformed Its Peers



## Even After Privatization, It Has Continued to Achieve Sustained Corporate Value Enhancement Under a Global Partner Sponsor

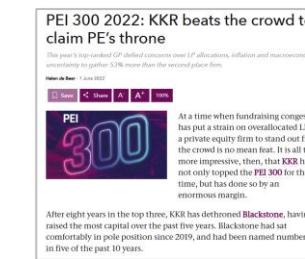
- The privatization was the result of pursuing mid- to long-term corporate value enhancement in partnership with KKR, an investor with a strong track record.



"Based on the results of the review, **we concluded that KKR is the optimal partner candidate to promote the Target's mid- to long-term corporate value enhancement, including privatization**, and on July 5, 2024, we received from the tender offeror a request to commence discussions and consideration toward this transaction."

Notice Concerning the Planned Commencement of a Tender Offer for Fujisoft Corporation (Securities Code: 9749) (Translated)

- KKR is one of the world's premier private equity firms, having ranked among the top three global PE firms for many years and having also held the No. 1 position.



"**KKR had ranked among the top three for eight years, and over the past five years it raised the most capital, overtaking Blackstone to take the top position.**"

PEI 300 2022:  
KKR beats the crowd to claim PE's throne (Translated)

Note: [1] The calculation period is from December 13, 2021, when the Large Shareholding Report was filed, to February 20, 2025, when the completion of the tender offer by KKR for Fuji-Soft was announced; [2] The calculation period is set to end on December 19, 2024, when the completion of the tender offer by SCSK was announced; [3] The calculation period is set to end on September 15, 2023, when the completion of the tender offer by Itochu Corporation was announced.

Source: Bloomberg ; FUJI-SOFT "Notice Regarding the Planned Commencement of Tender Offer for FUJI-SOFT INCORPORATED (Securities Code: 9749) by FK Co., Ltd"; PEI 300 2022: KKR beats the crowd to claim PE's throne

## E Regarding the Mischaracterization that Our Proposal to Establish a Strategic Review Committee Is Intended to Favor Specific Shareholders We Proposed a Truly Effective Structure for a Strategic Review Committee to Enhance Corporate Value

### Toho HD's Review by the Management Strategy Committee Was Clearly Insufficient, Remaining a Mere Endorsement of the Status Quo, Including Maintaining the ROE Target Unchanged

- Toho HD conducted a strategic review through the Management Strategy Committee established in 2024.
- However, the conclusion merely endorsed the existing medium-term management plan and lacked specificity markedly.

#### Medium-term management plan targets before the review

(4) 資本効率の改善と株主還元の向上
①「次代」のあるべき姿
- 株価純資産倍率(PBR) : 1倍以上 (2023年3月末 0.65倍)
- 自己資本当期純利益率(ROE) : 8%以上 (2023年3月期 5.6%)
- 純資産配当率(DOE) : 2%以上 (2023年3月期 0.9%)

#### Medium-term management plan targets as revised after the review

今後の方針
事業利益の拡大と安定的な増配、及び機動的な自己株式取得による積極的な株主還元の実施による資本効率の向上を通して企業価値の増大を目指す
2029年3月期までに累計800億円の株主還元を実施
資本効率の向上を最重要視した経営を浸透させ、今後ROEは最低でも株主資本コスト6%を上回り、2029年3月期に8%以上を達成、その後も継続的に8%以上を達成できる収益、財務基盤を構築
現中計期間(2026年3月期末)までにDOE2%以上
現中計期間(2026年3月期末)までに政策保有株式 純資産対比15%未満、2029年3月期末までに10%未満

**Although the committee conducted its review, the outcome merely endorsed the status quo, such as leaving capital efficiency targets unchanged.**

### Accordingly, We Presented a More Effective Structure for a Strategic Review Committee

- In light of the insufficient review by the Management Strategy Committee, we proposed establishing a committee aimed at the following two objectives.
- 1 Set an agenda that also covers topics where management self-preservation is likely to influence decisions.
- 2 Ensure independence and expertise by appointing external committee members who are independent of both us and Toho HD.

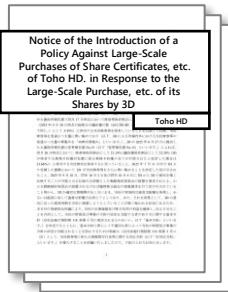


- 1 Set an agenda that also covers topics where management - preservation is likely to influence decisions.**
  - Review a policy to maximize corporate value through industry consolidation.
  - Reassess corporate value maximization initiatives that Toho HD can implement on a stand-alone basis.
- 2 Ensure independence and expertise by appointing independent external committee members.**
  - We requested that two experts nominated by us be appointed as members of the Strategic Review Committee.
    - These experts were intended to be independent of us.
    - This was premised on discussing the candidates with Toho HD.
  - We requested the engagement of a financial advisor, legal advisor, and consulting firm.
    - We made it clear that we would not be involved in selecting the advisors.

E Regarding the Mischaracterization that Our Proposal to Establish a Strategic Review Committee Is Intended to Favor Specific Shareholders  
**Toho HD Claims that Our Proposal to Establish a Strategic Review Committee Constitutes “Inducement of Benefits for Specific Shareholders,” but Such an Assertion Can Only Mislead Shareholders**

In Response to Our Proposal to Establish a Strategic Review Committee, Toho HD Claims that We Would Seize Control of Toho HD’s Management Policy and Ultimately Run the Company for Our Own Benefit

- Toho HD claims that we demanded to establish the Strategic Review Committee in a manner not visible to general shareholders and, through that committee, sought to distort Toho HD’s management for our own convenience, serving the interests of a specific shareholder rather than the common interests of shareholders.



“Such Strategic Review Committee *(Omitted)* raises concerns from the perspective of independence from a major shareholder. *(Omitted)* It should be evaluated as a mechanism intended to exert significant influence on the Company’s management decisions behind the scenes, in a manner not visible to general shareholders.”

“It is reasonable to conclude that 3D’s assertions regarding the Company cannot be said to represent the will of general shareholders or the common interests of shareholders.”

Toho HD

Notice Regarding the Adoption of a Response Policy for Large-Scale Purchase Actions Concerning Our Share Certificates, etc.  
(Translated)

However, as Set Forth Below,  
This Allegation Is Misleading to Shareholders

- We did not request that Toho HD refrain from disclosing the establishment or contents of the Strategic Review Committee.
- Because the Strategic Review Committee is an advisory body and none of our affiliates sit on Toho HD’s Board of Directors, it cannot determine or influence management policy.
- Any individuals we recommended were intended, with Toho HD’s agreement, to be independent of both us and Toho HD, and we would not intervene in the review process.
  - Accordingly, we would neither control management nor obtain any non-public information.
- We are Toho HD’s largest shareholder, and we can benefit the most only if Toho HD maximizes its corporate value.
  - In other words, we have the strongest incentive to enhance corporate value and have no incentive whatsoever to pursue value-destructive management policies.

**Is It Constructive to Single Out Dialogue Aimed at Enhancing Corporate Value as “Inducement of Benefits for Specific Shareholders” and Stage an Adversarial Narrative?**

## We Have Provided the Maximum Level of Disclosure Beyond What Is Typically Required

### In Addition to Properly Disclosing Our Shareholding Status, We Have Even Complied with the Takeover Defense Measures Process Based on a "Fabricated Emergency"

- Through our Large Shareholding Reports, we have met the disclosure standards required for ordinary on-market purchases.

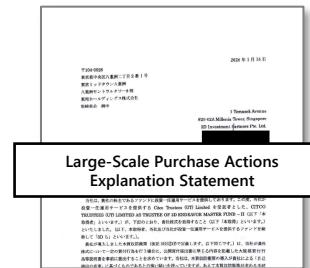
"If you hold listed share certificates, etc. above a certain threshold, you are required to [file a Large Shareholding Report](#)."

Ministry of Finance,  
Overview of the Large Shareholding Reporting System (Translated)

["In the case of on-market purchases, the disclosure requirements under the tender offer system do not apply."](#)

Ministry of Economy, Trade and Industry  
Guidelines for Corporate Takeovers  
(Translated)

- In addition, we complied even with the process under the takeover defense measures that Toho HD introduced based on the "fabricated emergency", and submitted a Large-Scale Purchase Actions Explanation Document.



### Furthermore, We Have Gone as Far as Possible to Address the Point Toho HD Particularly Cites as a Concern: that We "Have Not Provided Details Beyond Encouraging the Establishment of a Governance Framework"

- Even in an acquisition aimed at obtaining control, it is not advisable to demand information indiscriminately beyond what is required to be stated in the Tender Offer Registration Statement.

"When [a target company requests information from an acquirer, it should not ask excessively detailed questions](#) in a manner that effectively serves as a measure to block an acquisition aimed at obtaining control."

"If it is considered [necessary to request \(Omitted\)](#) that an acquirer seeking to purchase shares on the market disclose [time and information beyond what is required to be stated in the tender offer registration statement \(Omitted\)](#), this should be sufficiently examined and explained on a case-by-case basis."

Ministry of Economy, Trade and Industry  
Guidelines for Corporate Takeovers (Translated)

- Nevertheless, we went so far as to present a detailed "desired governance framework," even though such detail is not ordinarily required for a purely investment-oriented on-market purchase.

- In a purely investment position that is not aimed at acquiring control, preparing and presenting detailed business plans is difficult from the perspective of information asymmetry and is not necessary.

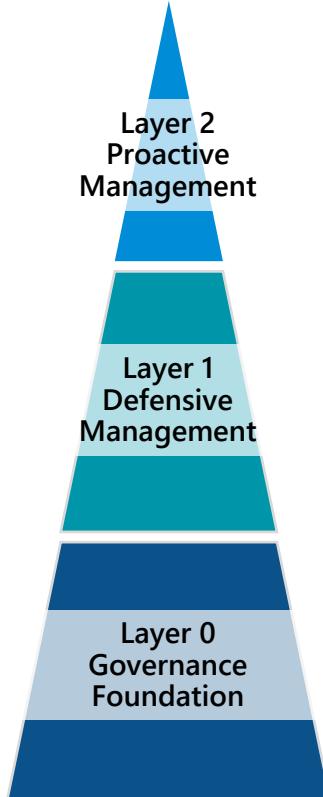


### Given the "Fabricated Emergency," Are Further Demands for Information a Refusal to Engage, Under a Pretext of the Takeover Defense Measures?

## Document A : Where Our Communications Stand Today

# Our Engagement Policy Has Been Consistently Focused on "Achieving Corporate Value Enhancement"

## Elements Required for Corporate Value Enhancement



## Content of Our Engagement to Date

### Approach to Layer 2 (From Mar 2023)

- We set the starting point of our discussions at the growth strategy level (Layer 2), **based on the premise that Toho HD had standard governance and compliance in place.**
- We proposed corporate value enhancement initiatives and integration measures; however, the review merely endorsed the status quo and the integration proposal was rejected immediately, **revealing a failure of proactive governance.**

### Approach to Layer 1 (From Jun 2024)

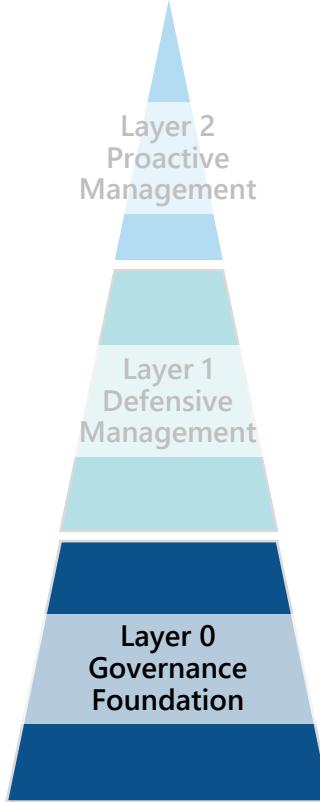
- Following media reports, our review of litigation records and other materials found that **internal controls and risk management (Layer 1) were not functioning effectively, and that the response to misconduct was reactive and delayed.**
- Accordingly, the discussion shifted to defensive governance. However, Toho HD denied the need for voluntary disclosure or an investigation, **revealing a failure of defensive governance.**

### Approach to Layer 0 (From Mar 2025)

- Because **outside directors were unable to correct a situation in which Toho HD could not articulate strategy and refused to address misconduct, the discussion deepened to the governance foundation (Layer 0).**
- We publicly raised governance concerns at the June 2025 annual general meeting. Since then, **we have continued dialogue toward governance enhancement**, including submitting written statements to the Company, requesting the establishment of an independent third-party committee, and submitting "specific recommendations for governance enhancement."

# Toho HD's Responses Since We Submitted the Written Statements in August 2025 Strongly Suggest Governance Failures. However, We Will Not Abandon Our Commitment to "Achieving Corporate Value Enhancement"

## Elements Required for Corporate Value Enhancement



## Content of Our Engagement to Date

Arbitrary Distortion of Information and Adoption of "Fabricated Emergency" Takeover Defense Measures (From Aug 2025)

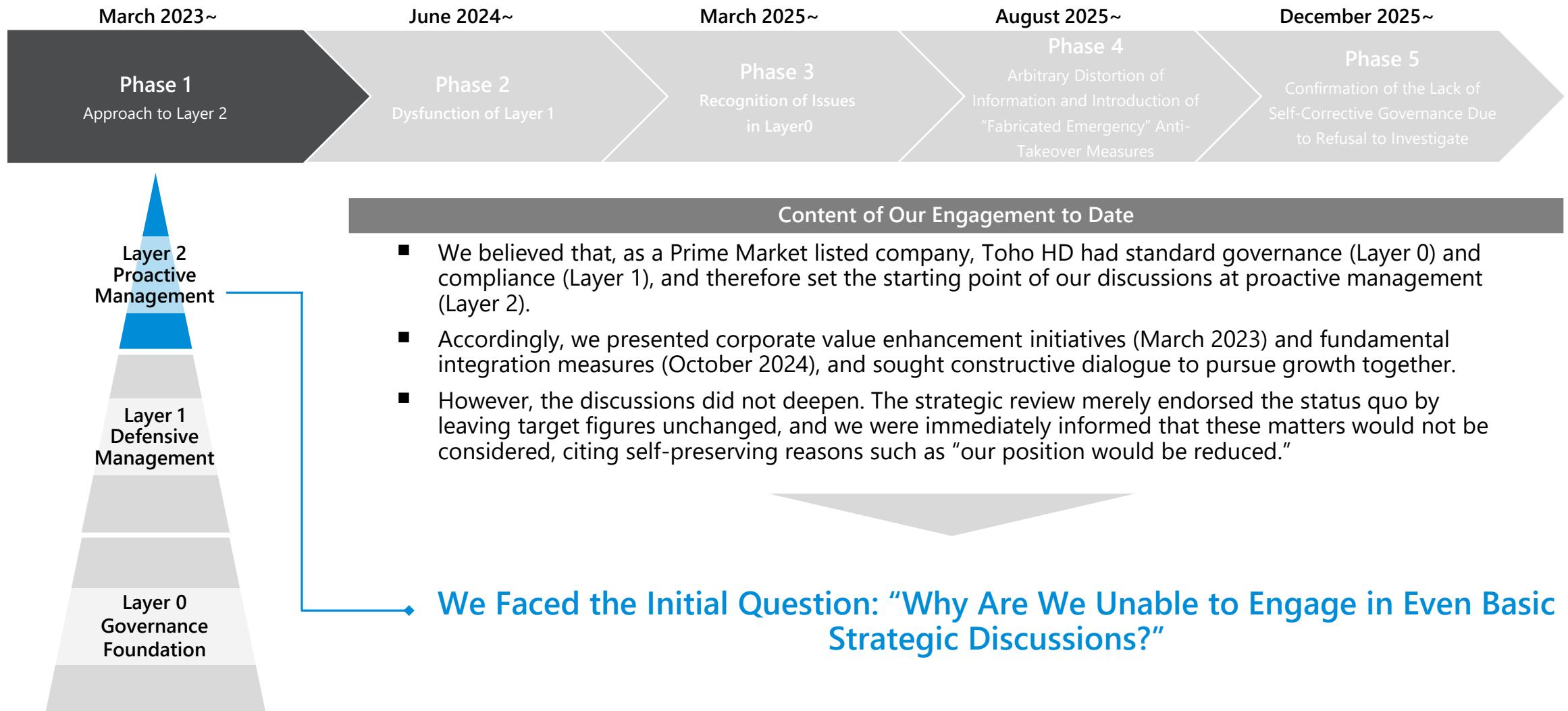
- August 2025, written statements obtained by us **revealed discrepancies between objective facts** concerning the CEO/COO **and the Company's explanations** at the shareholders' meeting.
- Despite our clear statement of a purely investment intent, our submission of a draft "Pledge Letter to Cap Aggregate Voting Power at 30% (incl. existing holdings)," and our proposal for a Strategic Review Committee premised on recommending independent members, **Toho HD introduced takeover defense measures based on the "fabricated emergency".**

Confirmation of the Lack of Self-Corrective Governance Due to Refusal to Investigate (From Dec 2025)

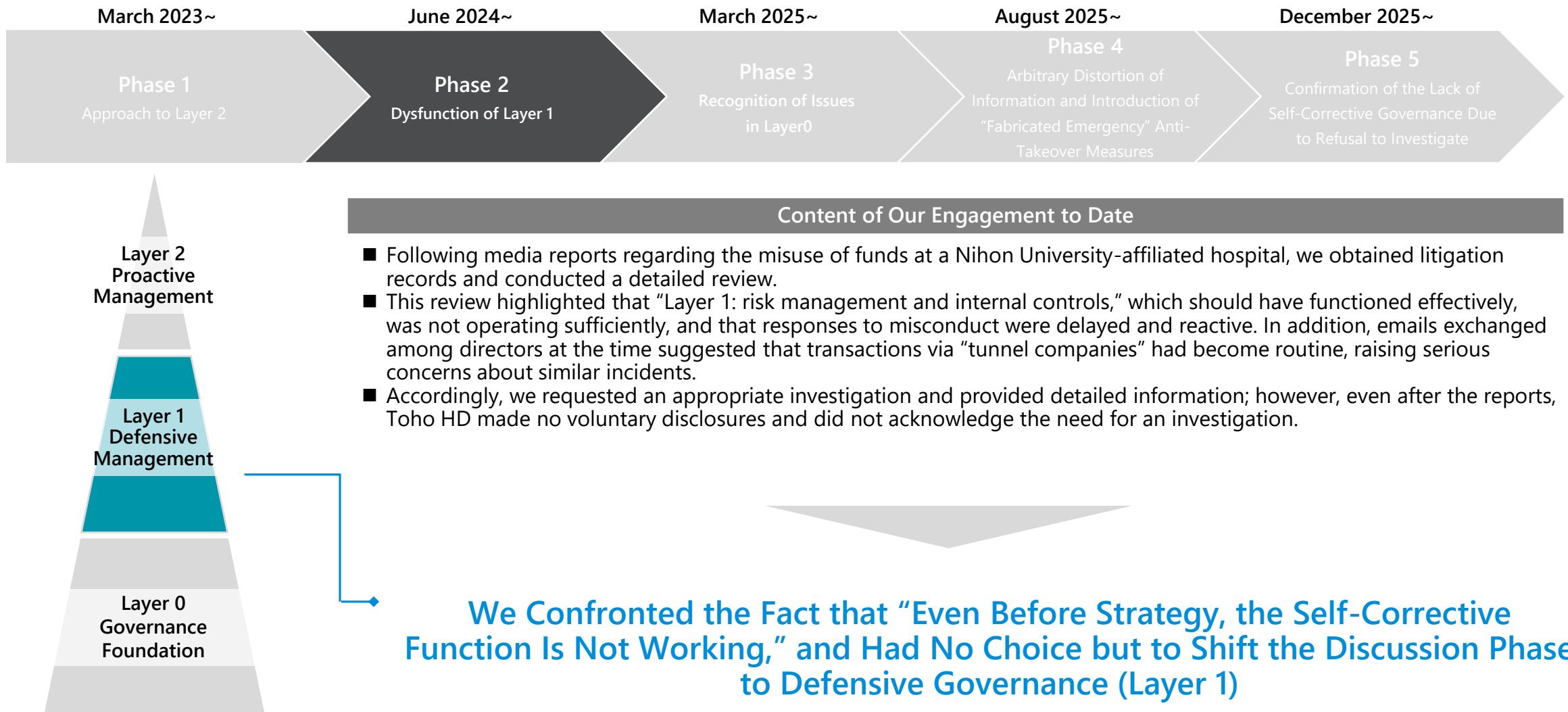
- We made a final request for an independent third-party committee and presented key legal issues by exercising the right to demand litigation; however, **Toho HD refused to investigate, dismissing it as "a matter of the past."**
- By disregarding objective evidence, **we became convinced that the Company's self-corrective function is not working.**

Toho HD's Introduction of Takeover Defense Measures Based on the "Fabricated Emergency"—Driven by Its Refusal to Accept the Pledge Letter and Its Misrepresentation of Our Position—and Its Continued Refusal to Investigate Even in the Face of Objective Evidence, Deeply Disappoint Us. However, As the Largest Shareholder with the Strongest Conviction in Enhancing Corporate Value, We Will Not Abandon Engagement.

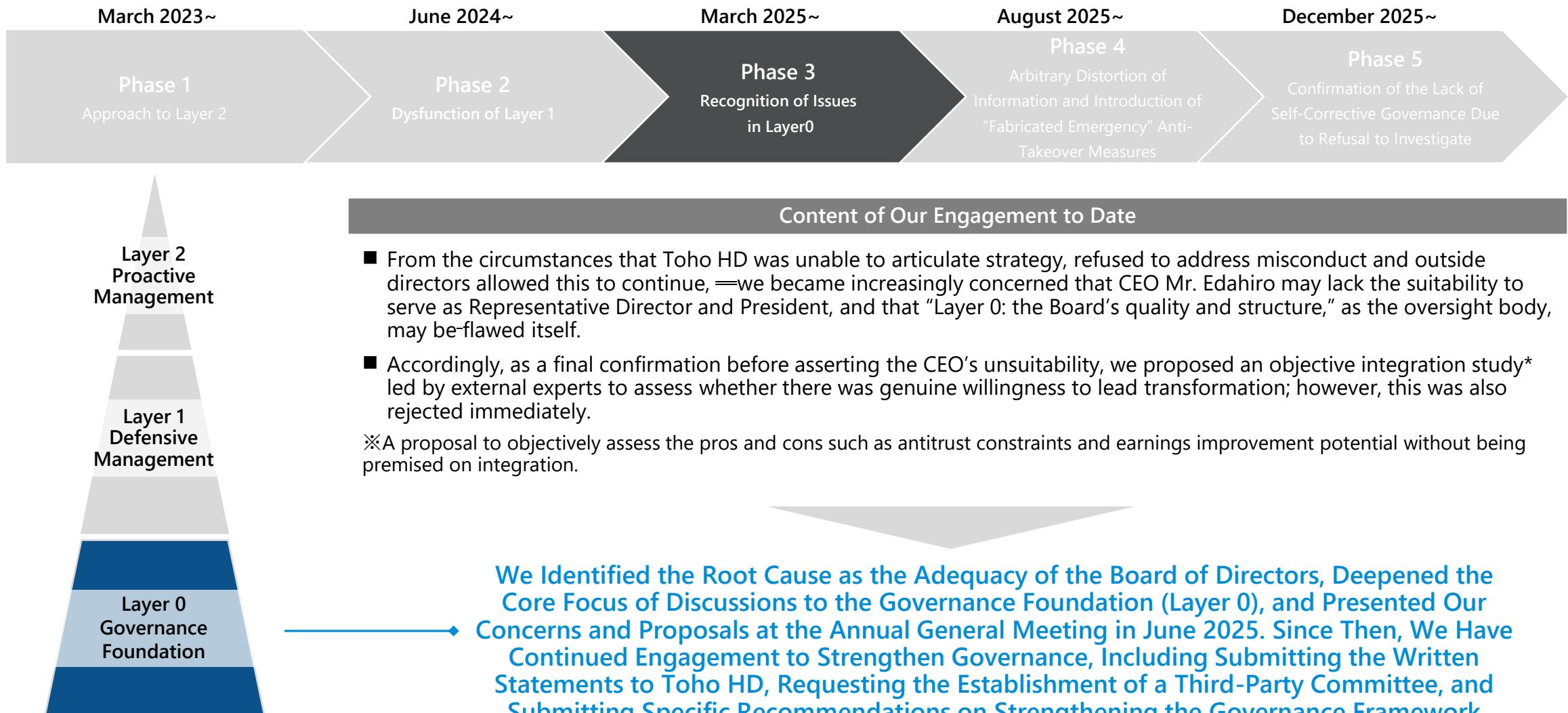
# Phase 1. An Approach to Proactive Management



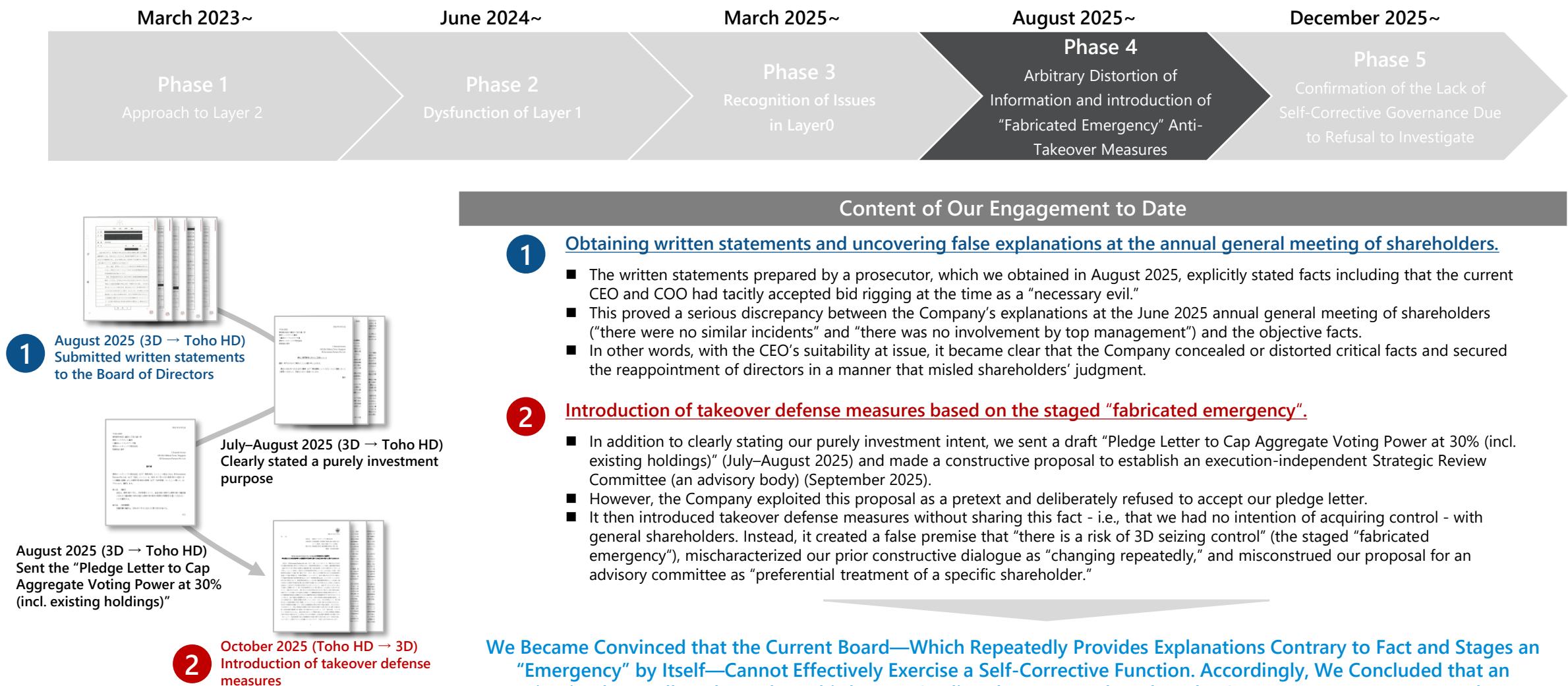
# Phase 2. Dysfunction in Defensive Management



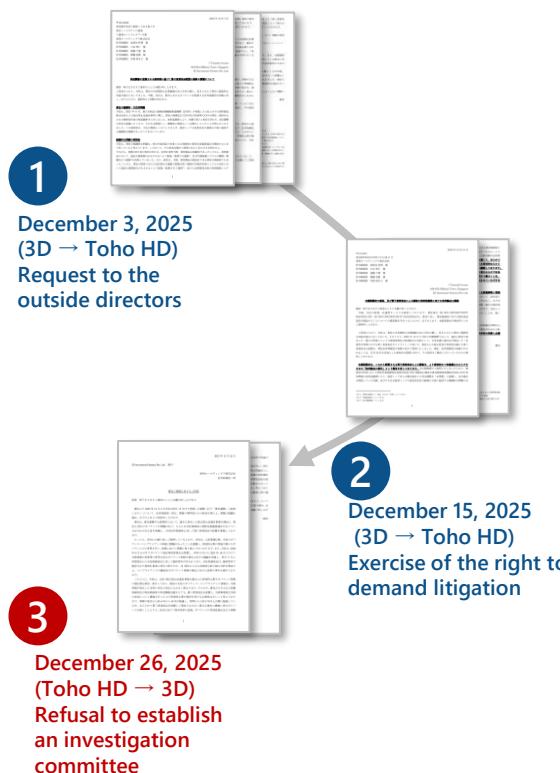
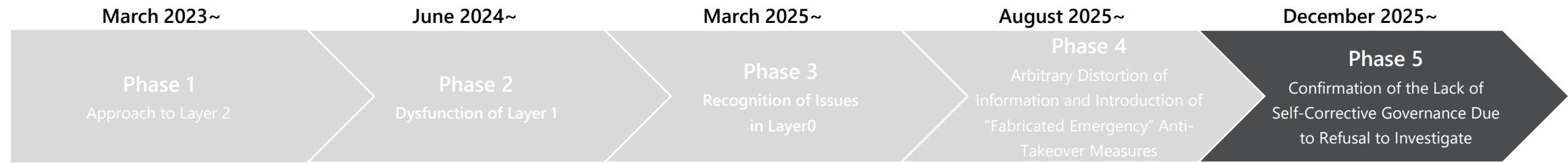
# Phase 3. Recognition of Issues in the Governance Foundation



# Phase 4. Arbitrary Distortion of Information and Introduction of Takeover Defense Measures Based on the “Fabricated Emergency” (From Aug 2025)



# Phase 5. Confirmation of the Lack of Self-Corrective Governance Due to Refusal to Investigate (From Dec 2025)



## Content of Our Engagement to Date

- 1 Request to the outside directors (December 3)**
  - Based on the good-faith assumption that "the outside directors may not have been informed of the contents of the written statement," we made a final request to establish an independent third-party committee- an action that had previously been refused six times.
- 2 Exercise of the right to demand litigation (December 15)**
  - Furthermore, to help define the scope of the investigation, we exercised the right to demand litigation and presented the key legal issues to be examined.
- 3 Refusal to establish an investigation committee (December 26)**
  - However, on December 26, Toho HD refused to investigate, stating that it was "a matter of the past."
  - Despite the clear existence of governance failure—namely, the refusal to rectify discrepancies between the "contents of the written statements" and the "explanations to shareholders"—Toho HD chose to disregard the issue. This decision left us convinced that the Company's -corrective function has completely ceased to work.

**We Are Deeply Disappointed that Toho HD Has Refused Even an Investigation Based on Objective Evidence. However, As the Largest Shareholder with the Strongest Conviction in Enhancing Corporate Value, We Will Not Abandon Our Commitment to Achieving Appropriate Governance at Toho HD**

## **Document B: Specific Recommendations on Strengthening the Governance Framework**

We Believe that Restoring Toho HD's Corporate Value Requires, Not Mere Symptomatic Measures, but the Following Two-Stage Process

## Step 1

### Settling the Past (p.43~)

Fact-Finding, Root-Cause Analysis, and Development of Recurrence Prevention Measures by a Third-Party Committee

## Step 2

### Rebuilding for the Future (p.51~)

Establishment of a Three-Layer Governance Infrastructure

By Completing This Process, Toho HD Can Break Away from Status-Quo Management Built on Tolerance of Misconduct and Transition to Proactive Management with Appropriate Risk-Taking, Thereby Naturally Achieving Sustainable Corporate Value Enhancement

## Step.1 Settling the Past :

### We Believe that the Third-Party Committee Should Satisfy the Specific Requirements Set Forth Below

Summary

A Truly Independent Third-Party Committee		
<b>A</b>	Conduct an Investigation by a Third-Party Committee that Fully Complies with the Japan Federation of Bar Associations "Guidelines for Third-Party Committees in Corporate Misconduct Cases"	
	<b>1</b> Complete Independence of Committee Members	
	<b>2</b> Non-Intervention in the Investigation	
	<b>3</b> Duty to Cooperate and Preserve Evidence	
	<b>4</b> Disclosure Methodology	
	<b>5</b> Deadline	
<b>B</b>	A Scope Focused on Clarifying Organizational and Structural Issues	
	<b>1</b> Fact-Finding on Actions Taken and Supervisory Responsibilities	
	<b>2</b> Organizational Investigation of Similar Cases and Business Practices	
	<b>3</b> Investigation of Specific Individuals' Influence and the "Shadow Governance" Structure	
	<b>4</b> Review of Internal Controls and Recurrence Prevention Measures	
	<b>5</b> Assessment of the Appropriateness of Decision-Making and Disclosure Processes in Crisis Response	
	<b>6</b> Development of Truly Effective Recurrence Prevention Measures	

## Step.1-A Settling the Past :

# It Should Fully Comply with the JFBA Guidelines to Ensure Effectiveness, While Also Ensuring Sufficient Transparency for Shareholders

**An Investigation shall be Conducted by a Third-Party Committee that Fully Complies with the "Guidelines for Third-Party Committees in Corporate Misconduct Cases" established by the Japan Federation of Bar Associations**

No.	Requirements	Details
1	<b>Complete Independence of Committee Members</b>	<ul style="list-style-type: none"><li>Composed exclusively of lawyers and certified public accountants who have no conflicts of interest with Toho HD side, including transactional relationships, advisory engagements, or any prior service as outside directors of Toho HD</li></ul>
2	<b>Non-Intervention in the Investigation</b>	<ul style="list-style-type: none"><li>To ensure the independence of the Committee, Toho HD side (including the Board of Directors and the Secretariat) shall be prohibited from conducting any prior review of, or involvement in revisions to, the draft report, except for corrections of clear and objective factual errors</li></ul>
3	<b>Duty to Cooperate and Preserve Evidence</b>	<ul style="list-style-type: none"><li>Toho HD shall fully cooperate with the investigation and comply with evidence preservation requests, including digital forensics</li><li>Any refusal to cooperate or acts of evidence concealment shall be stated in the report</li></ul>
4	<b>Disclosure Methodology</b>	<ul style="list-style-type: none"><li>Not a summary but the full investigation report shall be disclosed (excluding the Company's trade secrets and the privacy and personal information of general employees that lack material significance; however, information concerning directors, executive officers, and officers at the department head level or above shall, from the perspective of accountability, be subject to disclosure)</li></ul>
5	<b>Deadline</b>	<ul style="list-style-type: none"><li>In order to enable the investigation results to be reflected in the exercise of voting rights at the Annual General Meeting of Shareholders for the fiscal year ending March 2026, the full report shall be disclosed no later than the end of May 2026</li></ul>

## Step.1-B Settling the Past :

### The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

#### ① Fact-Finding on Actions Taken and Supervisory Responsibilities

<p>1 /6</p> <h3>Fact-Finding on Actions Taken and Supervisory Responsibilities</h3>
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Specific Scope	Corresponding Japan Federation of Bar Associations Guidelines
<h4>Objective Fact-Finding</h4> <ul style="list-style-type: none"><li>■ Confirm and determine whether the current executives (CEO/COO) were involved in past misconduct</li><li>■ With respect to the Board of Directors and the Audit and Supervisory Committee, objectively determine the facts, focusing in particular on the following points<ul style="list-style-type: none"><li>— Whether there were opportunities to identify legal risks or signs of misconduct</li><li>— Why the self-correcting function failed to operate</li><li>— As background to the above, determine the facts relating to the fulfillment of the <b>duty of due care</b> and the <b>duty of oversight</b> (including the status of fulfillment, whether responses were taken, and the grounds for judgments made)</li></ul></li></ul>	<p>Part I Section 1.1</p> <p>Investigation, Determination, and Evaluation of Facts Relating to the Misconduct</p>
<h4>Scope of Coverage</h4> <ul style="list-style-type: none"><li>■ Determine facts not limited to those relating to the existence or absence of criminal liability</li><li>■ Determine facts that raise issues from the perspective of the <b>duty of due care</b></li><li>■ From the perspective of corporate ethics, determine facts that fall under (or are suspected of falling under) the following categories<ul style="list-style-type: none"><li>— Lack of a compliance mindset</li><li>— Conduct suspected of reflecting a lack of a compliance mindset</li></ul></li><li>■ Based on the above, determine facts concerning governance deficiencies that should be regarded as problematic shall also be determined</li></ul>	<p>Facts Subject to Investigation (Investigation Scope)</p> <p>(1)</p> <ul style="list-style-type: none"><li>■ The primary subject of the Third-Party Committee's investigation shall be the factual circumstances constituting the misconduct; however, the investigation shall not be limited thereto, and shall also extend to the circumstances, motives, and background of the misconduct, the existence or absence of similar cases, as well as issues relating to internal controls, compliance, and governance, and the corporate culture that gave rise to the misconduct</li></ul>
	<p>(2)</p> <ul style="list-style-type: none"><li>■ The authority to determine facts based on the investigation shall rest exclusively with the Third-Party Committee</li><li>■ The Third-Party Committee shall <b>conduct objective fact-finding based on evidence</b></li></ul>
	<p>(3)</p> <ul style="list-style-type: none"><li>■ The Third-Party Committee shall evaluate the determined facts and analyze the causes of the misconduct</li><li>■ <b>Such evaluation of facts and root cause analysis shall not be limited to the perspective of legal liability, but shall also be conducted from the perspectives of the rules and guidelines of self-regulatory organizations, corporate social responsibility (CSR), corporate ethics, and related considerations</b></li></ul>

## Step.1-B Settling the Past :

### The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

#### ② Organizational Investigation of Similar Cases and Business Practices

2 /6

### Organizational Investigation of Similar Cases and Business Practices

Specific Scope	Corresponding Japan Federation of Bar Associations Guidelines
<p><b>Group-Wide and All-Location Investigation into the Existence of Similar Cases</b></p> <ul style="list-style-type: none"><li>Conduct a comprehensive investigation, including business practices, across the entire Group and all locations in order to identify the existence of similar cases in relation to the Bid-Rigging Incident and the Nihon University-Related Incident</li><li>While prioritizing compliance with the deadline (end of May 2026), this shall not preclude substitution, at the discretion of the Third-Party Committee, with a risk-based focused investigation or a statistical sampling approach</li></ul> <p><b>Examination of Structural Factors Giving Rise to Business Practice</b></p> <ul style="list-style-type: none"><li>Rather than limiting misconduct to issues of individual attributes, examine whether there exist structural factors at the organizational level that could induce misconduct.<ul style="list-style-type: none"><li>Examples: pressure to achieve budget targets, personnel evaluation systems</li></ul></li></ul>	<p>Part I Section 1.1</p> <p><b>Investigation, Determination, and Evaluation of Facts Relating to the Misconduct</b></p> <p><b>Facts Subject to Investigation (Investigation Scope)</b></p> <p>(1)</p> <ul style="list-style-type: none"><li>The primary subject of the Third-Party Committee's investigation shall be the factual circumstances constituting the misconduct; however, the investigation shall not be limited thereto, and shall also extend to the circumstances, motives, and background of the misconduct, the existence or absence of similar cases, as well as issues relating to internal controls, compliance, and governance, and the corporate culture that gave rise to the misconduct</li></ul>
<p>Notes 7</p>	<p>Part II Section 1.2</p> <p><b>Guidelines on Accountability</b></p> <ul style="list-style-type: none"><li>During the investigation period of the Third-Party Committee, the company or other entity involved in the misconduct is afforded a period of time in which it can fulfill its accountability obligations</li><li>Accordingly, the company or other entity is required to disclose to stakeholders the investigation period set in advance by the Third-Party Committee and to clearly specify the deadline by which accountability should be fulfilled</li></ul>

## Step.1-B Settling the Past :

The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

### ③ Investigation of Specific Individuals' Influence and the "Shadow Governance" Structure

<p>3 /6</p> <p>Investigation of Specific Individuals' Influence and the "Shadow Governance" Structure</p>
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Specific Scope	Corresponding Japan Federation of Bar Associations Guidelines
<p><u><a href="#">Investigation into Inappropriate Transactions Attributable to the Influence of a Specific Individual</a></u></p> <ul style="list-style-type: none"><li>■ Organize the facts regarding the influence of the former Representative Director and Chairman, as recognized by the Special Committee for Strengthening Governance</li><li>■ Conduct a comprehensive investigation to determine whether any other inappropriate transactions- such as conflict-of-interest transactions centered on that individual- exist</li></ul>	<p>Part I Section 1.1</p> <p>Investigation, Determination, and Evaluation of Facts Relating to the Misconduct</p>
<p><u><a href="#">Root Cause Analysis of the Shadow Governance Structure</a></u></p> <ul style="list-style-type: none"><li>■ Investigate why a system was allowed to persist in which authority was excessively concentrated in a specific executive and checks and balances failed to function (i.e., unilateral decision-making)</li><li>■ As background to the above, conduct a comprehensive investigation, including whether there existed a structure of deference by the current executives</li></ul>	<p>(1)</p> <p>Facts Subject to Investigation (Investigation Scope)</p> <ul style="list-style-type: none"><li>■ The primary subject of the Third-Party Committee's investigation shall be the factual circumstances constituting the misconduct; however, the investigation shall not be limited thereto, and shall also extend to the circumstances, motives, and background of the misconduct, the existence or absence of similar cases, as well as issues relating to internal controls, compliance, and governance, and the corporate culture that gave rise to the misconduct</li></ul>
	<p>(2)</p> <p>Fact-Finding</p> <ul style="list-style-type: none"><li>■ The authority to determine facts based on the investigation shall rest exclusively with the Third-Party Committee</li><li>■ The Third-Party Committee shall conduct objective fact-finding based on evidence</li></ul>
	<p>(3)</p> <p>Evaluation of Facts and Root Cause Analysis</p> <ul style="list-style-type: none"><li>■ The Third-Party Committee shall evaluate the determined facts and analyze the causes of the misconduct</li><li>■ Such evaluation of facts and root cause analysis shall not be limited to the perspective of legal liability, but shall also be conducted from the perspectives of the rules and guidelines of self-regulatory organizations, corporate social responsibility (CSR), corporate ethics, and related considerations</li></ul>

## Step.1-B Settling the Past :

### The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

#### ④ Review of Internal Controls and Recurrence Prevention Measures

<p>4 /6</p> <p><b>Review of Internal Controls and Recurrence Prevention Measures</b></p>
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Specific Scope	Corresponding Japan Federation of Bar Associations Guidelines
	<p><b>Part I</b> <b>Investigation, Determination, and Evaluation of Facts Relating to the Misconduct</b></p> <p><b>Section 1.1</b> <b>Facts Subject to Investigation (Investigation Scope)</b></p> <p>(1) The primary subject of the Third-Party Committee's investigation shall be the factual circumstances constituting the misconduct; however, the investigation shall not be limited thereto, and shall also extend to the circumstances, motives, and background of the misconduct, the existence or absence of similar cases, as well as issues relating to internal controls, compliance, and governance, and the corporate culture that gave rise to the misconduct</p>
	<p><b>Evaluation of Facts and Root Cause Analysis</b></p> <p>(3) The Third-Party Committee shall evaluate the determined facts and analyze the causes of the misconduct</p> <p>Such evaluation of facts and root cause analysis shall not be limited to the perspective of legal liability, but shall also be conducted from the perspectives of the rules and guidelines of self-regulatory organizations, corporate social responsibility (CSR), corporate ethics, and related considerations</p>
	<p><b>Part I</b> <b>Reccommendation</b></p> <p><b>Section 1.3</b></p> <p>The Third-Party Committee shall, based on the investigation results, make recommendations regarding recurrence prevention measures and related actions</p>

## Step.1-B Settling the Past :

### The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

#### ⑤ Assessment of the Appropriateness of Decision-Making and Disclosure Processes in Crisis Response

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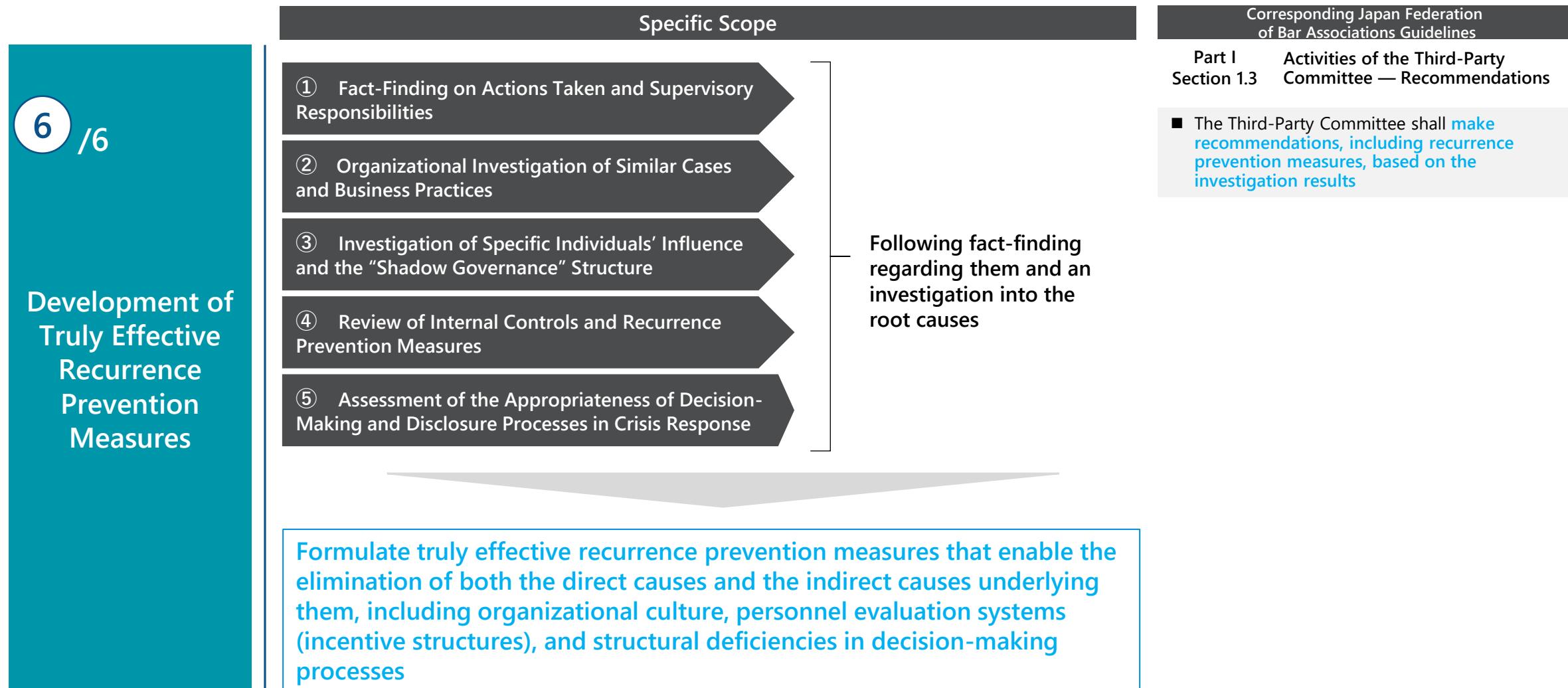
#### Assessment of the Appropriateness of Decision-Making and Disclosure Processes in Crisis Response

Specific Scope	Corresponding Japan Federation of Bar Associations Guidelines
<p><b>Comprehensive Review of the Board of Directors' Duty of Due Care</b></p> <ul style="list-style-type: none"><li>Conduct a comprehensive review of whether the Board of Directors fulfilled its duty of due care throughout the entire series of crisis responses and misconduct responses from the past to the present</li><li>The review shall not be limited to confirmation of legal compliance, but shall also encompass the <b>substantive reasonableness of management judgments</b></li><li>Strictly examine and evaluate whether the duty of due care and accountability as directors were genuinely fulfilled</li></ul> <p><a href="#">June 2025 Annual General Meeting of Shareholders: Review of the Reappointment Decision (Current CEO/COO)</a></p> <ul style="list-style-type: none"><li>Clarify why the reappointment (as a company proposal) of the relevant officers (current CEO/COO) was decided without conducting a sufficient investigation, despite circumstances in which involvement in the misconduct was suspected</li><li>Examine the content of the risk assessment conducted prior to the reappointment decision and the appropriateness of the decision-making process</li></ul> <p><a href="#">December 2025 Review of the Decision to Refuse the Establishment of a Third-Party Committee</a></p> <ul style="list-style-type: none"><li>Clarify the reasons for refusing an investigation by a Third-Party Committee even after objective evidence, such as written statements regarding the bid-rigging incident, had been presented</li><li>In particular, confirm whether any parties who could have become subjects of the investigation were involved in the decision to refuse the establishment of the committee, and examine this issue including the existence or absence of conflicts of interest</li><li>Based on the above, examine whether the fairness of the decision (procedural fairness and neutrality) was ensured</li></ul> <p><a href="#">Verification of the Accuracy and Integrity of Information Disclosure</a></p> <ul style="list-style-type: none"><li>Confirm whether, in dialogue with shareholders and in disclosures to the market, there were any explanations that deviated from objective facts (including the contents of written statements)</li></ul>	<p>Part I Section 1.1</p> <p>Investigation, Determination, and Evaluation of Facts Relating to the Misconduct</p> <p><b>Facts Subject to Investigation (Investigation Scope)</b></p> <p>(1)</p> <ul style="list-style-type: none"><li>The primary subject of the Third-Party Committee's investigation shall be the factual circumstances constituting the misconduct; however, the investigation shall not be limited thereto, and shall also extend to the circumstances, motives, and background of the misconduct, the existence or absence of similar cases, as well as issues relating to internal controls, compliance, and governance, and the corporate culture that gave rise to the misconduct</li></ul> <p><b>Evaluation of Facts and Root Cause Analysis</b></p> <p>(3)</p> <ul style="list-style-type: none"><li>Such evaluation of facts and root cause analysis shall not be limited to the perspective of legal liability, but shall also be conducted from the perspectives of the rules and guidelines of self-regulatory organizations, corporate social responsibility (CSR), corporate ethics, and related considerations</li></ul> <p>Part I Section 2</p> <p>Independence and Neutrality of the Third-Party Committee</p> <p>-</p> <ul style="list-style-type: none"><li>The Third-Party Committee shall, regardless of the form of engagement, conduct a neutral, fair, and objective investigation from a position independent of the company, for the benefit of the company's stakeholders</li></ul>

## Step.1-B Settling the Past :

The Scope Should Be Defined with a Focus on Clarifying Organizational and Structural Issues

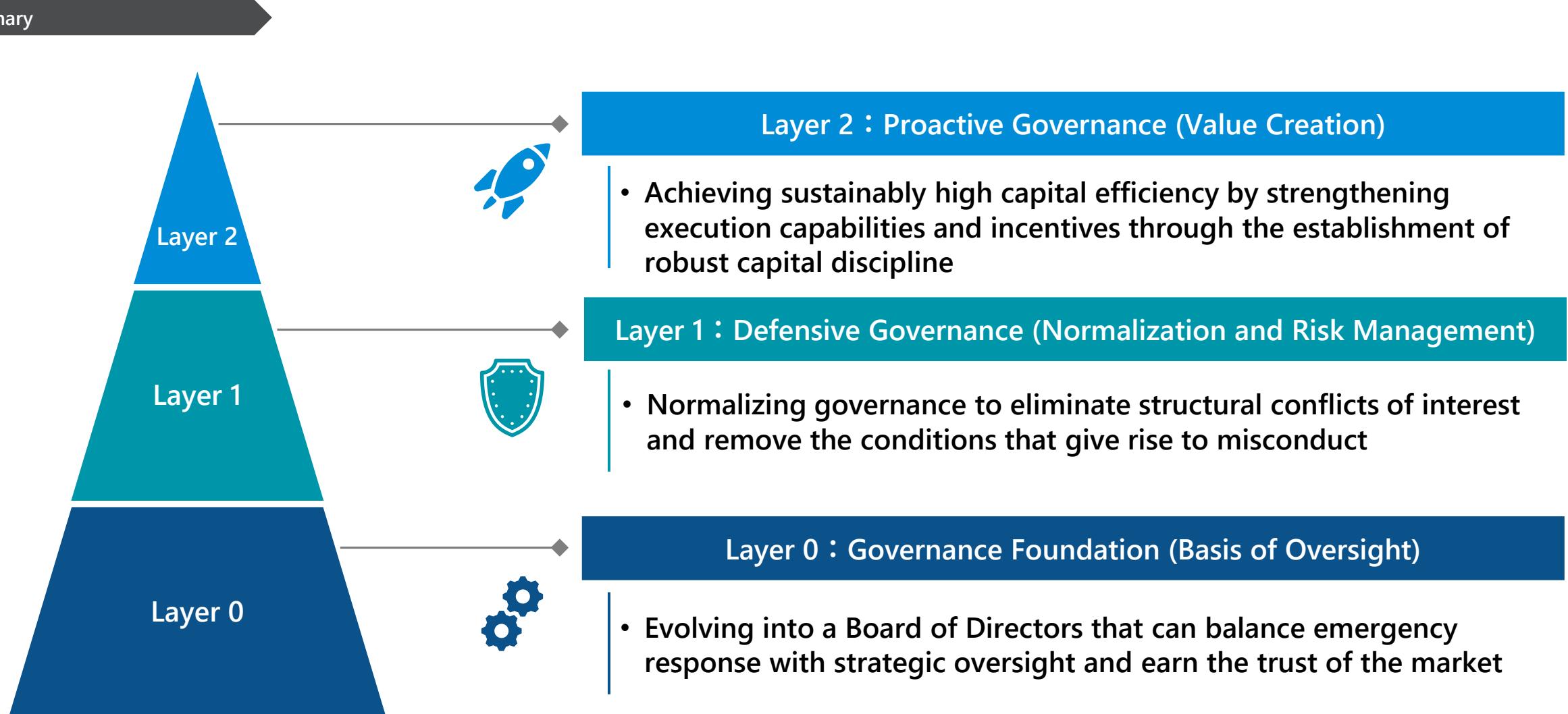
### ⑥ Development of Truly Effective Recurrence Prevention Measures



## Step 2 Rebuilding for the Future :

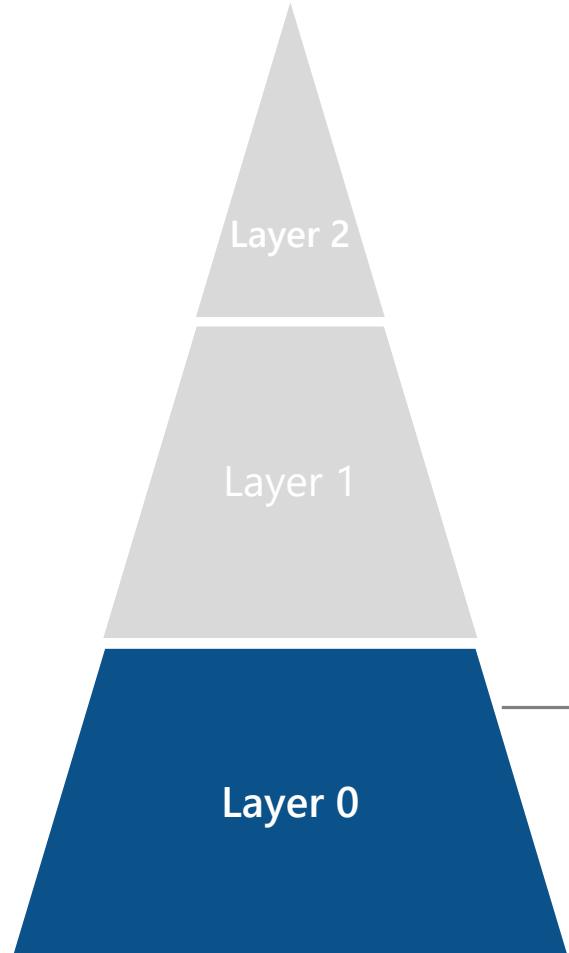
By Establishing a Three-Layer Governance Infrastructure, Toho HD Can Move Away from Status-Quo Management and Transition to Proactive Management with Appropriate Risk-Taking, Thereby Naturally Achieving Sustainable Corporate Value Enhancement

Summary



## Step.2 Rebuilding for the Future :

### Layer 0 - The Board Can Balance Crisis Response and Strategic Oversight and Evolve into a Board that Earns Market Trust



#### Layer 0 : Governance Foundation (Basis of Oversight)

##### 0-1 Board Composition and Capabilities (p.55-56)

- Actively evolve (re-optimize) the Board's composition by moving away from legacy skill sets and, based on the Third-Party Committee's findings and the new strategy, placing greater emphasis on capital allocation and risk management capabilities

##### 0-2 Ensuring Fairness and Special Governance (p.57)

- Structurally eliminate the risk of management acting in self-preservation by introducing objective operating rules in line with METI guidelines and by ensuring the complete independence of special committees' authorities (including budget determination and executive appointment powers)

##### 0-3 Design of Nomination and Compensation Governance (p.58-59)

- Operationalize the Nomination and Compensation Committee by codifying, in the Board's rules and related policies, the Chair's authority to set Board agendas and to recommend director removal, as well as the Board's obligation to give maximum respect to the Committee's recommendations.  
If Board dysfunction nevertheless persists, implement fundamental structural changes, including a transition to a Company with Nominating Committee, etc. structure

##### 0-4 Board Operations and Effectiveness (p.60-61)

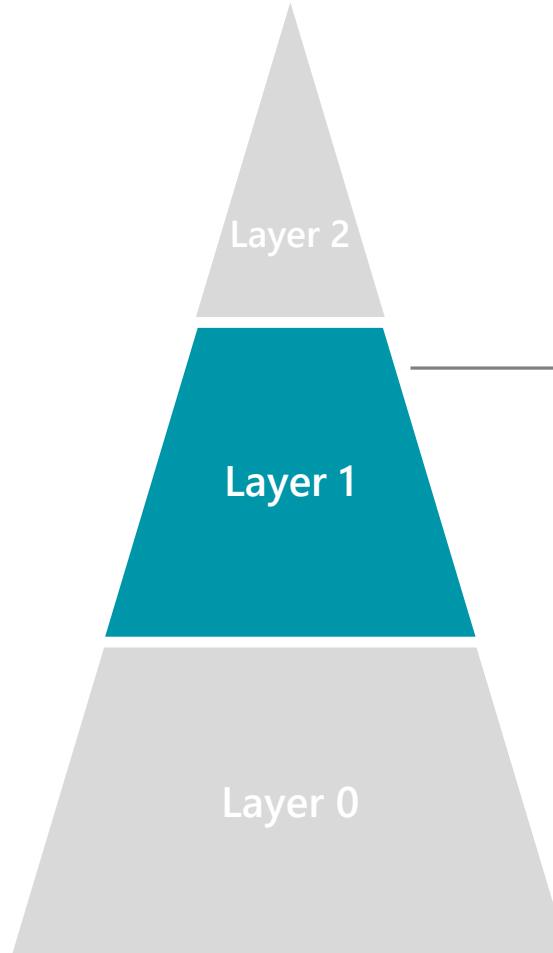
- Starting with the separation of the CEO and Board Chair roles, the appointment of a Lead Independent Outside Director, and the introduction of an independent Board Secretariat and Corporate Secretary, shift leadership of Board operations and deliberations to the oversight side.  
Transform the Board fundamentally from a formal reporting forum into a highly effective monitoring body that deliberates on core issues and risk-taking

##### 0-5 Foundation for Engagement and Disclosure (p.62-63)

- Position constructive dialogue—premised on transparent and comprehensive disclosure—as an engine for enhancing corporate value, and institutionalize processes that actively incorporate market insights, including critical perspectives, into management strategy

## Step.2 Rebuilding for the Future :

### Layer 1 - Normalize Governance to Eliminate Structural Conflicts of Interest and Remove the Conditions that Foster Misconduct



#### Layer 1 : Defensive Governance (Normalization and Risk Management)

##### 1-1 Control of Conflict of Interest and Policy Shareholdings (p.64-65)

- As a general principle, reduce the number of policy shareholdings that generate returns below the cost of capital, and strictly monitor, from an independent third-party perspective, the risks of collusion and conflicts of interest involving individuals originating from business partners

##### 1-2 Oversight and Discipline of Management (p.66-67)

- Based on the Third-Party Committee's fact-finding, re-examine the suitability of management, impose strict sanctions on those involved in misconduct (including removal and claims for damages), and comprehensively overhaul, from a zero-based approach, hollowed-out oversight structures and recurrence prevention measures

##### 1-3 Risk Management and Internal Control System (p.68-69)

- By renewing the CGO to ensure the independence of the second line of defense (control functions) and rebuilding internal control systems that do not allow arbitrary selection of disclosed information, restore the effectiveness of the previously hollowed-out three lines of defense, eliminate arbitrariness in risk disclosure, and ensure transparency

##### 1-4 Audit, Internal Reporting, and Self-Corrective Function (p.70-71)

- Restore self-correcting mechanisms by eliminating structural factors that allow inconvenient truths to be suppressed, through measures such as ensuring the complete independence of the internal audit function from the executive side (including personnel authority) and introducing a leniency program

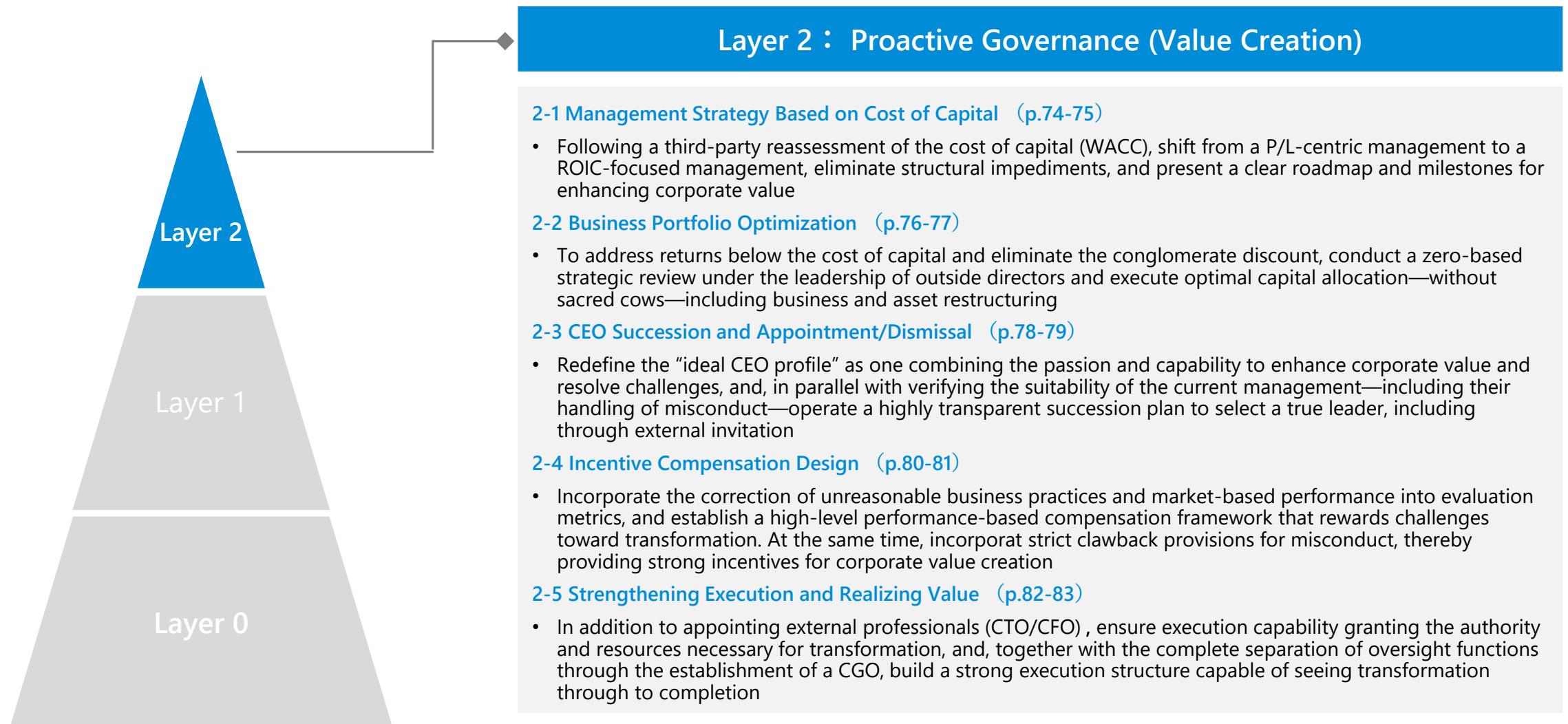
##### 1-5 Crisis Response and Fair M&A (p.72-73)

- In the event of misconduct or other crises, as a general principle, establish a third-party committee that fully complies with the JFBA guidelines.

With respect to takeover defense measures, establish strict objective criteria and post-implementation review processes to eliminate arbitrary application and findings of coerciveness

## Step.2 Rebuilding for the Future :

Layer 2 - By Establishing Capital Discipline and Strengthening Execution Capabilities and Incentives, We Will Achieve Sustained High Capital Efficiency



# (Reference) Layer 0-1 Board Composition and Capabilities

## 1. Definition and Visualization of Strategic Suitability

**Basic Policy:** In response to changes in the management environment (the persistence of a low PBR and increasing compliance risks), redefine the skill set required of the Board of Directors with a focus on capital allocation and risk management. The skills matrix shall be disclosed based not merely on the presence or absence of experience, but on objective evidence grounded in past performance (track records).

### Additional Measures: Ensuring Alignment with Management Strategy and Refreshing Skill Definitions

The current Board skill set remains an extension of the past during which misconduct occurred and is insufficient to respond to the discipline demanded by the capital markets (ROIC-based management) and the tightening of compliance requirements. While giving due consideration to business continuity, priority shall be given to supplementing skills that can correct excessive conformity to industry practices that may serve as breeding grounds for misconduct, thereby cutting off the risk of past failures to fulfill internal control obligations—specifically, expertise from other industries, as well as legal, financial, investment, and capital markets expertise.

### Additional Measures: Substantive Verification of Skill Fit

In light of the history of internal control failures revealed through written statements and other evidence related to the bid-rigging incident and similar cases, re-examine incumbent director candidates based on whether they substantively possess legal risk management and governance skills, and whether they have a track record of taking concrete actions to prevent misconduct during their past terms of office. Rather than formal legal experience, place emphasis on the capability to activate self-correcting mechanisms in times of crisis as a core skill requirement.

### Additional Measures: Dynamic Evolution of the Skills Portfolio

Defense and offense are inseparable, and in determining Board composition, deferring “proactive governance” on the grounds of ensuring “defensive governance” is not acceptable. As management strategies aimed at maximizing corporate value are inherently subject to change, the Board’s composition shall not be fixed; instead, based on the latest management strategy, the skill set truly required for its execution shall be identified, and the Board composition shall be dynamically evolved (re-optimized).

## 2. Strengthening Independence and Monitoring Functions

**Basic Policy:** As a Prime Market listed company, adopt global independence standards recommended by institutional investors and proxy advisory firms (e.g., ISS and Glass Lewis), rather than relying solely on formal requirements (TSE standards), in order to ensure substantive independence. In particular, eliminate structural conflict-of-interest risks, such as those arising from strategic shareholdings.

### Additional Measures: Elimination of Structural Conflicts of Interest

While the importance of industry collaboration in the pharmaceutical wholesaling business is recognized, this is a role to be fulfilled by the executive side (executive officers). With respect to the oversight function (outside directors), unless individuals maintain distance from industry-specific structural conflicts of interest—such as policy shareholdings and personal relationships—it is impossible to correct unreasonable business practices (excessive accommodation). Accordingly, as a general principle, the appointment of outside directors from business counterparties shall be prohibited.

### Additional Measures: Effectiveness Evaluation and Reappointment Criteria for Audit and Supervisory Committee Members

In appointing Audit and Supervisory Committee members, strictly evaluate how effectively the audit function was exercised at the time past misconduct occurred.

If the audit function failed to contribute to preventing misconduct or detecting it at an early stage, conduct a root cause analysis and, from the perspective of accountability to shareholders, have the Nomination and Compensation Committee establish criteria to avoid routine or unconsidered reappointments.

# (Reference) Layer 0-1 Board Composition and Capabilities

## 3. Cognitive Diversity and Separation of Oversight and Execution

**Basic Policy:** To strengthen the Board's oversight function and ensure transparency, the Chair of the Board shall, as a general principle, be appointed from among independent outside directors. This will prevent the executive side (the CEO) from unilaterally setting the Board agenda.

### Additional Measures: Avoidance of Conflicts of Interest through Separation of the CEO and Chair

Based on the lessons learned from past misconduct (including the bid-rigging incident and the Nihon University-related hospital incident), in which top-down decision-making led to delays in corrective actions, the monitoring function for recurrence prevention measures must be separated from executive authority (the CEO). Leadership in times of crisis should be exercised through executive authority; however, the concurrent holding of the CEO and Chair positions may result in a lack of independent oversight and thereby undermine the effectiveness of recurrence prevention. Accordingly, such dual roles shall be eliminated.

### Additional Measures: Evaluation and Confidence Process for Audit and Supervisory Committee Members

The two-year term of office for directors serving as Audit and Supervisory Committee members is prescribed by the Companies Act.

However, if a material breach of the duty of due care (including a breach of the duty of oversight) becomes evident during their term, the Nomination and Compensation Committee shall take the lead in either submitting a proposal for removal to the shareholders' meeting or clearly articulating a policy of non-reappointment at the next term, thereby maintaining a necessary sense of tension without creating any audit vacuum.

## 4. Quality Assurance and Sustainability

**Basic Policy:** To ensure that directors can devote sufficient time to fulfilling their roles, limit the number of concurrent directorships to a reasonable range, (e.g. no more than three listed companies). In particular, given the current need for crisis response, situations in which effective oversight cannot be exercised due to busyness arising from duties at other companies shall not be accepted.

### Additional Measures: Quantitative Verification of Time Commitment

In light of the increased workload resulting from the current responses of special committees and takeover defense measures, review the number of concurrent directorships and attendance rates at Board and committee meetings.

In addition to contributions to substantive discussions (the content of remarks), the ability to secure sufficient physical time shall be regarded as part of the capacity to fulfill the duty of due care. If a candidate is determined to be unable to devote sufficient time, the candidate shall be excluded at the selection stage.

# (Reference) Layer 0-2 Ensuring Fairness and Special Governance

## 1. Governance of Parent-Subsidiary Listings and Listed Subsidiaries

Basic Policy: Periodically assess the rationality of maintaining a listing and ensure governance through measures such as increasing the number of independent outside directors and monitoring conflict-of-interest transactions. (※ *In this case, there are no listed subsidiaries; therefore, this item is not applicable.*)

## 2. Principles for the Establishment and Use of Special Committees in the Event of an Acquisition

Basic Policy: In situations where structural conflicts of interest arise or when introducing takeover defense measures, establish a special committee to ensure fairness and give maximum respect to its determinations. The adoption of defense measures shall be subject to absolute prerequisites of a transparent process and sincere and accurate explanations to shareholders

### Additional Measures: Establishment of Internal Rules for Fair M&A

To prevent the operation of takeover defense measures from being abused for management self-preservation (entrenchment) purposes, establish and disclose internal rules in accordance with the Ministry of Economy, Trade and Industry's *Guidelines for Fair M&A* and *Code of Conduct for Corporate Acquisitions*, among others. Specifically, mandate objective evaluation processes regarding whether a situation constitutes a contest for control (a crisis), the seriousness of the acquisition proposal, and its impact on corporate value, introduce mechanisms to eliminate arbitrary application, and disclose these mechanisms to shareholders.

## 3. Composition and Independence of Special Committees in the Event of an Acquisition

Basic Policy: Compose the committee of members (in principle, independent outside directors) who are independent of the company, the acquirer, and the outcome of the M&A transaction, thereby ensuring substantive independence. In particular, strictly exclude from committee membership any individuals who may share interests aligned with management's self-preservation.

### Additional Measures: Exclusion of Structural Conflicts of Interest and Tightening of Independence Standards

In selecting members of a special committee, strictly examine not only formal outside status but also whether there is any structural alignment of interests with management (such as convergence of views caused by long tenure or prior involvements in past developments). To restore shareholders' trust, as a general principle, exclude individuals who may share interests with management and constitute the committee solely of members capable of making truly objective judgments.

## 4. Authority, Resources, and Compensation of Special Committees in the Event of an Acquisition

Basic Policy: Ensure that independent outside directors play a leading role in decisions regarding the establishment of the committee and the selection of its members, and that the committee secures its own authority to appoint external experts and appropriate compensation.

### Additional Measures: Substantive Authority to Appoint Advisors and Securing an Independent Budget

Grant the special committee budgetary authority and appointment authority that are completely independent from the company's executive side, enabling the committee to appoint external experts (such as legal and financial advisors) at its own discretion on behalf of general shareholders.

This will eliminate reliance on advisors appointed by management, resolve information asymmetry, and enable the formation of opinions from an independent standpoint

## 5. Exclusion of Conflicted Parties and Ex Post Review

Basic Policy: Including cases where directors or others appointed by investor shareholders are present, consider measures to exclude individuals from deliberations and decision-making in accordance with the degree of conflict of interest.

### Additional Measures: Transparency of the Decision-Making Process and Ex Post Review

In anticipation of situations where the activation of takeover defense measures or the adoption of countermeasures may impair corporate value, establish in advance rules to objectively verify the fairness of the decision-making process. Specifically, institutionalize mechanisms under which an independent third-party body conducts ex post verification of the decision-making processes of directors and special committees (including the existence of conflicts of interest and the handling of information) and discloses the results transparently to shareholders, thereby ensuring discipline and fairness in such decisions.

# (Reference) Layer 0-3 Design of Nomination and Compensation Governance

## 1. Ensuring the Effectiveness of the Nomination and Compensation Committee

**Basic Policy:** To strengthen the Board's oversight function, as a basic policy, conduct a fundamental review of whether the current voluntary advisory committees are functioning sufficiently—including whether to transition to a Company with a Nominating Committee, etc.—and disclose the conclusion and the reasons for it.

Even if the current structure is maintained, codify the Board's obligation to give maximum respect to the committee's recommendations and ensure substantive decision-making authority.

### Additional Measures: Verification of the Effectiveness of Advisory Committees

With respect to the current advisory-type committees, doubts have arisen the effectiveness of their oversight function. In light of the history of internal control failures revealed through written statements and other evidence related to the bid-rigging incident and similar cases, unless a rational basis is demonstrated as to why the current structure is considered capable of effective oversight, consider transitioning to a structure with stronger oversight authority (such as a Company with Nominating Committee, etc.), and disclose the conclusion and the transition plan (or the rational reasons for not transitioning) by the next Annual General Meeting of Shareholders

### Additional Measures: Establishment of the Chair's Authority to Set Agendas

Establish the authority of the Chair of the Nomination and Compensation Committee to independently set agendas (matters for deliberation) at the Board of Directors, without reliance on the company's Board Secretariat, thereby enhancing the Board's oversight function.

## 2. Committee Composition and Independence

**Basic Policy:** To exercise management oversight from an independent standpoint, ensure that a majority of the Nomination and Compensation Committee members are independent outside directors, and appoint the Chair from among independent outside directors. Exclude from committee membership any individuals involved in misconduct, and, where there are doubts regarding past nomination decisions, mandate an ex post verification of the appropriateness of the process from a third-party perspective and an explanation to shareholders.

### Additional Measures: Re-Examination of the Suitability of Executive Directors with Potential Issues

In response to the emergence of new material facts revealed through written statements and other evidence related to the bid-rigging incident and similar cases, the Nomination and Compensation Committee shall, based on the results of the Third-Party Committee's fact-finding (Step 1), conduct a zero-based reassessment of the suitability of executive directors such as the CEO. To ensure the objectivity of the review, the individuals concerned shall recuse themselves from deliberations and voting on matters relating to their own treatment and be placed in a position where they are unable to exert any influence.

### Additional Measures: Third-Party Verification of the Reappointment Process

Despite the existence of the material fact that written statements and other evidence relating to the bid-rigging incident and similar cases existed, examine—based on the Third-Party Committee's fact-finding (Step 1)—the appropriateness of the decision-making process as to why directors suspected of involvement in the misconduct were not removed in the past (including at the June 2025 Annual General Meeting of Shareholders) and were instead recommended for approval, and implement appropriate recurrence prevention measures.

# (Reference) Layer 0-3 Design of Nomination and Compensation Governance

## 3. Clarifying Authority Scope and Matters for Consultation

**Basic Policy:** To ensure governance across the Group, include personnel matters for key subsidiaries within the scope of deliberation by the Nomination and Compensation Committee. In addition, place within the Committee's remit the dismissal criteria for directors, including the CEO, and the treatment of former executives (such as advisors and counselors), thereby ensuring transparency.

### Additional Measures: Explicit Inclusion of Key Subsidiaries and the Authority to Recommend Dismissal

As subsidiary operations form the core of the Group, include personnel matters of key subsidiaries within the scope of the Nomination and Compensation Committee's recommendations. In addition, stipulate in the relevant rules the authority to recommend the dismissal of the CEO, so that immediate checks can be exercised in cases of misconduct or poor performance.

### Additional Measures: Identify and make transparent the reality of management involvement by former executives

Investigate the actual extent of management involvement by former executives (such as advisors) and disclose it to shareholders. To eliminate the risk of opaque influence by former executives (shadow governance), re-evaluate the rationale for maintaining the advisor system; if the necessity cannot be reasonably explained, review it, including potential abolition, and implement corrective measures that go further than the final recommendation issued by the Special Committee for Strengthening Governance on October 9, 2025.

## 4. Operating Procedures and Conflict-of-Interest Management

**Basic Policy:** Thoroughly manage conflicts of interest where the President/CEO is included as a committee member. In addition, do not allow committees to be used as a shield or an alibi for management. Committees that are merely formalities—where substantive discussions (such as ROIC-based capital allocation or CEO treatment) are not conducted and checks do not function—shall be subject to fundamental review, up to and including abolition.

### Additional Measures: Correct the realities of hollowed-out committees

Across various committees to date (e.g., the Management Strategy Committee, Investment Committee, and Special Committee for Strengthening Governance), there are multiple cases suggesting dysfunction, such as formalistic operation and refusal to conduct investigations. Break away from the past tendency of "creating an alibi for regulators" and remake these bodies into effective monitoring institutions.

## 5. Ensuring Disclosure and Transparency

**Basic Policy:** To enable each committee to fulfill accountability to shareholders, as a general principle disclose not only conclusions but also the key points leading to the decision (including whether there were dissenting views) and the rational basis for the judgment in detail.

### Additional Measures: Escape the "black box" and fulfill accountability

Currently, transparency is lacking regarding the processes of deliberation and decision-making within committees. Particularly for critical matters such as CEO reappointment, while giving due consideration to personal information and confidential information, disclose—at a level that enables shareholder verification—the decision criteria applied, the course of deliberations, and the logic underpinning the decision.

# (Reference) Layer 0-4 Board Operations and Effectiveness

## 1. Delegation of Authority to Executive management and Transition to Monitoring

**Basic Policy:** Structurally and functionally separate oversight and execution, and establish a highly effective monitoring framework rather than maintaining a merely formal status quo.

### **Additional Measures:** Consideration of Transition to a Company with Nominating Committee, etc.

With respect to the current governance structure, doubts have arisen regarding the effectiveness of oversight in the appointment and dismissal of top management and in responses to misconduct. Accordingly, with the aim of further enhancing oversight and ensuring transparency, consider transitioning to a Company with a Nominating Committee, etc., which clearly separates oversight and execution, and disclose the conclusion and the transition plan (or the rational reasons for not transitioning) by the next Annual General Meeting of Shareholders.

### **Additional Measures:** Principle of Separation of the CEO and Chair

The Chair of the Board shall be a non-CEO (in principle, an independent outside director). In particular, in situations involving compliance concerns or conflicts of interest, having the CEO serve as Board Chair results in a lack of independent oversight and poses a structural risk of obstructing investigations and corrective actions; therefore, measures toward prompt separation shall be implemented.

## 2. Establishment of Leadership

**Basic Policy:** Appoint a Lead Independent Outside Director with strong oversight authority over the executive side and leadership to drive transformation.

### **Additional Measures:** Investigation Based on JFBA Guidelines and Renewal of Corporate Culture

Appoint a Lead Independent Outside Director and grant authority to lead, with respect to current governance issues, the process of root cause investigation and formulation of recurrence prevention measures by a third-party committee that fully complies with the JFBA guidelines. In addition, lead the renewal toward a sound corporate culture by breaking away from negative legacies such as the acceptance of misconduct and status quo bias.

### **Additional Measures:** Confronting Business Practices that Impede Appropriate Value Transfer

In the pharmaceutical wholesaling industry, urge the executive side to examine and implement measures to confront, with resolve, structural business practices that hinder the securing of appropriate compensation commensurate with value provided (value transfer). With respect to the correction process, disclose it to shareholders transparently and in one's own words, and fulfill accountability.

# (Reference) Layer 0-4 Board Operations and Effectiveness

## 3. Effectiveness Evaluation and the PDCA Cycle

**Basic Policy:** Introduce an objective third-party perspective to rigorously strengthen the evaluation process and conduct substantive functional verification that does not overlook misconduct or self-preserving behavior.

### Additional Measures: Breakdown of Self-Evaluation and Third-Party Verification

Past Board effectiveness evaluations have failed to sufficiently identify signs of misconduct and issues arising in dialogue with shareholders, raising concerns about the limits of self-evaluation. Accordingly, after the results of the Third-Party Committee's investigation (Step 1) are issued, have an independent third-party body also verify the appropriateness of the past effectiveness evaluation system itself.

### Additional Measures: Incorporation of Misconduct Response into Evaluation Items and Retroactive Review

Add "exercise of oversight functions in crisis and misconduct responses" as an evaluation item, and conduct an ex post re-examination of whether past evaluation processes were appropriate, thereby improving the evaluation framework.

## 4. Activation of Deliberations and Agenda Management

**Basic Policy:** Eliminate formalistic reporting and place, at the center of the annual agenda, fundamental issues that are impairing corporate value, thereby encouraging appropriate risk-taking

### Additional Measures: Focus on Fundamental Issues and Risk-Taking

In overseeing management strategy, position at the center of the agenda fundamental issues such as structural declines in profitability that are impairing corporate value and resignation toward improvement. Outside directors shall not function as mere approvers of the status quo, but shall elevate the perspective of the executive side and rigorously fulfill their role in encouraging appropriate risk-taking (transformation) toward sustainable growth.

### Additional Measures: Prompt Disclosure of Misconduct Information and Clear Rewards and Penalties

Ensure prompt disclosure based on objective facts when misconduct occurs. In addition, strictly reflect in suitability assessments during reappointment processes any directors who refused necessary investigations or steered deliberations for self-preservation.

## 5. Support Structure and Training

**Basic Policy:** Ensure an environment in which outside directors can obtain information using their own budgets and resources, without relying solely on information provided by the company.

### Additional Measures: Establishment of an Executive-Independent Board Secretariat and Appointment of a Corporate Secretary

To address resource constraints faced by outside directors, establish a Board Secretariat as a dedicated organization separated from the executive chain of command. Further, appoint a professional with advanced governance expertise as its head (Corporate Secretary). To ensure effectiveness, the Lead Independent Outside Director shall have authority over the Secretariat's operating budget, the appointment of external experts, and the appointment and performance evaluation of Secretariat staff (including the Corporate Secretary), thereby structurally eliminating executive intervention or deference.

### Additional Measures: Transparency of Meetings of Outside Directors Only

To enhance the effectiveness of meetings attended only by outside directors, ensure transparency to shareholders regarding the themes and outlines of discussions (※excluding confidential information), enabling verification of whether oversight functions are being fulfilled as representatives of shareholders.

# (Reference) Layer 0-5 Foundation for Engagement and Disclosure

## 1. Formulation of a Dialogue Policy and Establishment of a Framework

**Basic Policy:** Establish a framework to promote constructive dialogue with shareholders, designate a person responsible for overseeing all aspects of such dialogue, and establish a genuine dialogue policy

### Additional Measures: Ensuring Objectivity and Normalization of the Dialogue Process

With respect to the current dialogue process, there are concerns that a “self-preservation–driven operation” has been employed, in which the intent of shareholder proposals and expressions of opinion is arbitrarily interpreted and constructive dialogue is rejected. Based on the Third-Party Committee’s fact-finding (Step 1), identify the causes of the breakdown in dialogue functions and rebuild a sound process that accurately reflects shareholders’ voices in management.

### Additional Measures: Evaluation of the Suitability of the person responsible for overseeing

In dialogue with shareholders, strictly re-evaluate the suitability of the person responsible for overseeing dialogue and relevant personnel, and refresh the framework to one that contributes to restoring trust.

## 2. Practice of Dialogue and Feedback

**Basic Policy:** Establish a process in which independent outside directors who are not involved in business execution conduct dialogue themselves, sincerely consider shareholders’ opinions and concerns—particularly proposals with a rational basis—and feed them back to the Board of Directors, including critical views. In addition, establish rules requiring clear responses and disclosure of the reasons when a reasonable proposal is not adopted.

### Additional Measures: Confronting Critical Views and Building Processes

An attitude of rejecting externally provided objective evidence or pointed observations without conducting investigation or verification creates governance blind spots. Establish a process that does not ignore uncomfortable criticisms or evidence, but instead incorporates them as inputs for management improvement.

# (Reference) Layer 0-5 Foundation for Engagement and Disclosure

## 3. Enhancement and Fairness of Disclosure

**Basic Policy:** Provide early disclosure of risk matters that may impair corporate value, and design a full disclosure regime that ensures accurate and fair disclosure of undisclosed material facts, regardless of whether such disclosure is favorable or unfavorable to management

### **Additional Measures:** Correction of Deviations from Objective Facts and Root Cause Analysis

Through investigation by the Third-Party Committee (Step 1), clarify the organizational background behind past instances in which explanations which may have diverged from objective facts or disclosures which were biased toward certain facts are made to shareholders. Promptly correct market misunderstandings based on incorrect information, and examine why the oversight function (outside directors) was unable to ensure the accuracy of information.

### **Additional Measures:** Full Disclosure of Unfavorable Information

Based on the recognition that information unfavorable to management (such as signs of misconduct or risk information) is of the greatest importance to investors' decision-making, design a system that ensures comprehensive and highly transparent disclosure.

## 4. Enhancement of Shareholders' Meeting Operations

**Basic Policy:** Recognize the shareholders' meeting as a forum for dialogue, eliminate its use as a venue for self-justification, and, where insufficient disclosure of material facts may have distorted shareholders' judgment, explain the background and reflections during dialogue

### **Additional Measures:** Redefinition of "Confidence" in Situations of Information Asymmetry

Interpreting voting results obtained while material facts (such as the full scope of misconduct or suspicions regarding management involvement) were not disclosed to shareholders as having secured "full confidence" in management policy leads to the hollowing out of shareholders' meetings. After promptly eliminating information asymmetry, correct this stance by once again seeking genuine confidence from shareholders.

# (Reference) Layer 1-1 Control of Conflict of Interest and Policy Shareholdings

## 1. Reduction and Rigorous Review of Cross-Shareholdings

**Basic Policy:** Establish a policy under which Cross-Shareholdings that generate returns below the cost of capital shall be reduced or sold unless the rationale for holding them can be quantitatively explained. Where holdings are maintained, fulfill accountability by explaining, from both quantitative and qualitative perspectives, why such holdings are indispensable to maximizing corporate value.

### Additional Measures: Principle-Based Disposal of Below-Cost-of-Capital and Proper Verification Processes

As current Cross-Shareholdings generate returns below the cost of capital, proceed in principle with their reduction or sale.

With respect to continued holding, ensure thorough disclosure based on specific and quantitative grounds that contribute to maximizing corporate value (e.g., ROIC-based criteria, etc.). In quantitative evaluations, strictly separate “whether shares are held” from “whether business relationships can be continued,” and do not permit justifications based on vague relationship maintenance effects.

### Additional Measures: Elimination of Conflicts of Interest in the Verification Body

Involvement in the verification process by individuals originating from Cross-Shareholding counterparties, or by directors with past transactional relationships, constitutes a structural conflict of interest. To ensure neutrality, structure the verification process exclusively with independent outside directors who have no interests (including past transactional relationships) with Cross-Shareholding counterparties, thereby ensuring objective judgment.

## 2. Discipline in Relationships with Cross-Shareholding Shareholder

**Basic Policy:** Eliminate undue intervention and collusive personnel practices by shareholders engaged in Cross-Shareholdings, tighten standards for the exercise of voting rights, and, as a general principle, review the appointment of directors originating from business partners involved in cross-shareholdings, thereby ensuring governance independence.

### Additional Measures: Dissolution of Structural Collusive Relationships

The historical practice of appointing outside directors from business partners engaged in cross-shareholdings risks weakening discipline over management and perpetuating unreasonable business practices—such as unsettled transactions, provisional deliveries, negative margins, and dependence on allowances—thereby creating risks that it could become a breeding ground for structural collusion. To eliminate structures that give rise to suspicions of entanglement with specific counterparties, conduct a fundamental review of relationships among cross-shareholders.

### Additional Measures: Tightening of Director Appointment Criteria and Prohibition of Sale Obstruction

To dispel concerns regarding stable-shareholder arrangements, tighten independence standards for appointing outside directors originating from business partners engaged in cross-shareholdings, and formulate and implement a roadmap toward eventual abolition.

In addition, establish rules prohibiting shareholders engaged in Cross-Shareholdings from obstructing the sale of the Company’s shares by invoking business relationships.

# (Reference) Layer 1-1 Control of Conflict of Interest and Policy Shareholdings

## 3. Monitoring of Related-Party Transactions and Conflicts of Interest

**Basic Policy:** Rigorously enforce approval processes commensurate with the materiality of related-party transactions, conduct thorough third-party investigations into suspected transactions with high conflict-of-interest risks identified in the past and implement recurrence prevention measures.

### Additional Measures: Investigation of Past Conflict-of-Interest Risks and Strengthened Monitoring

The final recommendation issued by the Special Committee for Strengthening Governance dated October 9, 2025, determined the facts that former management led specific transactions, nullified governance, and engaged in opaque dealings. Given that the method of disabling internal controls through top-down decision-making has been identified, this shall not be treated as a mere exception. Accordingly, through the Third-Party Committee (Step 1), conduct a comprehensive review whether other contracts involving former management, or other conflict-of-interest cases or schemes, exist.

## 4. Structural Conflicts of Interest in Crisis Situation

**Basic Policy:** To prevent abuse of systems for self-preservation purposes, exclude directors with special interests from deliberations from the M&A, etc. consideration stage onward, and establish processes to conduct ex post verification of the appropriateness and fairness of decision-making where the activation of takeover defense measures has impaired corporate value.

### Additional Measures: Prevention of Self-Preservation–Driven Abuse and Independence of Special Committees

To prevent the introduction or maintenance of takeover defense measures from being justified for management self-preservation (entrenchment) purposes, strictly strengthen the independence of special committees serving as decision-making bodies. In particular, exclude from committee membership individuals who may have broad self-preservation motives—such as those possibly involved in past internal control issues—and eliminate structural conflict-of-interest risks.

### Additional Measures: Clarification of Process Accountability and Ex Post Review

In light of the risk that abuse of takeover defense measures may harm shareholder interests, introduce ex post verification mechanisms. Where there are suspicions that corporate value has been impaired due to misuse of such measures, an independent third-party body investigates the decision-making process (including the existence of conflicts of interest) and conducts an objective review about its appropriateness and attribution of responsibility.

## 5. Fulfillment of the Asset Owner Function (Corporate Pensions)

**Basic Policy:** To enable corporate pensions to function effectively as asset owners, appoint personnel with appropriate expertise and oversee external asset managers to ensure that priority is not given to maintaining relationships with the Company's business partners.

### Additional Measures: Monitoring of Voting Rights Exercise

Clearly show principles regarding stewardship activities to asset managers and monitor whether voting rights are exercised in a conflicted manner, such as through uncritical support of company proposals.

# (Reference ) Layer 1-2 Oversight and Discipline of Management

## 1. Monitoring and Verification of Execution Status

**Basic Policy:** Formulate a genuine audit plan, including operational audits, and secure audit support functions (staff and budget) that are independent from execution and support the investigative authority of the Audit and Supervisory Committee, thereby establishing a highly effective and independent monitoring framework.

### Additional Measures: Clarifying Oversight Failures through a Third-Party Committee

Treat as a material deficiency in the internal control system the fact that appropriate self-correcting functions were not exercised by the Audit and Supervisory Committee and the Board of Directors despite the existence of repeated misconduct and objective evidence (such as written statements related to the bid-rigging incident). Objectively clarify the structural causes through a Third-Party Committee (Step 1) that fully complies with the Japan Federation of Bar Associations Guidelines.

### Additional Measures: Securing Execution-Independent Audit Support Functions and Disclosure of Processes

To substantiate the investigative authority of the Audit and Supervisory Committee, secure audit support functions that are independent of the executive chain of command. In addition, disclose to shareholders, with transparency, what specific risk items the independent monitoring organization is monitoring, as well as the processes and progress, in order to prevent the hollowing out of audits.

## 2. Clarification of Management Responsibility and Corrective Measures

**Basic Policy:** Re-verify the suitability of the current management and re-formulate recurrence prevention measures, determine whether losses and misconduct arising from governance failures resulted from insufficient deliberation, and appropriately pursue management responsibility.

### Additional Measures: Suitability Review of Management and Audit and Supervisory Committee Members

Based on the Third-Party Committee's fact-finding (Step 1), strictly re-verify the suitability of management, including the CEO and COO.

Where breaches of the duty of due care or the duty of oversight are identified, consider and implement strict measures—commensurate with the degree and nature of involvement—including removal from office and claims for damages under the Companies Act.

In addition, verify the appropriateness of the decision-making processes of outside directors serving as Audit and Supervisory Committee members who previously refused requests for investigation.

### Additional Measures: Rebuilding Truly Effective Recurrence Prevention Measure

Past symptomatic measures—such as formal rule-making or organizational restructuring—implemented without third-party root cause analysis cannot constitute effective countermeasures. Accordingly, rebuild these measures from a zero base as part of recurrence prevention, based on the recommendations of the Third-Party Committee (Step 1).

# (Reference) Layer 1-2 Oversight and Discipline of Management

## 3. Oversight Stance of Outside Directors

**Basic Policy:** Move away from formalism and address distortions in the business model, establishing a framework in which outside directors genuinely verify the appropriateness of strategies and targets, rather than oversight being reduced to procedural or symbolic actions.

### Additional Measures: Correction of Structural Factors That Induce Misconduct

While advocating fair trade (e.g., the Partnership Building Declaration), monitor whether unreasonable business practices that may impair corporate value—such as unsettled transactions, provisional deliveries, negative margins, or dependence on rebate structures—are being left unaddressed.

As these practices exert pressure on frontline profitability and constitute fundamental causes that induce recourse to misconduct (compliance violations), the Board shall strongly urge the executive side to eliminate them and monitor corrective progress. Require the formulation of a concrete corrective roadmap and deadlines, and where progress is insufficient, reflect this in performance evaluations.

## 4. Discipline through Incentives

**Basic Policy:** Lead appropriate accountability and removal processes, and introduce risk management mechanisms such as clawback provisions through the Nomination and Compensation Committee, thereby tightening rules on salary reductions and compensation forfeiture in the event of misconduct.

### Additional Measures: Strict Sanctions and Leadership in Removal of Those Involved in Misconduct

For directors and officers involved in misconduct or bearing oversight responsibility, pursue their accountability—without sacred cows—commensurate with the degree of involvement and response, including proposals for removal and claims for damages. In particular, where responsibility is identified at the level of top management such as the CEO, independent outside directors shall lead the removal process, thereby demonstrating the self-correcting function of governance.

## 5. Activation of Removal Processes and Elimination of Undue Influence

**Basic Policy:** Eliminate opaque exercises of influence and enhance transparency of the advisor system. Where former presidents or other executives remain within the company after succession, restrict their authority to avoid impeding the performance of the current president, and establish transparent systems for authority exercised without disclosure to shareholders.

### Additional Measures: Clarifying Management Involvement by Former Executives and Rebuilding the System

Investigate the reality of substantive management involvement—such as attendance at management meetings—by former executives (including former Representative Directors serving as advisors, etc.), and verify its necessity and rationality.

To prevent undisclosed exercises of authority vis-à-vis shareholders (shadow governance), rebuild the system into one with high effectiveness, including abolition of the advisor system. As a general principle, prohibit the engagement of former executives as advisors or consultants, and permit no exceptions unless it can be rationally explained that the former executives are truly indispensable to the company.

# (Reference) Layer 1-3 Risk Management and Internal Control System

## 1. Fostering Corporate Culture and a Code of Conduct

**Basic Policy:** The Board of Directors shall demonstrate leadership in fostering a sound corporate culture, with top management itself exemplifying integrity (honesty and ethical conduct) and communicating a strong compliance-focused message to the operational level.

### Additional Measures: Suitability Review of Top Management in Relation to Governance Failures

Where top management is suspected of bearing responsibility for governance failures, having such individuals lead reform would impede the renewal of corporate culture. Accordingly, the Nomination and Compensation Committee shall, based on the Third-Party Committee's fact-finding (Step 1), re-examine from a zero base the appropriateness of reappointing top management.

### Additional Measures: Correction of Inconsistencies Between Words and Actions (Lack of Integrity)

Verify whether there are material inconsistencies or gaps between the corporate philosophy and commitments to recurrence prevention espoused by management and their actual conduct (including responses to shareholders and attitudes toward factual disclosure). As such inconsistencies are a primary cause of declining organizational morale, objectively examine their causes and restore leadership that is worthy of trust.

## 2. Establishment of the Three Lines of Defense and Strengthening of the Second Line

**Basic Policy:** Introduce the three lines of defense for internal control purposes, and in particular ensure the independence of the second line—risk management functions such as legal and compliance—thereby building an effective audit framework.

### Additional Measures: Correction of Dysfunction in the Audit and Supervisory Committee, Internal Audit, and the CGO

The Audit and Supervisory Committee and the internal audit function (the third line), which should work in coordination with it, failed to sufficiently exercise investigative functions despite the existence of objective evidence. In addition, concerns remain regarding the ability of the Chief Governance Officer (CGO/the second line) to fulfill oversight functions in light of past circumstances. To ensure the effectiveness of the defense lines, review the requirements for the CGO and refresh the structure by appointing an individual with no interest in past misconduct, or an external professional who is independent and has no transactional or personal relationships with the company.

# (Reference) Layer 1-3 Risk Management and Internal Control System

## 3. Establishment of a Group Governance Framework

**Basic Policy:** The parent company shall bear responsibility for establishing internal controls across the Group and shall develop common rules to be observed by all group companies, thereby ensuring legal compliance and effective implementation.

Additional Measures: Correction of Hollow Rules and the Responsibility of the Parent Company

Where the parent company itself has failed to fulfill accountability regarding material facts, it is difficult to establish effective governance at subsidiaries.

To avoid internal rules becoming merely formal and ineffective (all form and no substance), as a first step, conduct a strict re-examination—by a Third-Party Committee (Step 1)—of the suitability of the parent company's management, and restore the legitimacy necessary to lead group-wide governance.

## 4. Cybersecurity and Risk Disclosure

**Basic Policy:** Identify at an early stage risks that may impair corporate value and provide accurate information, while viewing cybersecurity measures not as a cost but as an investment.

Additional Measures: Correction of Deviations from Objective Facts and Fulfillment of Accountability

Verify whether, in the disclosure of risk information, explanations deviating from objective facts (such as the existence of similar cases or the true intent of shareholders) or arbitrary selection of information favorable to management have occurred. As a lack of accountability arising from double standards undermines market trust, conduct an ex post verification of the fairness of disclosure processes and clarify responsibility.

## 5. Introduction of External Perspectives

**Basic Policy:** In addressing compliance matters and building internal controls, incorporate perspectives that are not constrained by internal assumptions.

Additional Measures: Establishment of an Independent Third-Party Committee Complying with JFBA Guidelines and Resolution of the Past

The Special Committee for Strengthening Governance did not conduct specific fact-finding regarding the contents of written statements related to the bid-rigging incident (including the potential involvement of officers). To ensure the effectiveness of the internal control system, establish an independent Third-Party Committee that fully complies with the Japan Federation of Bar Associations guidelines (Step 1), and identify organizational factors explaining "why self-correcting functions failed to operate."

# (Reference) Layer 1-4 Audit, Internal Reporting, and Self-Corrective Function

## 1. Independence and Authority of Internal Audit (Third Line)

**Basic Policy:** In addition to reporting to management, the internal audit function shall secure a direct reporting line to the Audit and Supervisory Committee (dual reporting). Furthermore, to ensure independence from management, establish the Audit and Supervisory Committee's consent authority with respect to audit plan approval and decisions on the appointment of and remuneration of the head of internal audit.

Additional Measures: Independence from Executive Evaluation Authority

Formal independence alone is insufficient. Accordingly, eliminate executive involvement in the performance evaluation of the internal audit function and establish a system that removes structural deference to the President and executive officers.

Additional Measures: Expansion of Operational Audits

For subsidiary audits, go beyond conventional financial and accounting audits and mandate audits of operational legality and compliance, thereby eliminating audit blind spots.

## 2. Effectiveness and Coordination of the Audit and Supervisory Committee

**Basic Policy:** Audit and Supervisory Committee members shall conduct audits not only of legal compliance but also of the appropriateness of business execution, and shall proactively exercise the right to seek injunctions against illegal acts. In addition, thoroughly examine whether past inaction constitutes a breach of directors' duty of due care.

Additional Measures: Examination of the Background Behind Non-Exercise of Investigation Authority

Despite the existence of repeated signs of misconduct and objective evidence (such as written statements related to the bid-rigging incident), the Audit and Supervisory Committee did not exercise its investigative authority, indicating the presence of structural dysfunction. Through the Third-Party Committee (Step 1), identify the causes of such inaction (e.g., lack of information or insufficient skills) and implement corrective measures.

Additional Measures: Moving Beyond Abstraction to Practical Measures

In light of the fact that past recurrence prevention measures remained "bureaucratic", and that the final recommendations of the Special Committee for Strengthening Governance lacked detailed fact-finding and remained abstract, strengthen the framework so that concrete and effective recurrence prevention measures—grounded in on-the-ground realities such as business practices and organizational culture—can be formulated and monitored.

# (Reference) Layer 1-4 Audit, Internal Reporting, and Self-Corrective Function

## 3. Establishment of a Group Audit Framework

**Basic Policy:** Select subsidiaries for audit based on risk materiality, and have parent and subsidiary auditors, Audit and Supervisory Committee members; and internal audit functions work in coordination to audit group-wide internal controls, while eliminating risks of opaque shadow governance.

### Additional Measures: Reform of the Advisor System as a Breeding Ground for Concealment

There are concerns that, in past misconduct responses, former executives (such as advisors) continued to participate in subsidiary management meetings, thereby impeding the exercise of self-correcting functions. Advance consolidation toward an independent external perspective and eliminate the influence of advisors whose authority and responsibility are unclear.

## 4. Effectiveness of the Whistleblowing System

**Basic Policy:** Establish reporting channels independent from management and create an environment in which employees can report concerns without fear of retaliation. In particular, to structurally prevent suppression by the executive side (information blockage), thoroughly ensure information independence and introduce a leniency program.

### Additional Measures: Suitability Review of the Chief Governance Officer (CGO)

The Chief Governance Officer (CGO), who is responsible for receiving and assessing whistleblower reports, must be a person with no interest whatsoever in past misconduct and a high degree of neutrality. In light of roles held at the time of past misconduct, it is inappropriate for individuals whose oversight responsibility or inaction concerns cannot be fully dispelled to assume this role. Accordingly, appoint as CGO an individual with no interest in past misconduct, or an external professional who is independent and has no transactional or personal relationships with the company.

### Additional Measures: Introduction of a Leniency Program

In addition to prohibiting retaliatory treatment of whistleblowers, introduce leniency provisions that allow mitigation of penalties where individuals involved in misconduct voluntarily report, thereby promoting the discovery of organizationally concealed misconduct.

## 5. Disclosure of Operational Status and Transparency

**Basic Policy:** To ensure the effectiveness of the system, disclose the number of reports received and the status of responses. In light of past concealment, eliminate reporting that presupposes conclusions such as "no material violations," and mandate comprehensive reporting that includes even minor matters.

### Additional Measures: Transparency of Operations and Disclosure of Responses

With due consideration for personal privacy and within the bounds of confidentiality obligations, disclose—according to case type and severity—specific summaries of whistleblowing cases together with the measures taken. To prevent tampering or concealment by the executive side, have the Audit and Supervisory Committee, rather than management, take the lead in verifying this disclosure process and ensure transparency to shareholders.

### Additional Measures: Verification of the Appropriateness of External Expert Engagement

Verify whether external experts providing legal advice (such as outside counsel) have prioritized management self-justification or entrenchment.

In addition, in misconduct responses, confirm whether conflicts of interest exist due to past mandates or personal affiliations with the company, and ensure a framework in which advice truly serves the interests of the company.

# (Reference) Layer 1-5 Crisis Response and Fair M&A

## 1. Framework for Responding to Misconduct and Emergencies

**Basic Policy:** Establish measures for the early detection of misconduct and the minimization of damage, and, in times of crisis, establish a truly effective Third-Party Committee to clarify the full scope of the matter and formulate recurrence prevention measures.

In particularly serious cases, establish a framework led by independent outside directors.

### Additional Measures: Establishment of a Third-Party Committee Fully Complying with JFBA Guidelines

Past responses to misconduct raise concerns that they remained formalistic and did not lead to fundamental resolution, as fact-finding was not sufficiently conducted.

In future crisis management, establish a Third-Party Committee that fully complies with the JFBA guidelines, with full authority for member selection vested in a body composed solely of independent outside directors.

### Additional Measures: Emergency Succession Planning and Leadership in Removal Decisions

Formulate an emergency plan to prepare for unforeseen circumstances. In cases of major misconduct or significant deterioration in performance where management leadership is deemed inappropriate, establish a process under which independent outside directors take the lead in promptly determining whether to remove the President/CEO.

## 2. Initial Response Process upon Receipt of an Acquisition Proposal

**Basic Policy:** Upon receipt of an acquisition proposal, promptly refer the matter to the Board of Directors to prevent suppression, and adopt a framework under which the proposal is examined without being dismissed lightly based on interpretations lacking objective grounds. Such examination shall include the establishment of a special committee with a high degree of independence and the use of external review processes.

### Additional Measures: Ensuring Independence and Objectivity of the Special Committee

In forming a special committee, adopt a verification process that ensures objective validity by centering on independent outside directors and, where necessary, supplementing independence and expertise through the inclusion of external experts (such as lawyers and certified public accountants), in line with the Ministry of Economy, Trade and Industry's *Guidelines for Fair M&A* and *Guidelines for Corporate Takeovers*, etc.. Enhance the fairness of decisions by incorporating external perspectives free from conflicts of interest, in addition to existing Board members.

### Additional Measures: Monitoring Process Fairness and Accountability

Monitor whether actions that substantially impede consideration of an acquisition proposal—such as undue restrictions on due diligence, excessively prolonged review periods, or demands for responses to unreasonable questions—are being taken. To enable to meet ex post accountability to shareholders on the rationality of decisions, record and disclose the review process and the specific and rational grounds for decisions reached (including valuation bases).

# (Reference) Layer 1-5 Crisis Response and Fair M&A

## 3. Discipline Governing the Adoption and Activation of Takeover Defense Measures

**Basic Policy:** Prevent, without exception, the abuse of takeover defense measures for management self-preservation purposes and ensure that such measures are applied only through necessary and proportionate means.

### Additional Measures: Objective Verification of the Appropriateness of Adoption and Maintenance

In adopting or maintaining emergency-type takeover defense measures, eliminate arbitrary interpretations and make determinations based on objective facts regarding the existence of a contest for control and shareholder intent. To prevent self-preservation-driven (entrenchment) use, subject the rationality of the grounds for adoption to strict verification by a highly independent body.

### Additional Measures: Ex Post Verification of the Decision-Making Process for Activation

In light of the risk that activation of takeover defense measures may impair corporate value, where there are suspicions of such impairment, have an independent third-party body verify the appropriateness of the decision-making process.

## 4. Elimination of Coerciveness and Objective Determination

**Basic Policy:** Refrain from determinations of contests for control or coerciveness that are inconsistent with objective facts and apply objective and stringent standards to the adoption and activation of takeover defense measures.

### Additional Measures: Strict Standards for Determining Coerciveness and Elimination of Arbitrary Application

In determining coerciveness, give maximum weight to objective facts such as past dialogue records.

Strengthen determination standards and establish mechanisms to eliminate arbitrary application, so as not to restrict shareholders' exercise of rights by overstating non-existent risks.

### Additional Measures: Objectification of Activation Criteria

Eliminate management's subjective discretion from activation criteria and strictly apply objective standards based on concrete likelihood of impairment to corporate value.

## 5. Code of Conduct in M&A Transactions

**Basic Policy:** Strictly refrain from inaccurate disclosures, undue approaches to business partners, or coercive solicitation. With respect to information provided by acquirers, do not summarize or distort such information, and ensure shareholders' right to access the original documents.

### Additional Measures: Guarantee of Access to Original Documents and Elimination of Information Asymmetry

In disclosing information relating to acquisition proposals or shareholder proposals, guarantee shareholders direct access to original documents prepared by the proposer—except where trade secrets are involved—to prevent arbitrary summarization or interpretation (filtering) by the company. By doing so, eliminate information asymmetry and establish an environment in which shareholders can make accurate decisions based on primary information.

# (Reference) Layer 2-1 Management Strategy Based on Cost of Capital

## 1. Identification of the Cost of Capital and Target Setting

**Basic Policy:** Accurately identify the Company's cost of capital, present targets related to profitability and capital efficiency and establish a process under which the Board of Directors verifies the appropriateness of such targets.

### Additional Measures: Objective Validation of the Cost of Capital Assumptions

With respect to the current cost of capital assumption (6%), there are concerns as to whether it merely endorses the Company's current low profitability and whether its calculation basis is appropriate. Based on dialogue with the market, have a third party re-verify the calculation process and reset an objective cost of capital (WACC) that appropriately reflects business risk.

### Additional Measures: Re-Examination of the Appropriateness of the Already-Achieved ROE Target

Re-examine why an ROE of 8%, already achieved in the past, is considered an appropriate forward-looking target in the medium-term management plan. Strictly assess, from the perspectives of market valuation and asset-based expected returns (ROIC), whether this constitutes an unduly status-quo-oriented target.

### Additional Measures: Strict Hurdle Rates Commensurate with Business Risk

Eliminate purely formal approval processes within bodies such as the Investment Committee and ensure substantive deliberation. Introduce and operate strict ROIC hurdle rates based on objectively calculated costs of capital, to ensure appropriate spreads (safety margins) reflecting the risk characteristics of each business.

## 2. Construction of an Equity Story

**Basic Policy:** Articulate a long-term value creation story, clarify investments in intangible assets that generate competitive advantages and inter-business synergies, and present strategies that are effective in substance rather than limited to the use of terminology.

### Additional Measures: Elimination of Structural Impediments

There are concerns that "structural impediments"—such as dependence on business practices that induce compliance risks and the entrenchment of low-profitability structures—are obstructing corporate value enhancement (value transfer). Present a roadmap that clearly explains how these impediments will be resolved and how sustainable growth will be achieved, including quantitative annual milestones.

### Additional Measures: Disclosure of the Accumulated Basis for Core Business Improvement

With respect to targets indicating future improvements in ROIC for core businesses, move beyond aspirational statements and rigorously examine and explain to shareholders the concrete measures whose accumulation makes such improvements achievable, together with their rationale and likelihood.

## 3. Capital Policy and Shareholder Returns

**Basic Policy:** Formulate a financial management policy that includes asset compression and returns with a focus on capital efficiency, as well as optimal use of cash based on the cost of capital, and engage in substantive discussion to eliminate internal reserves without thought and promote optimal cash utilization.

### Additional Measures: Principle of Disposing of Cross-Shareholdings

With respect to Cross-Shareholdings, proceed in principle with reduction or sale unless it can be demonstrated that the quantitative benefits of maintaining or strengthening business relationships exceed the cost of capital.

### Additional Measures: Effective Use of Proceeds from Sales

Prioritize the use of proceeds for strengthening logistics networks and investing in human capital, thereby enhancing sustainability as social infrastructure, and thereafter implement disciplined shareholder returns.

# (Reference) Layer 2-1 Management Strategy Based on Cost of Capital

## 4. Management of B/S-Perspective and Market Valuation (PBR)

**Basic Policy:** Strengthen investment discipline and conduct ex post reviews of all projects, shift away from P/L-centric management, and rigorously incorporate B/S and cash flow perspectives, while clearly defining exit criteria for businesses that fail to generate returns commensurate with the cost of capital.

### Additional Measures: ROIC Verification and Disclosure for Investment Projects

There are concerns that large-scale investments have been executed without clear return plans commensurate with the cost of capital.

Conduct ex post verification of past projects from a cost-of-capital perspective and mandate the calculation and disclosure of expected ROIC for future investments to strengthen investment discipline.

### Additional Measures: Disclosure of the Rationale for the Effectiveness of Growth Investments

For all significant growth investments, disclose expected ROIC and transparently present to shareholders both quantitative and qualitative grounds supporting their effectiveness.

### Additional Measures: Stricter Exit Criteria for Low-Profitability Businesses

For businesses generating returns below the cost of capital, formulate fundamental profitability reform plans rather than pursuing immediate exit.

If ROIC targets are not achieved within a defined period, re-examine—on a zero-base—the meaning and competitive advantage of continued ownership within the Group, and consider strategic options including divestiture or exit.

## 5. Group Strategy and Investor Communication

**Basic Policy:** Renew the strategy formulation process to ensure genuine independence, prevent committees from serving as a shield for management preservation or status quo endorsement, and provide investors with concrete explanations of deliberation status and logic.

### Additional Measures: Securing Resources Necessary for Strategy Formulation

In past management strategy committees, reluctance to engage external advisors due to cost considerations resulted in plans that merely endorsed the status quo. To formulate truly effective strategies, secure sufficient budgets and resources to engage external experts independent from management.

### Additional Measures: Ensuring the Effectiveness of the Strategy Review Committee

There are concerns that the Management Strategy Committee has functioned as a formal checkpoint to ratify management policies.

To eliminate status quo bias and enable unrestrained deliberation, fundamentally review committee composition and operating processes and ensure independence from management.

### Additional Measures: Establishment of a Truly Independent Strategy Review Committee

Invite external experts with substantive independence and expertise. With outside directors at the core, examine all strategic options without regard to existing constraints, and disclose the outcomes and underlying logic to shareholders with full transparency.

### Additional Measures: Disclosure of Risk Information and Restoration of Trust

Fully disclose past misconduct and governance-related issues (risk information) without concealment, and through transparency, secure shareholder support for the new management strategy.

# (Reference) Layer 2-2 Business Portfolio Optimization

## 1. Basic Policy and Accountability for Portfolio Management

**Basic Policy:** Management's primary mission shall be to maximize corporate value through portfolio optimization and the creation of synergies.

**The Board of Directors shall review the basic policy at least annually and, where the risk of dysfunction is high, consider a fundamental review of the management structure.**

### Additional Measures: Elimination of the Conglomerate Discount

Recognizing that the current low price-to-book ratio (PBR) is largely attributable to a conglomerate discount arising from non-synergistic diversification, examine—without sacred cows—all strategic options, including business separation (spin-offs) to unlock corporate value.

### Additional Measures: Management Unsuitability and Oversight Responsibility

Where the management structure continues to carry unresolved issues related to past misconduct responses or governance concerns (matters to be examined in Step 1), there is a high risk that fundamental portfolio reform will devolve into mere endorsement of the status quo.

Accordingly, prior to executing reform, re-examine—based on objective facts—the suitability of the Chief Executive Officer and the appropriate allocation of oversight authority.

### Additional Measures: Leadership and Explanation by Outside Directors

To ensure decisions not constrained by internal vested interests or entrenched practices, independent outside directors shall take the lead in optimizing the business portfolio.

The results of such reviews shall be explained to shareholders directly by outside directors themselves, rather than by the executive side, thereby ensuring transparency.

## 2. Establishment of Evaluation Criteria

**Basic Policy:** Establish a standardized evaluation framework centered on capital profitability and growth, prepare balance sheets and cash flow data for each business, and annually verify whether continued ownership is economically rational.

### Additional Measures: Verification of Alignment with the Cost of Capital

There are concerns that the ROIC targets for the pharmaceutical wholesaling and dispensing businesses, as well as the Company's assumed cost of equity (6%), do not adequately reflect actual business risk. To avoid numerical engineering designed to justify continued ownership, conduct a re-verification of the cost of capital by an independent third party with no interest aligned with management, and disclose the results and underlying logic to shareholders.

### Additional Measures: Ensuring Objectivity of Calculation Processes

If errors are identified in the calculation or application of the cost of capital, identify why assumptions endorsing existing policies were adopted—focusing on calculation logic and approval processes—and correct them to ensure objectivity.

### Additional Measures: Introduction of Time-Bound Commitments

Rather than indefinitely retaining businesses below cost of capital based on abstract explanations such as being in a "recovery phase," disclose concrete timeframes (deadlines) for determining whether divestment or exit decisions will be made and achievement criteria for determining whether continued ownership is justified.

### Additional Measures: Introduction of Strict Hurdle Rates

Based on appropriately estimated costs of capital, introduce and apply strict ROIC hurdle rates (WACC plus a spread) that secure adequate safety margins commensurate with business risk.

# (Reference) Layer 2-2 Business Portfolio Optimization

## 3. Resource Allocation

**Basic Policy:** Concentrate on growth investments and verify investment returns, redeploying cash generated by mature businesses into new growth areas, and clearly explaining the execution details of allocations, including capital expenditures and investments in human capital.

### Additional Measures: Substantiation and Transparency of the Investment Committee

Do not justify investments merely by satisfying the formal requirement of having passed through the Investment Committee and fulfill substantial accountability. For all investments—including those with uncertain future returns such as human capital and venture investments—explain transparently to shareholders the expected returns and why they exceed hurdle rates and enable ex post verification.

## 4. Execution of Carve-Outs and Exits

**Basic Policy:** Formulate fundamental profitability improvement plans for businesses generating returns below the cost of capital and execute restructuring without sacred cows. For non-core businesses where recovery is unlikely, make early strategic decisions—including alliances with other companies or carve-outs—while prioritizing the maintenance of essential social infrastructure, and reflect execution outcomes in management evaluations.

### Additional Measures: Clarification and Optimization of Expected Returns Across All Businesses

Clarify expected ROIC for all existing businesses, assets, and new investments, and conduct zero-based reviews of the rationale for retaining businesses below cost of capital, implementing unreserved business and asset restructuring.

### Additional Measures: Clarification of the Strategic Positioning of the Pharmacy Business

Move beyond formal reorganizations such as corporate integrations and clearly define the economic rationale for ownership and the medium- to long-term strategic direction of the pharmacy business within the Group from a portfolio management perspective.

### Additional Measures: Incentivization of Portfolio Reform

Introduce mechanisms that positively reflect decisive exits or carve-outs of low-profitability businesses in executive compensation (performance-linked metrics), evaluating them as contributions to capital efficiency improvement rather than penalizing management (resistance to scale reduction).

## 5. Process Transparency and External Perspectives

**Basic Policy:** Clarify review processes, conduct strategic reviews utilizing external experts such as financial advisors, and ensure the independence of advisor selection and agenda-setting.

### Additional Measures: Implementation of a Strategic Review

Conduct a zero-based strategic review that examines all strategic options without presupposing the current business structure. Engage external financial advisors and other experts who are not constrained by internal logic, thereby introducing objective perspectives.

### Additional Measures: Ensuring Independence in Expert Selection

Based on lessons learned from past review processes, prioritize substantive independence—such as the absence of prior advisory or transactional relationships with the Company—over purely formal requirements when selecting advisors and committee members, and appoint truly independent experts through appropriate selection processes.

### Additional Measures: Disclosure of the Rationale for Target Setting

Eliminate management plan figures that are merely the result of internal aggregation by the secretariat and disclose the appropriateness of targets and the logic of key quantitative indicators (KPIs) so that shareholders can externally verify their rationality.

# (Reference) Layer 2-3 CEO Succession and Appointment/Dismissal

## 1. Definition of the “Ideal CEO Profile” and Establishment of Criteria

**Basic Policy:** The Nomination and Compensation Committee shall clearly define the “ideal CEO profile” in light of the management environment and strategy, incorporate as mandatory requirements the qualities necessary to make and execute decisive portfolio reforms, and disclose such criteria to shareholders together with strict suitability requirements.

### Additional Measures: Objective Verification of Top Management Qualifications and Reflection in Criteria

In light of objective facts—such as the existence of written statements related to the bid-rigging incident and repeated misconduct—serious doubts have arisen as to whether the current top management satisfies the strict suitability requirements that should be newly established. Conduct fact-finding and root cause analysis regarding the circumstances under which risks were previously overlooked in appointments and strictly reflect the results in current suitability assessments.

## 2. Formulation and Oversight of the Succession Plan

**Basic Policy:** The Board of Directors and the Nomination and Compensation Committee shall take an active role in formulating and operating the succession plan, overseeing the entire cycle from appointment to transition, and shall particularly strengthen emergency response preparedness for unexpected situations.

### Additional Measures: Appropriateness of Emergency Plans Led by the Nomination and Compensation Committee

Verify the rationality of past succession plans under which options were limited following the sudden passing of a top executive, resulting in the selection of a successor without a sufficient process. To prevent arbitrary selection by the executive side, reform the system so that, even in emergencies, outside directors take the lead in selecting successors.

## 3. Development and Evaluation of Candidates

**Basic Policy:** Identify high-potential talent at an early stage and provide them with challenging assignments—such as leading subsidiaries—to develop problem-solving capabilities. In evaluation and development, eliminate undue influence based on specific attributes or opaque involvement by current management, and apply objective performance-based standards.

### Additional Measures: Elimination of Undue Influence from the Development Process

As concerns remain regarding compliance awareness and governance understanding among current executive directors, the Nomination and Compensation Committee and external professionals shall take the lead in developing next-generation CEO candidates. This will eliminate undue influence from current management and prevent the reproduction of a corporate culture characterized by concentration of authority in specific individuals and intolerance of dissent.

### Additional Measures: Use of 360-Degree Evaluations and External Assessments

To identify candidates with strong negotiation capabilities with stakeholders and a firm commitment to transformation, utilize 360-degree evaluations and external assessments to conduct multi-faceted evaluations of whether candidates can truly enhance corporate value.

# (Reference) Layer 2-3 CEO Succession and Appointment/Dismissal

## 4. Appointment of External Talent

**Basic Policy:** Mandate consideration of a broad candidate pool that includes external and global talent, rather than limiting consideration to internal candidates.

Additional Measures: Mandatory Use of Search Firms

In selecting CEO candidates, mandate the use of executive search firms to identify external talent and include such candidates in the candidate pool, thereby preventing selection based solely on internal logic and introducing objective competition.

## 5. Transparency and Operation of Appointment and Removal Processes

**Basic Policy:** Establish objective criteria for the removal of the CEO in cases where performance is inadequate—such as prolonged low PBR—and conduct annual evaluations to determine reappointment or non-reappointment, while fulfilling full accountability regarding the process.

Additional Measures: Quantification and Tightening of Removal Criteria

The removal criteria shall not be limited to qualitative triggers, but shall establish quantitative triggers that leave no room for arbitrariness—such as cases where “ROE consistently falls below the cost of capital”, or where “relative total shareholder return (TSR) materially underperforms peers”—and, where such triggers are met, deliberations on removal shall, as a general principle, be initiated. Where, despite failure to meet such criteria, retention is decided, an obligation shall be imposed to provide shareholders with a detailed and rational explanation.

Additional Measures: Full Accountability by the Chair of the Nomination and Compensation Committee

The Chair of the Nomination and Compensation Committee shall disclose to shareholders details regarding alignment with the skills matrix, the succession plan, development programs, policies on external talent recruitment, and the appointment and removal process based on performance-linked metrics.

Additional Measures: Verification and Accountability for the Reappointment Process

Examine the circumstances under which, at the Annual General Meeting of Shareholders held in June 2025, the reappointment of directors with questionable suitability proceeded—despite the existence of written statements related to the bid-rigging incident—using explanations that deviated from objective facts and without disclosure of such written statements to shareholders. The Chair of the Nomination and Compensation Committee shall bear the obligation to provide shareholders, ex post, with a rational explanation of the appropriateness of the decision-making process.

# ( Reference) Layer 2-4 Incentive Compensation Design

## 1. Formulation and Governance of the Compensation Policy

**Basic Policy:** Establish a unified compensation policy anchored in the Group's philosophy and strategy. The Compensation Committee shall be deeply involved not only in determining individual compensation amounts, but also in setting policies to ensure that incentives function effectively.

### Additional Measures: Transparency of the Decision-Making Process and Accountability of the Chair

Fully disclose the rationale for selecting performance-linked metrics, the process for determining their levels, and the logic underpinning their appropriateness. The Chair of the Nomination and Compensation Committee shall bear responsibility for providing shareholders with a rational explanation as to how the compensation design contributes to the enhancement of corporate value.

### Additional Measures: Establishment of Objective Review Authority

Strictly monitor whether the current compensation determination process has become one for management's will (self-serving arrangements). The Nomination and Compensation Committee shall objectively assess, based on data, whether management has truly resolved the issues it set forth, and shall exercise its authority to impose rigorous downward adjustments where targets are not met or where material facts have been concealed.

## 2. Optimization of the Compensation Structure

Move away from an excessive reliance on fixed compensation and increase the proportion of performance-linked compensation, centered on long-term incentives, to 40–50%, thereby achieving clearer alignment with shareholder interests and adopting a high-risk, high-return structure.

### Additional Measures: Strict Application of Rewards and Penalties

Adopt a compensation structure with clear differentiation of outcomes, under which compensation is significantly reduced or forfeited if misconduct is tolerated or concealed, while globally competitive, high-level compensation is paid when long-standing structural reforms are successfully executed and corporate value is materially enhanced.

### Additional Measures: Strengthening Compensation Reduction Mechanisms for Misconduct

Introduce and strengthen mechanisms that allow for retroactive repayment or forfeiture of compensation in the event of misconduct or scandals (clawback and malus provisions), thereby thoroughly preventing moral hazard arising from short-term profit-seeking behavior.

# (Reference) Layer 2-4 Incentive Compensation Design

## 3. Design of Strategy-Linked Performance Metrics

**Basic Policy:** Shift evaluation metrics from scale (absolute size) to efficiency (capital profitability) and relative performance, and position the elimination of unreasonable business practices as a top-priority evaluation item.

### Additional Measures: Incentives for Structural Reform

Resolving structural challenges in the pharmaceutical wholesaling industry—such as excessive dependence on customers and practices including negative margins or unsettled transactions—has a substantial impact on corporate value. Establish KPIs that highly evaluate the resolution of such issues as difficult but critical management achievements, thereby providing strong incentives for management to pursue reform.

### Additional Measures: Introduction of Relative TSR as an External Benchmark

To fully align management interests with shareholder value, introduce “relative TSR”, benchmarked against the TOPIX Pharmaceuticals Index and peer companies selected based on objective criteria, as a performance evaluation metric. Design the compensation framework such that no performance-linked compensation is paid when market performance materially underperforms peers, thereby establishing a mechanism to curb self-centered management decisions, including entrenchment.

### Additional Measures: Restoring Incentive Effectiveness through Ambitious Target Setting

Correct target settings that lack effectiveness because full payouts can be easily achieved, and restore incentives by setting ambitious targets that sufficiently exceed the cost of capital, thereby discouraging complacency and rewarding genuine performance.

## 4. Scope of Application and Talent Strategy

**Basic Policy:** Expand eligibility for equity-based compensation beyond senior management to include next-generation leadership candidates and subsidiary management, fostering group-wide alignment toward shareholder value creation.

### Additional Measures: Tailored Incentives for Core Subsidiaries

For officers of core group subsidiaries, the Nomination and Compensation Committee shall design and implement appropriate incentive plans aligned with Group-wide policies and tailored to each company's specific management challenges—particularly the correction of unreasonable business practices at the operational level.

### Additional Measures: Use of Stock Options and Retention Measures

Utilize stock options and similar instruments as appropriate to ensure that achieving ambitious targets yields commensurate economic rewards, thereby supporting the attraction and retention of high-caliber management talent. In addition, expand equity-based compensation for next-generation leadership candidates to instill a shareholder-oriented mindset from an early stage.

## 5. Disclosure and Accountability

**Basic Policy:** Clarify the rationale and philosophy underlying executive compensation design so that it can be explained to investors, and ensure transparency through annual verification.

### Additional Measures: Direct Explanation by the Chair and Verifiability

Each year, the Chair of the Nomination and Compensation Committee shall explain the logic behind CEO compensation decisions, ensuring transparency that allows shareholders to verify appropriateness against financial performance.

### Additional Measures: Full Disclosure of the Rationale for Appropriateness

Proactively disclose, based on quantitative logic, why specific compensation levels and structural ratios are appropriate, thereby enabling shareholders to conduct ex post verification.

# (Reference) Layer 2-5 Strengthening Execution and Realizing Value

## 1. Strengthening the Executive Structure and Delegation of Authority (CXO)

**Basic Policy:** Advance delegation of authority within a team centered on the Representative Director, President and CEO, enabling each functional chief officer to optimize synergies and resource allocation, while clearly separating oversight functions from execution functions.

### Additional Measures: Strengthening Oversight through Separation of the CEO and Chair

From the perspective of strengthening the current CEO's leadership as well, clearly separate the roles of Board Chair and CEO in order to resolve deficiencies in oversight functions.

### Additional Measures: Tightening Suitability Requirements for the Chief Governance Officer (CGO)

To ensure the effectiveness of governance enhancement, appoint as Chief Governance Officer (CGO) an individual with no interest in past misconduct, or an external professional who is independent and has no transactional or personal relationships with the Company, thereby ensuring independence from execution functions.

### Additional Measures: Establishment of a Chief Transformation Officer (CTO) and Ensuring Execution

To complete fundamental reforms that do not merely extend existing practices, such as portfolio restructuring and cultural renewal, appoint a Chief Transformation Officer (CTO) with full delegated authority under the CEO's direction, and monitor the progress of transformation initiatives.

### Additional Measures: Accountability Following Third-Party Committee Findings

With respect to officers whose involvement in misconduct or collusive practices has impeded role optimization, consider implementing strict measures commensurate with the degree of responsibility, based on the Third-Party Committee's fact-finding (Step 1), and refresh the executive structure to one that functions effectively.

## 2. Strategic Role of the CFO and Capital Discipline

**Basic Policy:** As a partner to the CEO, the CFO shall be deeply involved in strategy, build data infrastructure for identifying the cost of capital and conducting risk-return analysis, and lead disciplined resource allocation.

### Additional Measures: Appointment of an External Professional CFO

To ensure genuine financial discipline and constructive challenge, appoint an external professional as CFO who is not influenced by internal logic.

### Additional Measures: Strengthening CFO Authority and Implementing Strict Hurdle Rates

Grant the CFO strict review authority over investment proposals that do not meet capital efficiency requirements, as well as the right to refer matters back to the Board of Directors for re-examination and to present opinions. Accurately estimate the cost of capital and establish strict hurdle rates that include a sufficient margin above the cost of capital, thereby preventing undisciplined investment.

# (Reference) Layer 2-5 Strengthening Execution and Realizing Value

## 3. Dialogue for Value Realization

**Basic Policy:** Conduct dialogue with investors based on objectives aligned with the operating strategy, and build trust with the market by having outside directors also participate as speakers and provide direct explanations to investors.

### Additional Measures: Accountability and Fact Verification in Dialogue

There are concerns that, in the current dialogue process, explanations deviating from objective facts may have been provided to serve the self prevention of management (entrenchment). To prevent impairment of corporate value, have an independent third party verify the accuracy of past disclosures, particularly whether material facts were concealed, and, where failures of accountability are identified, investigate their root causes.

### Additional Measures: Sanctions for Those Failing to Fulfill Accountability and Rebuilding the Dialogue Framework

Based on facts established through investigation, where responsibility is identified for providing explanations inconsistent with facts or for concealment vis-à-vis shareholders, impose strict sanctions and rebuild from the ground up a dialogue framework that genuinely contributes to sustainable, long-term enhancement of corporate value.

## 4. Response to Acquisition Proposals and the Corporate Value Maximization Process

**Basic Policy:** Identify factors contributing to undervaluation in normal times and assess acquisition proposals solely on the basis of corporate value enhancement.

In particular, to prevent the activation of takeover defense measures for management self-preservation purposes, eliminate arbitrariness from activation criteria and apply objective and stringent standards.

### Additional Measures: Normalization of Market Discipline

Review activation criteria for takeover defense measures in light of global governance standards, so as to prevent actions that neutralize market discipline over management or unduly restrict shareholder rights.

### Additional Measures: Elimination of Arbitrary Application and Ensuring Objectivity

In crisis situations, prevent management from arbitrarily characterizing risks such as contests for control and abusing discretion for self-preservation.

Eliminate management's subjective discretion from criteria for responding to acquisition proposals or activating countermeasures, and establish strict operating standards based solely on objective facts.

Repeated from "The Pathologies  
Undermining Toho HD's Corporate Value"  
published by us in December 2025

## Appendix1 : Facts Revealed Through Written Statements

# In August 2025, We Submitted a Request to Inspect Litigation Records to the Public Prosecutors Office and Obtained the Written Statements Given in 2020 at the Tokyo District Public Prosecutors Office by Current CEO Edahiro and COO Umada Regarding the JCHO Bid-Rigging Case<sup>1</sup>

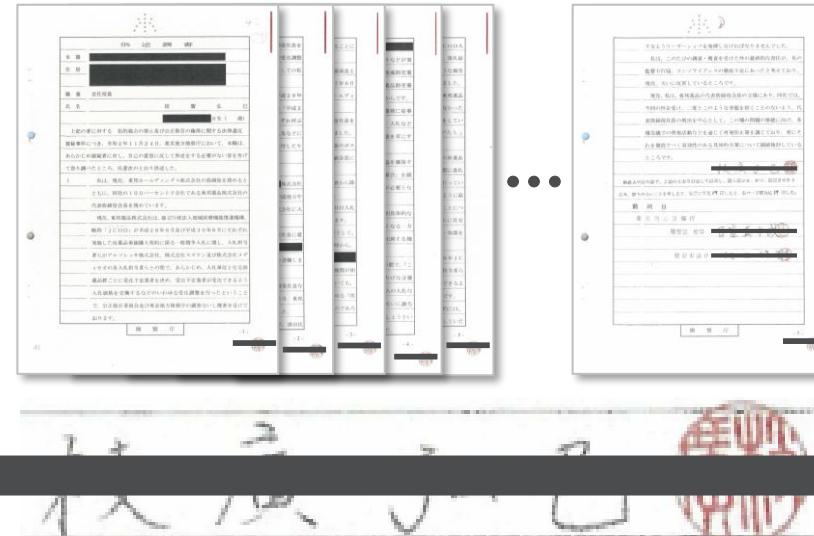


## Written Statement of CEO Edahiro

- In connection with the alleged violation of laws and regulations concerning the JCHO bid-rigging case, the suspect, Mr. Edahiro, made statements to the Public Prosecutors Office regarding the outline and background of the case, the existence of similar cases, his own involvement, and the status of initiatives for preventing recurrence

Case 2020 (Tokuwa) No. 3100

Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade

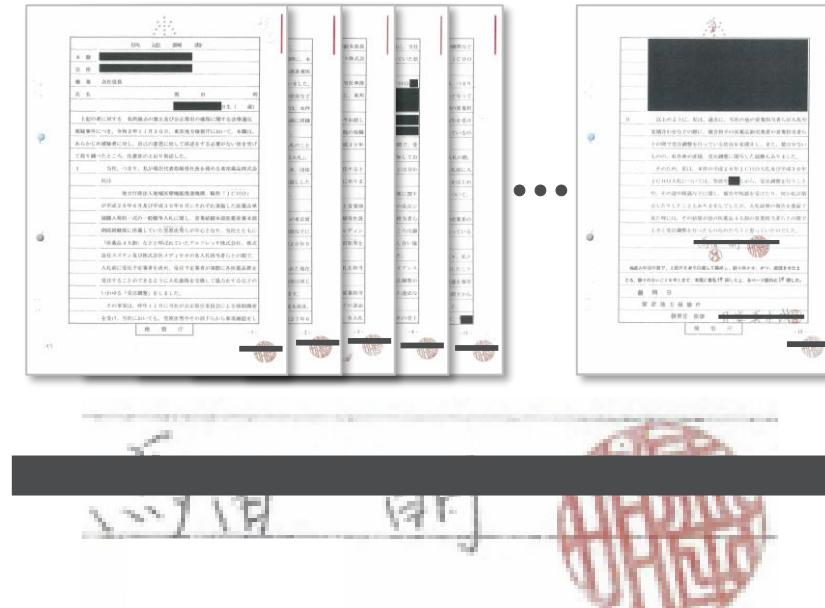


## Written Statement of COO Umada

- In connection with the alleged violation of laws and regulations concerning the JCHO bid-rigging case, the suspect, Mr. Umada, made statements to the Public Prosecutors Office regarding the outline and background of the case, the existence of similar cases, his own involvement, and the status of initiatives for preventing recurrence

Case 2020 (Tokuwa) No. 3100

Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade



Source: Case 2020 (Tokuwa) No. 3100 Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada

Note: [1] This case concerns joint bidding for pharmaceuticals conducted by the Japan Community Health care Organization (JCHO), in which four major pharmaceutical wholesalers, including Toho pharmaceutical, were accused by the Japan Fair Trade Commission of violating the Antimonopoly Act and were subject to surcharge payment orders and other dispositions, on the grounds that they had discussed and agreed in advance on the market share of orders, successful bidders, and prices for the bids in 2016 and 2018

# These Written Statements Bear the Signature and Seal of the Deponent and Are Formal Documents Treated as Legal Evidence by the Court

## A Written Statement Is a Document Prepared under the Formal Procedures Set Forth in the Code of Criminal Procedure

- The written statements accurately record the testimony of suspects and witnesses, and the contents have been confirmed by the witnesses themselves to contain no errors

"When the written statement described in the preceding paragraph has been prepared, **it shall be shown or read to the suspect, and the suspect shall be asked whether there are any errors**. If the suspect requests any additions, deletions, or corrections, such statements shall be entered into the record.

If the suspect **states that there are no errors in the record, the suspect may be requested to sign and seal it**. However, this shall not apply if the suspect refuses to do so."

Article 198, Paragraphs 4 and 5 of the Code of Criminal Procedure

- A written statement signed or sealed may be admitted as evidence

"A **written statement** prepared by a person other than the defendant, or a document recording that person's statement **bearing the signer's signature or seal, (omitted) may be admitted as evidence**<sup>1</sup>."

Article 321, Paragraph 1, Main Clause of the Code of Criminal Procedure

## CEO Edahiro and COO Umada Acknowledge the Written Statements as True by Signing and Sealing Them



Signature and seal of CEO Edahiro



Signature and seal of COO Umada



# The Written Statements record That the Executives Themselves Regarded Misconduct as a "Necessary Evil" and That the Organization as a Whole Strategically Tolerated and Got Involved in Violations of Laws and Regulations (1/2)

CEO Edahiro Testified that, to Secure Sales and Profits, He Strategically Tolerated Bid-Rigging and Took No Corrective Action



CEO Edahiro

## Written statement by Mr. Edahiro from the prosecutor's questioning regarding JCHO

"Even I myself, as Representative Director and President, although I assumed that Toho pharmaceutical was probably engaging in bid coordination and similar practices with competitors at the time of bids or competitive quotations, **did not directly instruct** the personnel in charge of bidding or their supervisors **to refrain from such bid coordination, nor did I take any decisive measures to prevent such conduct**, because I **prioritized the desire to secure Toho Pharmaceutical's sales and profits and to maintain its order share.**"

"In the pharmaceutical wholesale industry, which is often described as a low-margin, high-volume business, I believed that the quickest way **to secure sales and profits** was to continue existing trading relationships in pharmaceuticals and to maintain so-called *cho-ai* (preferred transactional relationships). **I also thought it was only natural that, for that purpose, there would be cases where bid coordination and similar practices would be necessary.**"

"At those meetings, **I exchanged suggestive remarks with executives of competing companies, saying things like, 'Let's continue to cooperate going forward.'** I understood such words to include the meaning that, at the time of pharmaceutical purchasing bids and the like, we would each yield where appropriate so that everyone could secure sales and profits, and **that we would coordinate orders among ourselves to manage things smoothly, and I responded accordingly.**"



# The Written Statements record That Top Management Themselves Regarded Misconduct as a "Necessary Evil" and That the Organization as a Whole Strategically Tolerated and Got Involved in Violations of Laws and Regulations (2/2)

COO Umada Testified that He Not Only Tolerated Bid-Rigging and Took No Corrective Action, but Also Personally Engaged in the Misconduct

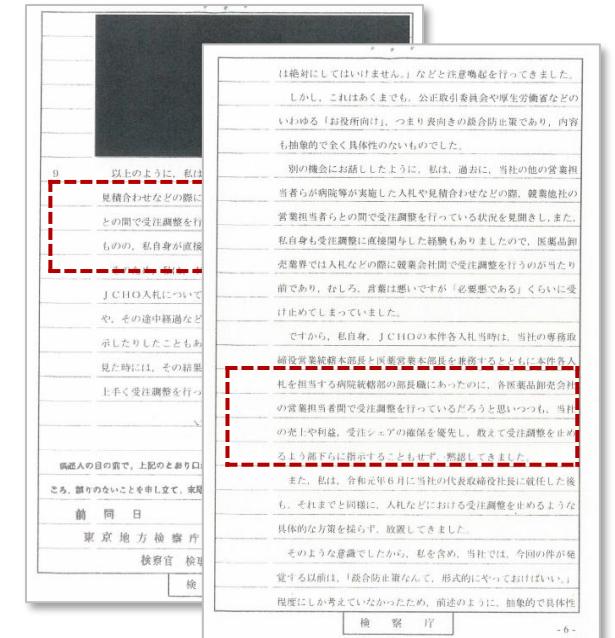


COO Umada

## Written statement by Mr. Umada from the prosecutor's questioning regarding JCHO

"In the past, I saw and heard situations in which other sales personnel at our company engaged in order coordination with sales personnel of competing pharmaceutical wholesalers at the time of bids or competitive quotations, and although the number of instances was small, **I myself also had experiences of directly participating in such order coordination.**"

"Although I assumed that sales personnel of each pharmaceutical wholesaler **were coordinating orders among themselves, I prioritized our company's sales, profits, and order share and therefore deliberately refrained from instructing my subordinates to stop such order coordination, effectively condoning it.**"



**This New Fact Shows that the Misconduct Was Not Limited to the Front Line but Was an Organizational Problem Stemming from Decisions and Lack of Control of Executive**

# The Written Statements Also Indicate that Similar Cases to the JCHO Bid-Rigging Incident Had Occurred in the Past

Both CEO Edahiro and COO Umada Testified that Similar Bid-Rigging Had Occurred Even Before the JCHO Bid-Rigging Case



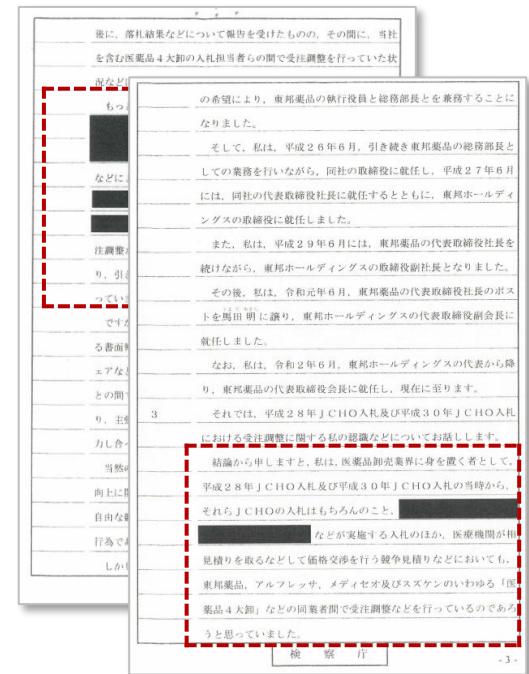
CEO Edahiro

## Written statement by Mr. Edahiro from the prosecutor's questioning regarding JCHO

"As someone working in the pharmaceutical wholesale industry, from the time of the 2016 JCHO tender and the 2018 JCHO tender onward, I believed that **not only for those JCHO tenders** but also for **[redacted]**, **orders were likely being coordinated among competitors, including Toho pharmaceutical, Alfresa, Mediceo, and Suzuken, the so-called 'Big Four' pharmaceutical wholesalers.**"

## Written statement by Mr. Umada from the prosecutor's questioning regarding JCHO

"However, based on my own past experience, **I had long been aware that**, in joint pharmaceutical tenders by JCHO **[redacted]** and others **[redacted]**, order coordination among pharmaceutical wholesalers, including our company, **was commonplace, and I understood that similar order coordination was continuing to take place.**"



# Statements Show that Directors, Including Mr. Edahiro and Mr. Umada, Previously Breached Their Duty of Due Care and Duty of Loyalty

Year In Which Each Case Was Exposed<sup>1</sup> :

2003

## Miyagi Prefecture Price Cartel Case

The period during which the written statements revealed the existence of similar cases that Mr. Edahiro and Mr. Umada tolerated or were involved in

### Mr. Edahiro's Positions

Toho Pharmaceutical  
2014–2022: Director  
2015–2022: Representative Director

HD  
2015–: Director  
2019–: Representative Director

### Mr. Umada's Positions

Toho Pharmaceutical  
2012–: Director  
2019–: Representative Director

HD  
2016–: Director

### Overview

- Ten pharmaceutical wholesalers formed a price cartel at a hotel in Sendai City
- It was ordered to pay a surcharge of 40 million yen

- “Recurrence prevention measures” were implemented in the Miyagi Prefecture case
- Nevertheless, Mr. Edahiro and Mr. Umada tolerated and were involved in similar cases
- They also failed to take appropriate corrective measures

- Four pharmaceutical wholesalers repeatedly engaged in bid rigging in connection with bids for pharmaceuticals ordered by JCHO
- An order was issued to pay a surcharge of 160 million yen, a fine of 250 million yen and settlement payments of 3.3 billion yen were incurred

- Six pharmaceutical wholesalers engaged in bid rigging in pharmaceutical tenders in the Kyushu area
- It was ordered to pay a surcharge of 130 million yen

2019

## JCHO Bid-Rigging Case

*The actual bid rigging occurred before 2019*

Parties: Toho Pharmaceutical  
Representative Director and Chairman

HD  
Director

Parties: Toho Pharmaceutical

HD  
Director

2021

## NHO Bid-Rigging Case

*The actual bid rigging occurred before 2021*

Parties: Kyushu Toho

HD  
Representative Director and CFO

Parties: Kyushu Toho

HD  
Director

### Details of the Breach of the Duty of Due Care and Duty of Loyalty

#### Breach of the Obligation to Establish Internal Controls<sup>2</sup>

- Although internal recurrence prevention measures were formulated after the bid-rigging sanction in 2003, bid-rigging continued to occur in succession in the JCHO case and the NHO case
- Although Mr. Edahiro and Mr. Umada were aware of bid rigging prior to the JCHO case, they took no corrective action
- This demonstrates a long-term breach by members of successive boards of directors of their obligation to establish internal controls, as they failed for a long time to build an effective control system

#### Breach of the Duty to Monitor<sup>3</sup>

- This constituted a breach of their duty to monitor as directors, and as a result they caused the company significant losses in the form of surcharges, settlement payments, and other costs
- This constituted a breach of their duty to monitor as directors, and as a result they caused the company enormous losses in the form of surcharges, settlement payments, and other costs

#### Breach of the Obligation to Preserve the Value of Subsidiary Shares<sup>4</sup>

- Although they were aware of legal violations and scandals that would lead to impairment of the value of subsidiary shares, they took no corrective action as directors of Toho HD
- As a result, the value of the subsidiary shares was impaired by surcharges and other penalties, demonstrating a breach of their obligation to preserve the value of the subsidiary shares

Source: Company Disclosure Materials; Various News Articles; Case 2020 (Tokuwa) No. 3100 Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada

Note: [1] The year in which Toho HD, Toho pharmaceutical, or Kyushu Toho was first publicly reported as being involved in the case (based on our research). Positions are as of the time when the case came to light or when the response was made; [2] The Obligation to Establish Internal Control Systems Is Stipulated in Article 399, Paragraph 1, Item 1 and Paragraph 2 of the Companies Act, and Its Content Is Specified in Article 110–4 of the Ordinance for Enforcement of the Companies Act. In Addition, the Status of Its Implementation Is Subject to Audit by the Audit and Supervisory Committee under Article 399–2, Paragraph 3, Item 1 and Article 130–2, Paragraph 1 of the Companies Act; [3] The duty of oversight is one aspect of directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and is also related to their duty of loyalty (Article 355 of the Companies Act); [4] The duty to preserve the value of subsidiary shares is an obligation derived from directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and duty of loyalty (Article 355 of the Companies Act).

# (Reference) In the Case of Seiki Tokyu Kogyo, a Shareholder Derivative Suit for Breach of the Duty to Monitor Resulted in an Award of Damages

## Overview and Timeline of the Case

- Seiki Tokyu Kogyo received a surcharge payment order from the JFTC for violations of the Antimonopoly Act committed between 2011 and 2015
- The company treated the surcharge imposed by the JFTC as a loss to the company, and shareholders filed a shareholder derivative lawsuit seeking damages from the representative director and directors who were involved in the case through their acts and omissions
- The court found not only the directors who were directly involved in the cartel, but also the representative director who, despite recognizing the existence of the Antimonopoly Act violations, condoned them and failed to take corrective measures, to be in breach of their duty of due care and duty of loyalty

Year and Month	Event
2011-2015	: Occurrence of an Asphalt Mixture Cartel
2017	: On-site investigation by the Japan Fair Trade Commission
2019/7	: Surcharge payment order by the Japan Fair Trade Commission
2019/12	: Disclosure of the investigation report.
2020/12	: Filing of shareholder derivative lawsuit
2022/3	: Judgment for the plaintiff (District Court)
2023/1	: Dismissal of appeal (High Court)

## Judgment and Assessment of the Shareholder Derivative Lawsuit<sup>1</sup>

Defendant	Position at the Time of the Cartel	Reason for the Lawsuit
Mr. A	Representative Director and President	<p>"Mr. A was fully aware of the conduct that constituted violations of the Antimonopoly Act and acts falling under the crime of bid rigging, but failed to fulfill his obligation to establish a compliance management system. Had he promptly introduced corrective measures and put an appropriate management system in place, the violations would not have occurred and the surcharge payment order would not have been imposed."</p> <p>—Plaintiff's Press Release Regarding The Filing Of The Shareholder Derivative Lawsuit</p>

"This judgment shows that even directors who did not directly participate in illegal acts have a legal obligation to take proactive measures to prevent such acts once they are aware that unlawful conduct is occurring within the company. Therefore, if a director was aware of other officers' violations of laws and regulations, there is a high likelihood that the director will be deemed to have neglected their duties, even if they were not personally involved."

Kato & Partners Law Office, Recent Important Case Law: Seiki Tokyu Kogyo Shareholder Derivative Lawsuit

## The Situation of Mr. A, Found Liable for Breach of the Duty of Due Care, Closely Resembles That of the Directors at the Time of the JCHO Case as Revealed in the Written Statements

Source: Plaintiff Disclosure Materials; Kato & Partners Law Office, "Recent Important Judicial Precedent: Seikitoku Kogyo Shareholder Derivative Suit (Tokyo High Court Judgment, January 26, 2023, LEX/DB:25595301)." Original Source Within the Citation: Michihito Iseda, "Case Study," Law and Politics, Vol. 74, No. 3

Note: [1]In this shareholder derivative lawsuit, the defendants are four individuals: A, Representative Director and President; B, Deputy General Manager of the Business Promotion Headquarters and General Manager of the Products Division; C, Director and General Manager of the Business Promotion Headquarters; and D, Director and Deputy General Manager of the Business Promotion Headquarters and General Manager of the Construction Department (all titles as of the time the cartel occurred). The court held that B, C, and D had neglected their duties to the company by recognizing and directly participating in the price cartel, which constituted an illegal act, and ruled that they bear liability for damages. [2] Refers to Century Tokyu Industries.

# There is a Risk that Directors may be Neglecting Their Duties (Failure to Exercise of Duty of Care) in the Ongoing Process, and There are Concerns about the Recurrence of Scandals in the Future

Year In Which Each Case Was Exposed<sup>1</sup> :

2003

Miyagi Prefecture Price Cartel Case

2019

JCHO Bid-Rigging Case

2021

NHO Bid-Rigging Case

2024

Nihon University Case

Present

Future

## Breach of the Duty of Due Care Owed by Directors of Toho HD and Toho Pharmaceutical at the Time the JCHO Bid-Rigging Case Was Exposed (See p.88)

- Despite Having Formulated Internal Recurrence Prevention Measures After the 2003 Bid-Rigging Sanction, Bid-Rigging Subsequently Occurred in Quick Succession in the JCHO Bid-Rigging Case and the NHO Bid-Rigging Case
- Although Mr. Edahiro and Mr. Umada Were Aware of Bid-Rigging Prior to the JCHO Bid-Rigging Case, They Took No Corrective Measures
- In the JCHO and NHO Bid-Rigging Cases, Significant Losses Were Incurred through Surcharges and Settlement Payments

Breach of the Obligation to Establish Internal Controls<sup>2</sup>

Breach of the Duty to Monitor<sup>3</sup>

Breach of the Obligation to Preserve the Value of Subsidiary Shares<sup>4</sup>

## Ongoing Breach of the Duty of Due Care Suspected for Current Directors

- 1 Despite the Written Statements Clearly Indicating Similar Scandals, Toho HD Continues to Avoid Fact-Finding and Root-Cause Investigation
- 2 Even for Already Exposed Cases of Organizational Misconduct, Toho HD Continues to Reject Third-Party Fact-Finding, Root-Cause Investigation, and Recurrence Prevention Measures, Repeatedly Refusing Our Requests to Establish an Independent Committee

## Failure to Fulfill the Obligation to Establish Internal Controls

- Toho HD Neglects Not Only Third-Party Fact-Finding and Root-Cause Investigation but Even Basic Confirmation of Clearly Existing Scandals
- If Toho HD Continues to Neglect Its Obligation to Establish Internal Controls, It Will Leave the Risk of Future Scandals Recurring at an Unacceptably High Level

## Responsibilities of Current Directors

- If Toho HD Continues to Neglect Its Obligation to Establish Internal Controls, It Will Leave the Risk of Future Scandals Recurring at an Unacceptably High Level
- In that case, new scandals could occur again, potentially causing losses through surcharges, settlement payments, and other penalties
- Given that we have repeatedly called for effective recurrence prevention measures and pointed out the potential breach of the duty of due care and duty of loyalty, any future occurrence of scandals or losses would have to be regarded as extremely egregious

Breach of the Obligation to Establish Internal Controls<sup>2</sup>

Breach of the Duty to Monitor<sup>3</sup>

Breach of the Obligation to Preserve the Value of Subsidiary Shares<sup>4</sup>

Source: Case 2020 (Tokuwa) No. 3100Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada

Note: [1] The year in which Toho HD, Toho pharmaceutical, or Kyushu Toho was first publicly reported as being involved in the case (based on our research). Positions are as of the time when the case came to light or when the response was made; [2] The Obligation to Establish Internal Control Systems Is Stipulated in Article 399, Paragraph 1, Item 1 and Paragraph 2 of the Companies Act, and Its Content Is Specified in Article 110-4 of the Ordinance for Enforcement of the Companies Act. In Addition, the Status of Its Implementation Is Subject to Audit by the Audit and Supervisory Committee under 399-2, Paragraph 3, Item 1 and Article 130-2, Paragraph 1 of the Companies Act; [3] The duty of oversight is one aspect of directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and is also related to their duty of loyalty (Article 355 of the Companies Act); [4] The duty to preserve the value of subsidiary shares is an obligation derived from directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and duty of loyalty (Article 355 of the Companies Act).

# ① Even When Undisclosed Scandals Are Suspected, Toho HD Makes No Effort to Conduct Fact-Finding or Root-Cause Investigation

## When Scandals Are Suspected, Fact-Finding and Root-Cause Investigation Are Essential

"every listed company thus **needs to respond resolutely to any scandal or signs of a potential problem** concerning its operations (or those of its group companies) **by quickly conducting a thorough factual investigation into the matter, clearly identifying the root causes**, and using its findings to implement measures for preventing the problem from recurring. Listed companies **are under enormous pressure to exercise this 'self-cleaning' process.**"

Japan Exchange Group  
Principles for Responding to Corporate Scandals

"Once a company becomes aware of indications of a scandal, it must promptly commence an investigation. There are many cases where companies, despite having information about a scandal, delayed starting an investigation or focused on finding ways to justify the situation instead, failed to act, and **ultimately worsened the problem to the point of suffering fatal damage.**"

Mori Hamada & Matsumoto LPC  
Legal Practice for Corporate Crises and Scandal Response(Translated)

"As a responsibility of top management, **if a scandal should occur, the CEO must personally take the lead in conducting fact-finding and root-cause investigation, implementing thorough recurrence prevention measures, and fulfilling the duty to explain**, and then, with clear authority and accountability, impose strict disciplinary measures, including on themselves."

Japan Federation of Economic Organizations  
Implementation Guidance on the Charter of Corporate Behavior (Translated)

## However, at Toho HD, Even the Outside Directors Responsible for Oversight Have Made No Attempt to Take Such Actions, without Reasonable Grounds

- The outside directors categorically stated that "Personally, I feel that this has now brought all the problems to light." and I do not believe there is anything else of this level or scale" even though no objective investigation, such as digital forensics<sup>1</sup>, had yet been conducted to determine whether similar cases existed

(Mr. Kamoya) "Personally, I feel that **this has now brought all the problems to light**"  
(Mr. Goto) "**I do not believe there is anything else of this level or scale.**"

Minutes of Outside Director Interviews (Translated)

- Even when asked to explain the basis for these views, they relied only on subjective and qualitative impressions, showing a disregard for objective fact-finding

(Mr. Kamoya) "Even just the bid-rigging issue alone, I have confirmed on site that the MS staff in the field **no longer have any such discussions at all with other wholesalers and that the situation has been cleaned up so that these conversations simply do not take place anymore.**"

(Mr. Kamoya) "**By frequently visiting the front line, I personally understand** that compliance with laws and regulations, which forms the basis for conduct, **is being thoroughly observed**. I have directly seen that all MS staff are acting with the awareness that the entire company must never again be involved in bid-rigging. I therefore recognize that 'this is being firmly enforced."

Minutes of Outside Director Interviews (Translated)

## 2 Despite Exposed Organizational Scandals, Toho HD Refuses Third-Party Fact-Finding and Recurrence Prevention Measures

### Companies That Have Experienced Organizational Scandals Must Conduct Third-Party Investigations and Establish Recurrence Prevention Measures

**In particular, for cases involving company-wide or organizational misconduct (including cases in which officers or other members of senior management are involved)** (Omitted), from the standpoint of accountability to stakeholders and restoring trust from society, **it is necessary to choose an investigative framework neutrality and independence**. In such cases, **it becomes necessary to consider establishing a third-party committee** in accordance with the "Guidelines on Third-Party Committees in Corporate Misconduct Cases" formulated by the Japan Federation of Bar Associations."

Mori Hamada & Matsumoto LPC  
Legal Practice for Corporate Crises and Scandal Response (Translated)

"Therefore, when a risk is detected, **external experts should be engaged** without hesitation so that the case can be addressed efficiently and appropriately."

Japan Audit & Supervisory Board Members Association  
Recommendations on the Response of Audit & Supervisory Board Members When Serious Corporate Scandals Are Suspected (Translated)

### Nevertheless, Toho HD Has Conducted No Third-Party Investigation into Past Bid-Rigging Cases, Repeatedly Rejecting Our Requests

- Toho HD has repeatedly been involved in bid-rigging cases in the past, but in none of these instances did it commission an investigation by a third-party committee

Case Name	Toho HD's Response	Establishment of Third-Party Committee
Miyagi Prefecture Price Cartel Case	Only an internal investigation conducted for the purpose of drafting a code of ethics	✗
JCHO Bid-Rigging Case	Only an internal investigation conducted by a committee composed solely of internal personnel	✗
NHO Bid-Rigging Case	Only periodic internal investigations conducted by the same committee	✗
Nihon University Case	An investigation conducted by the Special Committee for Governance Enhancement, but the committee's independence is in doubt	✗

- We have repeatedly requested that independent third parties determine the facts and develop recurrence prevention measures based on those findings, but Toho HD has rejected all of these requests

"With respect to the Antimonopoly Act violations and the matters related to Nihon University-affiliated hospitals that you have pointed out, our understanding is that Toho HD has appropriately completed its own investigations and has implemented recurrence prevention and improvement measures. (Omitted) Accordingly, **we do not consider it necessary to establish a third-party investigation committee.**"

Letter from Toho HD's Board of Directors to our company (August 20, 2025)(Translated)

Repeated with some modifications from "The Pathologies Undermining Toho HD's Corporate Value" published by us in December 2025

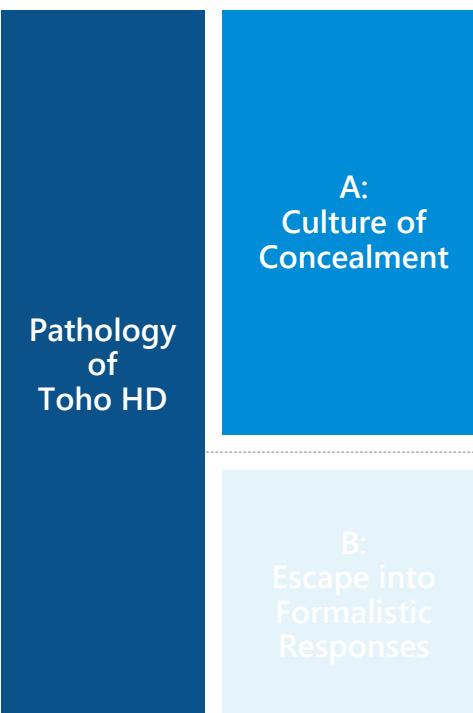
## **Appendix2 : Pathology of Toho HD and the Cycle of Corporate Value Destruction**

# The Pathology Behind Toho HD's Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

Pathology of Toho HD		Overview of the Pathology	Events Illustrating the Pathology
	A: Culture of Concealment	B: Escape into Formalistic Responses	
		<ul style="list-style-type: none"><li>■ Management and overseers have condoned inconvenient facts such as misconduct as a "necessary evil," not only refusing to face the problems but also seeking to avoid trouble by concealing the facts</li></ul>	<div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>1</p></div><div>Endorsement of Misconduct as a "Necessary Evil"</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>2</p></div><div>Rejection of "Objective Review" of Misconduct</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>3</p></div><div>Disregard of Misconduct and False Explanations to Shareholders</div></div>
		<ul style="list-style-type: none"><li>■ When pressed by external parties to make improvements, they implement hollow, purely formal measures that bring about no real change, merely to create an alibi of having "responded," and thereby avoid undertaking fundamental reforms</li></ul>	<div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>1</p></div><div>Recurrence Prevention Measures as a "For the Authorities" Ritual</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>2</p></div><div>Alibi-Making Through "Findings Without Investigation"</div></div>

# The Pathology Behind Toho HD's Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

Repeat



## Overview of the Pathology

- Management and overseers have condoned inconvenient facts such as misconduct as a "necessary evil," not only refusing to face the problems but also seeking to avoid trouble by concealing the facts

## Events Illustrating the Pathology

- 1 Endorsement of Misconduct as a "Necessary Evil"
- 2 Rejection of "Objective Review" of Misconduct
- 3 Disregard of Misconduct and False Explanations to Shareholders

Explained in Detail on the Following Pages

- When pressed by external parties to make improvements, they implement hollow, purely formal measures that bring about no real change, merely to create an alibi of having "responded," and thereby avoid undertaking fundamental reforms

- 1 Recurrence Prevention Measures as a "For the Authorities" Ritual
- 2 Alibi-Making Through "Findings Without Investigation"

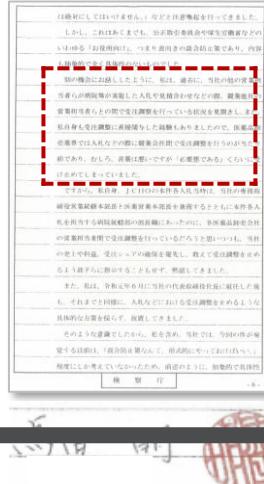
# A Culture of Concealment (1/4): Toho HD Condoned Misconduct as a “Necessary Evil” for Business Continuity and the Company

## A-①Endorsement of Misconduct as a “Necessary Evil”

### The Written Statements Show that Executives Defined Misconduct as an “Indispensable Element of the Business”

#### COO Umada Tolerated and Participated in Order Coordination as a “Necessary Evil”

- In his Written Statement to the Public Prosecutors Office, current COO Akira Umada clearly stated that past bid-rigging was “I had essentially viewed it as a ‘necessary evil’”

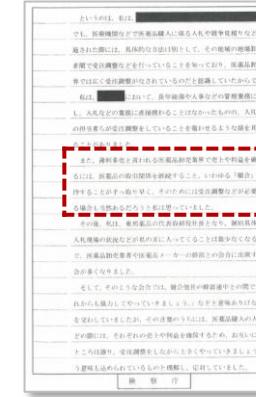


*I (Omitted), however, had come to regard it as perfectly normal in the pharmaceutical wholesale industry for competing companies to coordinate orders in connection with bids and the like, and, although the expression is inappropriate, I had essentially viewed it as a ‘necessary evil’.*

Written statement by Mr. Umada from the prosecutor's questioning regarding JCHO (Translated)

#### CEO Edahiro Also Regarded Order Coordination as Strategically Necessary and Tacitly Approved It

- Current CEO Hiromi Edahiro similarly stated that “to secure profits, it is naturally sometimes necessary to engage in order coordination and similar practices”



*In the low-margin, high-volume pharmaceutical wholesale industry, I believed that maintaining the existing business relationship was the easiest way to secure sales and profits, and that, for that purpose, it was naturally sometimes necessary to engage in order coordination and similar practices.*

Written statement by Mr. Edahiro from the prosecutor's questioning regarding JCHO (Translated)

# A Culture of Concealment (2/4): Despite the Written Statements Showing Similar Bid-Rigging Cases, Toho HD Asserts that No Further Investigation Is Necessary without Reasonable Grounds

## A-② Rejection of “Objective Review” of Misconduct (1/2)

### When Scandals Are Suspected, Fact-Finding and Root-Cause Investigation Are Essential

“every listed company thus **needs to respond resolutely to any scandal or signs of a potential problem** concerning its operations (or those of its group companies) **by quickly conducting a thorough factual investigation into the matter, clearly identifying the root causes**, and using its findings to implement measures for preventing the problem from recurring. Listed companies **are under enormous pressure to exercise this ‘self-cleaning’ process.**”

Japan Exchange Group  
Principles for Responding to Corporate Scandals

“**Once a company becomes aware of indications of a scandal, it must promptly commence an investigation.** There are many cases where companies, despite having information about a scandal, delayed starting an investigation or focused on finding ways to justify the situation instead, failed to act, and **ultimately worsened the problem to the point of suffering fatal damage.**”

Mori Hamada & Matsumoto LPC  
Legal Practice for Corporate Crises and Scandal Response (Translated)

“As a responsibility of top management, **if a scandal should occur, the CEO must personally take the lead in conducting fact-finding and root-cause investigation, implementing thorough recurrence prevention measures, and fulfilling the duty to explain**, and then, with clear authority and accountability, impose strict disciplinary measures, including on themselves.”

Japan Federation of Economic Organizations  
Implementation Guidance on the Charter of Corporate Behavior (Translated)

### However, without Reasonable Grounds, Toho HD Asserts that No Similar Cases Exist

(Mr. Kamoya) “Personally, I feel that **this has now brought all the problems to light.**”  
(Mr. Goto) “**I do not believe there is anything else of this level or scale.**”

Minutes of Outside Director Interviews (Translated)

(Mr. Kamoya) “Even just the bid-rigging issue alone, I have confirmed on site that the MS staff in the field **no longer have any such discussions at all with other wholesalers and that the situation has been cleaned up so that these conversations simply do not take place anymore.**”

(Mr. Kamoya) “**By frequently visiting the front line, I personally understand** that compliance with laws and regulations, which forms the basis for conduct, **is being thoroughly observed.** I have directly seen that all MS staff are acting with the awareness that the entire company must never again be involved in bid-rigging. I therefore recognize that ‘this is being firmly enforced.’”

Minutes of Outside Director Interviews (Translated)

# A Culture of Concealment (3/4): While the Written Statements Clearly Show Organizational Scandals, Toho HD Firmly Refuses Any Third-Party Investigation

## A-② Rejection of “Objective Review” of Misconduct (2/2)

### Companies that Experience Organizational Scandals Must Conduct Third-Party Investigations and Establish Recurrence Prevention Measures

**“In particular, for cases involving company-wide or organizational misconduct (including cases in which officers or other members of senior management are involved) (Omitted),** from the standpoint of accountability to stakeholders and restoring trust from society, **it is necessary to choose an investigative framework neutrality and independence.** In such cases, **it becomes necessary to consider establishing a third-party committee** in accordance with the “Guidelines on Third-Party Committees in Corporate Misconduct Cases” formulated by the Japan Federation of Bar Associations.”

Mori Hamada & Matsumoto LPC  
Legal Practice for Corporate Crises and Scandal Response (Translated)

“Therefore, when a risk is detected, **external experts should be engaged** without hesitation so that the case can be addressed efficiently and appropriately.”

Japan Audit & Supervisory Board Members Association  
Recommendations on the Response of Audit & Supervisory Board Members When Serious Corporate Scandals Are Suspected (Translated)

### Nevertheless, Toho HD Has Not Conducted Any Third-Party Investigation into Past Bid-Rigging Cases and Has Repeatedly Rejected Our Requests

“While we acknowledge your request that we establish a third-party committee to conduct an investigation, we do not believe that our current governance structure has the deficiencies you have pointed out. We also consider that we have responded appropriately to each of the matters you have raised. Accordingly, **we do not consider it necessary to establish a third-party committee.**”

Letter from Toho HD’s Board of Directors to our company (April 11, 2025) (Translated)

“We sincerely acknowledge the need to improve aspects of our response at that time and have already implemented various measures to enhance and strengthen our governance. Accordingly, we have concluded that, contrary to 3D’s assertion, **there is no need to establish a third-party committee.**”

Our Position on the Claims Made by 3D Company (June 4, 2025) (Translated)

“With respect to the Antimonopoly Act violations and the matters related to Nihon University-affiliated hospitals that you have pointed out, our understanding is that we have appropriately completed our own investigations and have implemented recurrence prevention and improvement measures. In addition, as noted above, we have not confirmed any facts indicating that either advisor exerted improper influence on our management. However, the Final Report of the Special Committee for Governance Enhancement includes recommendations on revising or abolishing the advisor system, and we plan to implement improvements in line with those recommendations. Accordingly, **we do not consider it necessary to establish a third-party investigation committee.**”

Letter from Toho HD’s Board of Directors to our company (August 20, 2025) (Translated)

# A Culture of Concealment (4/4): At the Previous Annual General Meeting, Toho HD Concealed the Written Statements from Shareholders and Hid the Existence of Similar Bid-Rigging Cases and Management's Involvement in Scandals

## A-③ Disregard of Misconduct and False Explanations to Shareholders

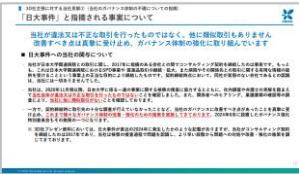
Despite Clear Evidence of Misconduct Similar to Past Scandals, Toho HD Told Shareholders that No Similar Misconduct Exists

- The Written Statements make it clear that similar order coordination had been conducted

"As someone working in the pharmaceutical wholesale industry, from the time of the 2016 JCHO tender and the 2018 JCHO tender onward, I believed that **not only for those JCHO tenders** but also for **[redacted]**, **orders were likely being coordinated among competitors, including Toho pharmaceutical, Alfresa, Mediceo, and Suzuken, the so-called 'Big Four' pharmaceutical wholesalers.**"

Written statement by Mr. Edahiro from the prosecutor's questioning regarding JCHO (Translated)

- However, at the previous Annual General Meeting, Toho HD told shareholders that there were no cases similar to the past scandals



"We (**Omitted**) have confirmed that we did not engage in any illegal or improper transactions ourselves. In addition, through interviews with relevant parties and reviews of approval documents, **we have confirmed that there are no other similar transactions at our company.**"

Toho HD  
Our Position on the Claims Made by 3D Company (Translated)

Despite Current Management's Tolerance and Involvement in Misconduct, Toho HD Hid These Facts from Shareholders and Manipulated Perceptions of Directors' Fitness

- The Written Statements also clearly shows that the current management tolerated and was involved in bid-rigging and other misconduct

(CEO Edahiro) "I understood such words to include the meaning **(Omitted) that we would coordinate orders among ourselves to manage things smoothly, and I responded accordingly.**"

(COO Umada) "I saw and heard situations in which other sales personnel at our company engaged in order coordination **(Omitted), I myself also had experiences of directly participating in such order coordination.**"

Written statement by Mr. Edahiro and Mr. Umada from the prosecutor's questioning regarding JCHO (Translated)

- Nevertheless, at the previous Annual General Meeting, Toho HD presented Mr. Edahiro as if he were a good-faith third party, and provided no explanation at all regarding Mr. Umada



"**Precisely because he is familiar with how past misconduct occurred**, he has a deeper understanding than anyone else of our company's challenges and problems, and we believe **he is well suited to take the lead in formulating and implementing recurrence prevention measures** that make use of that experience."

Toho HD  
Our Position on the Claims Made by 3D Company (Translated)

# The Pathology Behind Toho HD's Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

Repeat

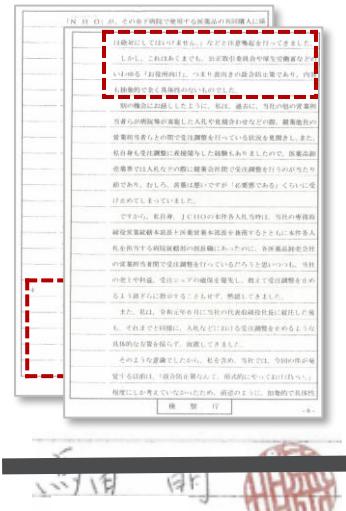
Pathology of Toho HD	A: Culture of Concealment	Overview of the Pathology	Events Illustrating the Pathology
	B: Escape into Formalistic Responses		
		<ul style="list-style-type: none"><li>■ Management and overseers have condoned inconvenient facts such as misconduct as a "necessary evil," not only refusing to face the problems but also seeking to avoid trouble by concealing the facts</li></ul>	<div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>1</p></div><div>Endorsement of Misconduct as a "Necessary Evil"</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>2</p></div><div>Rejection of "Objective Review" of Misconduct</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>3</p></div><div>Disregard of Misconduct and False Explanations to Shareholders</div></div>
		<ul style="list-style-type: none"><li>■ When pressed by external parties to make improvements, they implement hollow, purely formal measures that bring about no real change, merely to create an alibi of having "responded," and thereby avoid undertaking fundamental reforms</li></ul>	<div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>1</p></div><div>Recurrence Prevention Measures as a "For the Authorities" Ritual</div></div> <div style="display: flex; justify-content: space-between;"><div style="text-align: center;"><p>2</p></div><div>Alibi-Making Through "Findings Without Investigation"</div></div> <div style="text-align: right; margin-top: 10px;"><p>Explained in Detail on the Following Pages</p></div>

# B Escape into Formalistic Responses (1/2): Recurrence Prevention Measures for Past Scandals Have Been Bureaucratic Rituals to Show "We Responded," Not to Change the Status Quo

## B-① Recurrence Prevention Measures as a "For the Authorities" Ritual

### COO Umada Has Admitted that Past Recurrence Prevention Measures Were Merely "For the Authorities"

- COO Umada has admitted that the past recurrence prevention measures were "essentially measures 'for the authorities'" " they were outward-facing anti-bid-rigging measures, and their contents were abstract and entirely lacking in specificity"

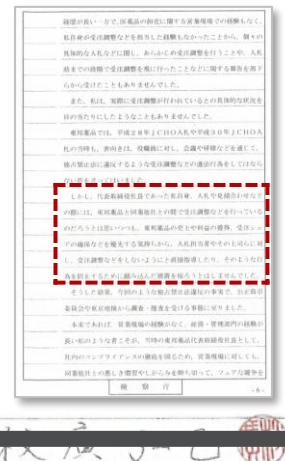


"With respect to the recurrence prevention measures that the Toho Group has been implementing, (Omitted) they were essentially measures 'for the authorities,' such as the Japan Fair Trade Commission and the Ministry of Health, Labour and Welfare. In other words, **they were outward-facing anti-bid-rigging measures, and their contents were abstract and entirely lacking in specificity.**"

Written statement by Mr. Umada from the prosecutor's questioning regarding JCHO (Translated)

### CEO Edahiro Has Also Admitted that No Substantive Recurrence Prevention Measures Were Taken

- CEO Edahiro has acknowledged that, although he outwardly declared such practices prohibited, in reality he "prioritized securing sales, profits, and order share," and therefore did not take decisive measures



"As president and representative director at the time, although I (Omitted), suspected that order coordination and similar practices were taking place, **my desire to prioritize securing Toho pharmaceutical's sales, profits, and order share** meant that I neither gave direct instructions to the bidding staff or their supervisors not to engage in such conduct, **nor did I take decisive measures to prevent these practices.**"

Written statement by Mr. Edahiro from the prosecutor's questioning regarding JCHO (Translated)

# B Escape into Formalistic Responses (2/2): Even the Special Committee for Governance Enhancement Rejects Consideration of Fundamental Reforms and Escapes into Drafting Formalistic Recurrence Prevention Measures Merely to Create an Alibi

## B-② Alibi-Making Through “Findings Without Investigation”

### The Special Committee for Governance Enhancement Completely Abandoned Fact-Finding and Root-Cause Analysis of Past Events and Proceeded Directly to Draft Recurrence Prevention Measures

- The recently established Special Committee for Governance Enhancement declared at the outset that it is “not an investigative committee,” thereby abandoning any fact-finding regarding past events

“The Special Committee for Governance Enhancement (*Omitted*) is a committee whose purpose is to strengthen governance, and is **not a so-called investigative committee whose purpose is to investigate past misconduct and pursue the responsibility of those involved.**”

The Special Committee for Governance Enhancement Final Report (Translated)

- Chairperson Mr. Takai has publicly stated that “the premise that causes cannot be understood without conducting an investigation is mistaken,” and prepared the report based on his own formula that is not grounded in facts

“First of all, this is not an investigative body. **The premise that causes cannot be understood without conducting an investigation is itself mistaken.**”

“**The formula is in my head.** The formula itself is not a subject of discussion. If we were to start debating the formula, I would obviously win.”

Minutes of the Interview with the Chairperson of the Special Committee for Governance Enhancement (Translated)

As a Result, the Special Committee for Governance Enhancement’s Report Remained Extremely General and Abstract

- The resulting recurrence prevention measures, lacking any foundation in objective facts, consisted only of moral exhortations and generic organizational theory, and were broad, abstract, and self-serving



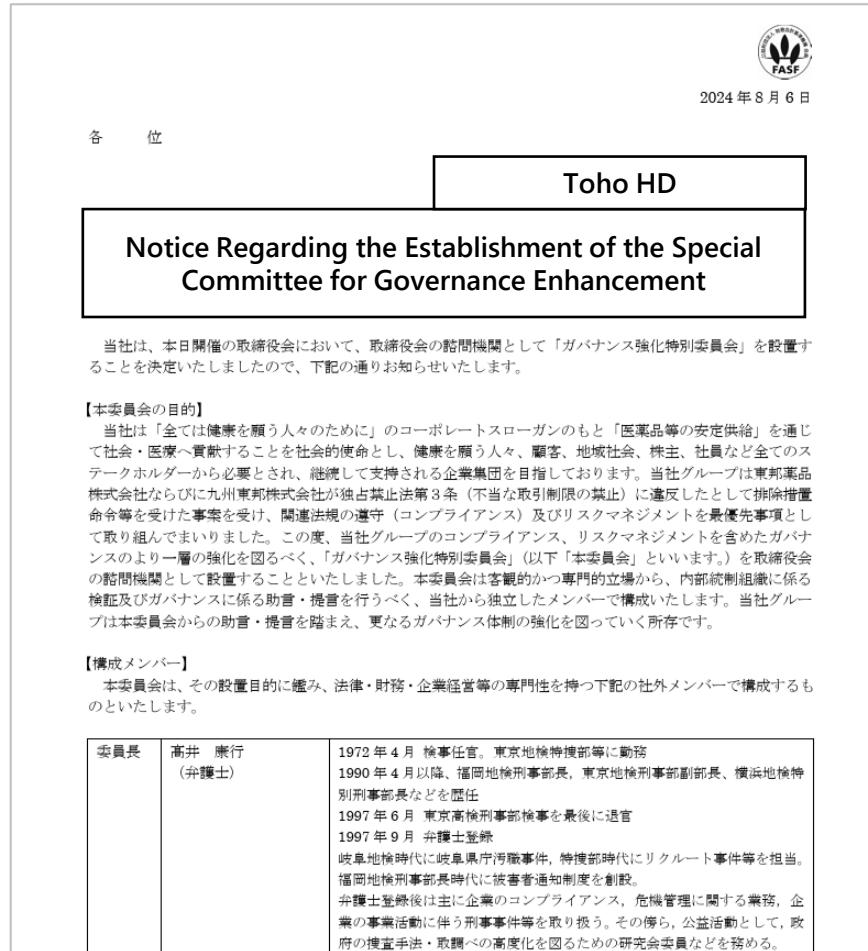
#### Recommendations in the Final Report

- 1 Strengthening and enhancement of the Board of Directors and related bodies
- 2 Strengthening and clarification of the authority of CGO
- 3 Clarification of the appointment criteria and roles of Senior Advisors, Advisors, and Consultants
- 4 Rationalization of each committee and clarification of its authority and role
- 5 Strengthening governance over subsidiaries
- 6 Enhancing the effectiveness of audits
- 7 Objectivity and Fairness in Personnel Matters
- 8 Tightening of contract procedures
- 9 Rationalization and objectification of decision-making by the Investment Committee
- 10 Continuous review of various rules and thorough, enhanced training
- 11 Speeding up, proper handling, and documentation of responses to misconduct
- 12 Establishment of an effective internal whistleblowing system

All of the recommendations remain self-serving in nature (for details, see p.106–108)

By Rejecting Objective Fact-Finding and Relying on Abstract “Ideal State” Discussions, This Process Becomes Mere “Alibi-Making” to Appear Responsive to External Criticism and Symbolizes Escape into Formalistic Responses

# (Reference) Overview of the Special Committee for Governance Enhancement



**Fact-finding and cause analysis of misconduct are outside the scope.**

"(This Committee) is not a so-called investigative committee whose purpose is to investigate past misconduct and pursue the responsibility of those involved."

The Special Committee for Governance Enhancement  
Final Report

- | Content   |   |
|-----------|---|
| Purpose   | <ul style="list-style-type: none"><li>■ <b>Formulation of recurrence prevention measures</b> for legal violations and improper transactions<ul style="list-style-type: none"><li>- Verification of internal control organizations and provision of advice and recommendations on governance from an objective and expert standpoint<sup>1</sup></li></ul></li></ul>   |
| Period    | <ul style="list-style-type: none"><li>■ Toho HD announced the establishment of the Special Committee for Governance Enhancement in August 2024</li><li>■ The interim report was issued on February 7, 2025</li><li>■ The final report was issued in October 2025</li></ul>  |
| Structure | <ul style="list-style-type: none"><li>■ It is composed of the following three external members, who have expertise in law, finance, and corporate management<ul style="list-style-type: none"><li>- Chairperson: Mr. Yasuyuki Takai</li><li>- Member: Outside Director Mr. Hidehito Kotani</li><li>- Member: Outside Director Ms. Chie Goto</li></ul></li><li>■ Secretariat: Toho HD Legal Department, Corporate Strategy Division, and Corporate Planning Department</li></ul> |

# (Reference) We Were Concerned from the Outset that the Special Committee for Governance Enhancement's Reports Would Be Overly Broad, Abstract, and Self-Serving

## In Formulating Recurrence Prevention Measures, It Is Essential to Tailor Them Based on the Findings of Investigations into Past Scandals

"In working to identify the root causes of a scandal, a company should first establish the necessary and sufficient investigative scope and then go beyond simply examining phenomena and listing causal relationships on a superficial level. **A proper investigation entails looking closely at the deeper contextual background of the problem, finding hard facts, and delineating the fundamental causes at the heart of the scandal.** (Omitted) To prevent a scandal from recurring, a company should formulate highly effective policies that directly address the root causes of the issue and implement them swiftly and steadily."

Japan Exchange Group  
Principles for Responding to Corporate Scandals

"It goes without saying that any "recommendations" (such as recurrence prevention measures) must be specific and concrete, based on a thorough fact-finding investigation, and most appropriate for the company that caused the misconduct, in light of the actual situation, causes, and organizational problems that have been identified."

Japan Federation of Bar Associations, Committee on Reform of Attorney Work  
Commentary on "the Guidelines for Third-Party Committees in Corporate Misconduct Cases" (Translated)

"For the management of the Group headquarters and each Group company, (Omitted) as ex-post measures, **it is also important to** take swift action for the early detection of misconduct and the minimization of damage, as well as to **identify the root causes and implement recurrence prevention measures based on them.**"

Ministry of Economy, Trade and Industry  
Practical Guidelines for Group Governance Systems (Group Guidelines) (Translated)

## We Were Concerned that, without Investigating Past Scandals, Recurrence Prevention Measures Would Not Be Tailored to Toho HD and Would Lack Effectiveness

■ From the moment past scandals were excluded from the scope of the investigation, we were concerned that the recurrence prevention measures would become broad and lose effectiveness, and we in fact advised Toho HD of this risk



"The scope of the Special Committee for Governance Enhancement is limited to "formulating recurrence prevention measures." In addition, **without first establishing a foundation through investigations and cause analyses of specific past misconduct and compliance issues at your company, as well as a comprehensive review of whether similar problems exist and the identification of the fundamental causes based on such review**, the committee's work is confined to examinations based on the categorization of compliance issues using the expertise of its members. As a result, **there is a risk that specific, concrete compliance issues unique to your company may be overlooked**, and therefore the appropriateness of its scope is in doubt."

Letter from our company to the Board of Directors of Toho HD  
(Translated)



# (Reference) In Practice, the Final Report of the Special Committee for Governance Enhancement Was a Broad-Brush, Highly Abstract and Self-Serving Document

The recommendation items are all generic and cover a wide range of areas.

The substance of the recommendations is also extremely abstract.

Recommendation Item	Recommendation Details (Excerpt)	Basis for "Self-Serving" Nature
1 Strengthening and enhancement of the Board of Directors and related bodies	1 The Representative Director should place the highest priority on governance and compliance, remain constantly self-aware and self-reflective so as not to become arbitrary in decision-making, and should always encourage the expression of dissenting and minority opinions and endeavor to assess them appropriately.	With respect to a Representative who is alleged to failure to exercise the Duty of Due Care, this amounts to nothing more than a subjective and abstract recommendation to "be mindful," and serves to divert the discussion from the specific sanctions that should in fact be considered.
2 Strengthening and clarification of the authority of CGO <sup>1</sup>	(1) ① To take the lead in the overall design, establishment, maintenance, and improvement of the group-wide governance framework. (4) To contribute to the creation of a free and open corporate culture by drawing out and reflecting minority opinions within the group.	Mr. Matsuya, who is alleged to have been involved in the bid-riddng as Vice President during the JCHO bid-riddng case, and as President during the NHO bid-riddng case, as CGO1, is plainly unfit to occupy a position that should be leading governance reform and the creation of a free and open corporate culture.
3 Clarification of the appointment criteria and roles of Senior Advisors, Advisors, and Consultants	(4) As an exception, a person may be appointed as a Senior Advisor or Advisor only when the Nomination and Compensation Committee determines that, for the development of the Toho Group, that person's insights, expertise, information, etc. are irreplaceable and cannot be substituted by anyone else.	In May 2025, following an internal whistleblower report through which we became aware of and pointed out the appointments of Mr. Kato and Mr. Morikubo <sup>1</sup> as Advisors, this recommendation was presented. However, the stated "exceptional grounds" are, in substance, identical to the explanation Toho HD had previously given to our company regarding their appointments, and ultimately do nothing more than preserve a loophole that allows unsuitable individuals to continue to be appointed as Senior Advisors, Advisors, or Consultants and to provide a pretext for justifying such appointments.
4 Rationalization of each committee and clarification of its authority and role	2 The chair of the Compliance Committee shall be CGO1, and his principal authorities and responsibilities shall be:① formulation of the basic policy and internal rules on compliance;② monitoring the status of compliance promotion; ③ deliberation and formulation of response measures and recurrence-prevention measures regarding compliance violations;④ supervision of the Compliance Promotion Department; and⑤ periodic reporting to the Board of Directors on the operation of the whistleblowing system and related matters.	Mr. Matsuya, who is alleged to have been involved in the bid-riddng as Vice President during the JCHO bid-riddng case, and as President of Kyushu Toho during the NHO bid-riddng case, as CGO <sup>2</sup> , serves as chair of both the Compliance Committee and the Risk Committee.
5 Strengthening governance over subsidiaries	1 There is an urgent need to formulate unified governance rules and standards for the entire Toho Group, to standardize governance criteria and clarify the authority and responsibilities of each subsidiary and department.	The proposal merely recommends the formulation of such governance rules and standards, without referring to any specific provisions or criteria.
6 Enhancing the effectiveness of audits	The primary purpose of audits is not to discover illegal, improper, or inappropriate acts after the fact, but to prevent such acts in advance. To achieve this, audits must be conducted in a manner that is truly effective, rather than as mere box-ticking exercises that simply confirm a predetermined harmony.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. The report does nothing more than enumerate abstract recommendations in general terms, and its content contributes nothing to any substantive governance reform at our company.

Source: Toho HD, "Regarding Receipt of the Final Report of the Special Committee for Governance Enhancement and Our Policy for Responding to the Recommendations"

Notes : [1] Mr. Kato served as Representative Director and President of Toho HD at the time of both the Nihon University Hospital incident and the JCHO bid-rigging case. Mr. Morikubo was, at the time of the Nihon University Hospital incident, a Senior Managing Director of Toho HD responsible for overseeing the pharmaceutical business, and at the time of the JCHO bid-rigging case, Chairman and Representative Director of Toho pharmaceutical. ; [2] Abbreviation of Chief Governance Officer

# (Reference) In Practice, the Final Report of the Special Committee for Governance Enhancement Was a Broad-Brush, Highly Abstract and Self-Serving Document

The recommendation items are all generic and cover a wide range of areas.

The substance of the recommendations is also extremely abstract.

Recommendation Item	Recommendation Details (Excerpt)	Basis for "Self-Serving" Nature
7 Objectivity and Fairness in Personnel Matters	Preamble: Personnel decisions all too often involve favoritism or reflect the personal likes and dislikes of certain individuals. Whether employees' abilities are evaluated objectively and fairly, without such favoritism, whether they are given positions appropriate to them, and whether employees trust the company's personnel system are all factors that directly determine the growth or decline of the organization.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. <b>The report does nothing more than enumerate abstract recommendations in general terms</b> , and its content contributes nothing to any substantive governance reform at our company.
8 Tightening of contract procedures	It goes without saying that contract procedures should be made more stringent, and at a minimum, with respect to contracts with new counterparties, the Company should institutionalize confirmation of the following matters: ① that the counterparty has real substance; ③ that the terms of the contract are reasonable and appropriate; <i>(Omitted)</i> ⑤ the status of performance of the contract.	This is merely an abstract list of obvious, generic cautions regarding contract procedures, and <b>as a recommendation to a company that lacks ethics in its contractual dealings, it has no practical effectiveness whatsoever.</b>
9 Rationalization and objectification of decision-making by the Investment Committee	As a general matter, there are numerous past examples in which, under autocratic management, corporate assets have been used in unreasonable or arbitrary ways. To avoid repeating such mistakes, it is necessary at this juncture to reassess how decisions are made by the Investment Committee and to establish institutional safeguards to ensure that its decisions are based solely on economic rationality.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. <b>The report does nothing more than enumerate abstract recommendations in general terms</b> , and its content contributes nothing to any substantive governance reform at our company.
10 Continuous review of various rules and thorough, enhanced training	To prevent illegal acts and other misconduct in advance, it is necessary for officers and employees to be thoroughly familiar with what kinds of conduct constitute violations of law. To that end, it is essential to establish appropriate rules and to implement thorough and effective training based on those rules.	<b>This is no different from the recurrence-prevention training (cautionary notice) conducted at the time of the JCHO bid-rigging case, which COO Umada characterized as "geared toward government authorities, abstract in content, and completely lacking in specificity."</b>
11 Speeding up, proper handling, and documentation of responses to misconduct	③ By establishing in advance disclosure standards based on the nature and seriousness of each case, the Company should prevent decisions on whether or not to disclose from becoming arbitrary.	In light of the fact that Toho HD has historically engaged in repeated cover-ups under arbitrary disclosure standards, <b>this recommendation ought to set out specific disclosure standards. Instead, it simply leaves their formulation entirely to the Company and thus lacks any of the practical effectiveness that one would normally expect from such a recommendation.</b>
12 Establishment of an effective internal whistleblowing system	① Whistleblowing should, in principle, be anonymous.② A reporting channel should also be established outside the Company.③ A leniency program and reward scheme for whistleblowers should be introduced.④ A dedicated compliance unit (Compliance Promotion Department) should be newly established to manage and operate the internal whistleblowing system.	<b>This results in a logically inconsistent recommendation under which the dedicated compliance unit would be supervised by Mr. Matsuya, CGO1, who is alleged to have been involved in bid-rigging.</b>

Source: Toho HD, "Regarding Receipt of the Final Report of the Special Committee for Governance Enhancement and Our Policy for Responding to the Recommendations"

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