

# One Suzuken Report 2020

Suzuken Group Integrated Report



# CREATING NEW VALUE

## Philosophy

# Health Creation is Our Business Domain

Creating healthier and better lives... The Suzuken Group defines its business as health creation. With the wholesaling of pharmaceuticals at our core, we engage in a wide array of medical- and health-related operations including pharmaceutical R&D and manufacturing, support services for manufacturers, operation of pharmacies, and nursing care.

## Corporate Philosophies of the Suzuken Group

### Mission

#### Reason for Existence and Duty

Our work in the field of health creation looks to draw together the integrated wisdom of the entire Suzuken Group and continue contributing to rich and fulfilling lifestyles that are full of smiling faces.

### Vision

#### Ideal Vision of the Future

As a "health creator," the Suzuken Group is committed to the challenge of creating new value across the diverse field of healthcare as we aim to be the best partner in support of everyone achieving their "Smile."

### Value

#### Code of Conduct

### SMILE

We are a company built on  
**S**incerity  
 With **M**orality  
 And a unique **I**ntity  
 While **L**earning from our customers  
 As we continue our **E**volution

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## Message from the Suzuken Group

# Design Your Smile

健康創造の  
スズケングループ

With "SMILE" expressing key ideas of its management principles,  
the Suzuken Group is committed  
to creating healthy, prosperous lives for all people.

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## Editorial Policy

### About "One Suzuken Report 2020"

In 2016, the Suzuken Group began to issue the annual "One Suzuken Report" integrating the content previously included in our Annual Report and CSR Report, and presenting both financial and non-financial information. We hope to help shareholders, other investors, and the wide range of stakeholders to acquire a deeper understanding of the Suzuken Group. The performance and financial data in this report are based on the financial statement report.

### Forward-Looking Statements

Regarding the Suzuken Group's future, "One Suzuken Report" contains statements based on assumptions, expectations, and plans that the Group's management believed appropriate at the time the report was prepared. However, such statements, being predicated on presuppositions, involve risks and uncertainties. Please understand, therefore, that the Company's actual performance may vary from such statements due to social, economic, and company conditions.

## Business Segments

# Four Business Segments Supporting Health Creation

The Suzuken Group consists of Suzuken Co., Ltd., 46 subsidiaries, and nine affiliates.

This report covers the Group's four business segments.\*

\* Net sales figures include intersegment sales. Operating income also includes the effects of intersegment transactions.

\* Percentages are calculated based on total net sales for each segment.

## Pharmaceutical Distribution Business

→ P25

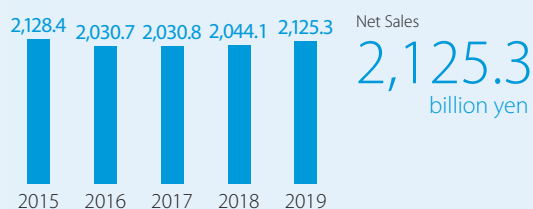
Net Sales  
by Segment

89.8%

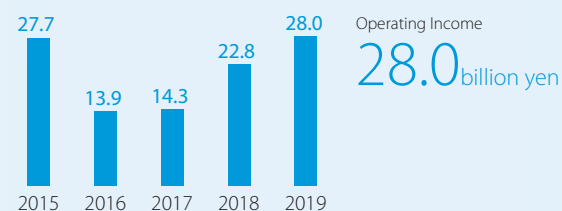
- Pharmaceutical Distribution Business
- Global Business

We procure ethical drugs, diagnostic reagents, medical equipment and supplies, and other health-related items from domestic and overseas manufacturers, and we supply them to medical institutions and pharmacies throughout Japan.

### Net Sales



### Operating Income



## Pharmaceutical Manufacturing Business

→ P31

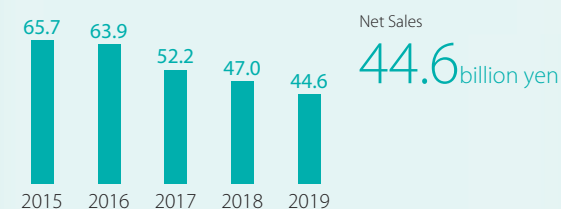
Net Sales  
by Segment

1.9%

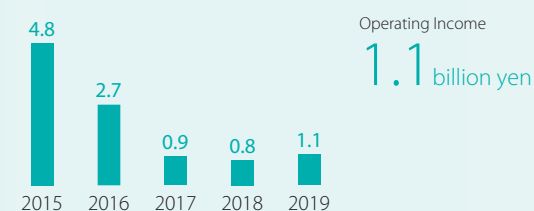
- Pharmaceutical Manufacturing Business

Group company Sanwa Kagaku Kenkyusho Co., Ltd. engages in R&D, manufacturing, and marketing of pharmaceuticals and diagnostics products, focusing on the areas of diabetes and kidney diseases.

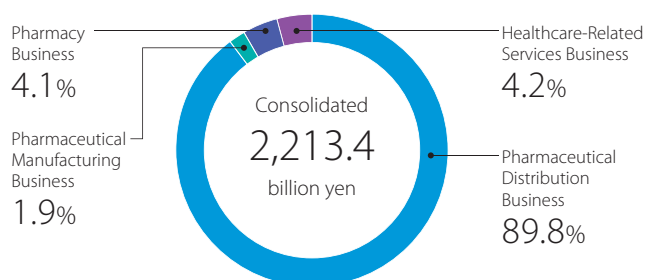
### Net Sales



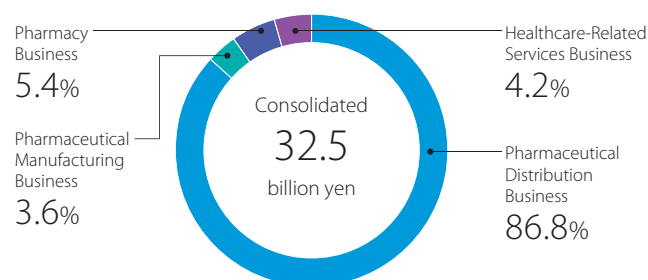
### Operating Income



## Net Sales by Segment (fiscal 2019)



## Operating Income by Segment (fiscal 2019)



## Pharmacy Business

→ P35

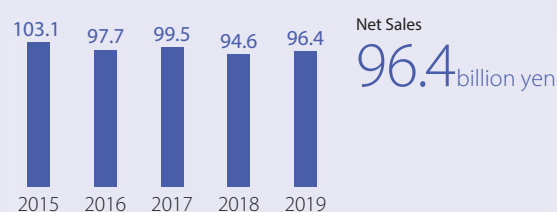
Net Sales  
by Segment

4.1%

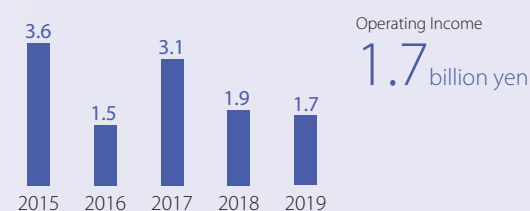
## ● Pharmacy Business

Our Pharmacy Business provides high-quality services through family pharmacists. It also helps to improve the operations of local pharmacies by offering training and education for the people operating them.

## Net Sales



## Operating Income



## Healthcare-Related Services Business

→ P39

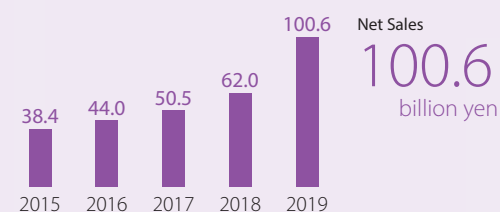
Net Sales  
by Segment

4.2%

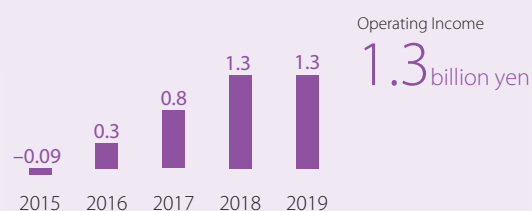
- Manufacturer Support Services Business
- Nursing Care Business
- Medical Equipment and Supplies Manufacturing Business

The Suzuken Group is engaged in various healthcare-related services businesses. These include manufacturer support services such as contract distribution for manufacturers and distribution of orphan drugs; nursing care services; and the manufacturing of medical equipment including electrocardiographs (ECGs) and sphygmomanometers.

## Net Sales



## Operating Income

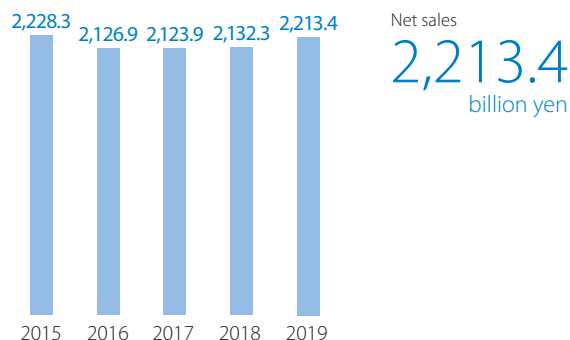


## Consolidated Financial & Non-Financial Highlights

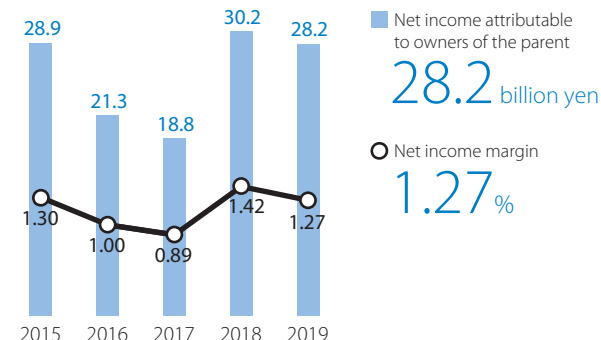
Suzuken Co., Ltd. and Subsidiaries  
Consolidated fiscal years ended March 31

### Consolidated Financial Highlights

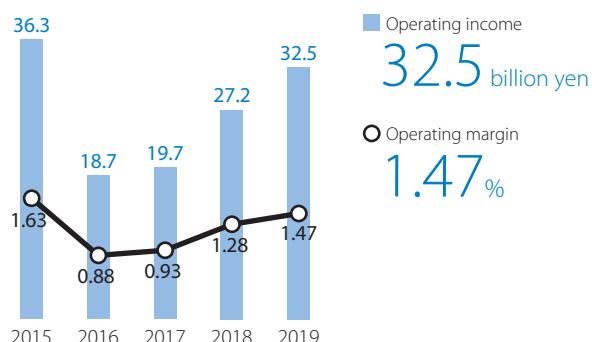
#### Net sales



#### Net income attributable to owners of the parent, Net income margin



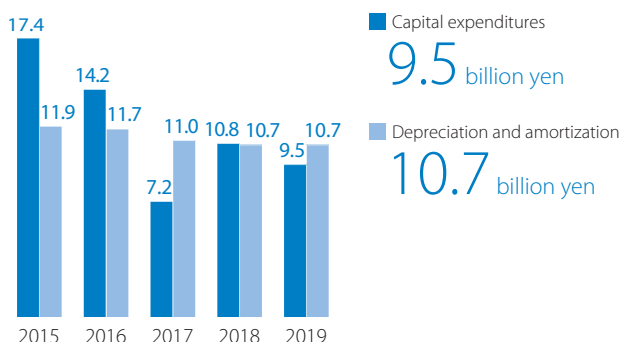
#### Operating income, Operating margin



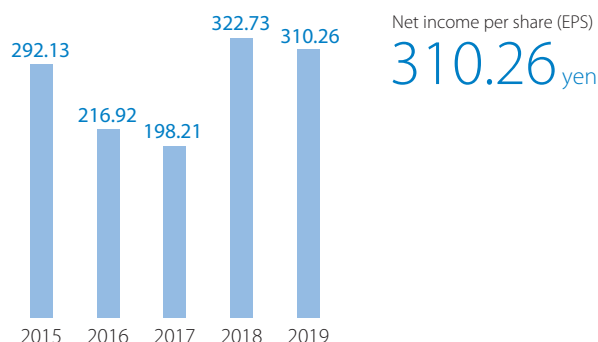
#### Return on equity (ROE)



#### Capital expenditures, Depreciation and amortization



#### Net income per share (EPS)

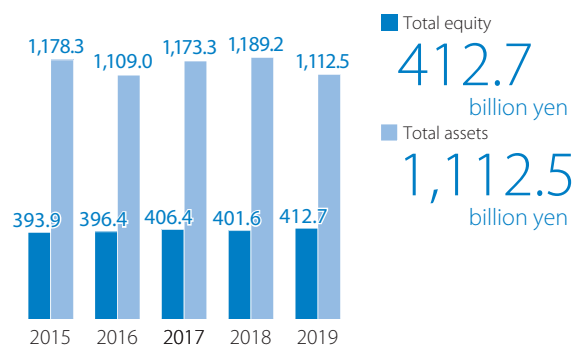


#### Notes:

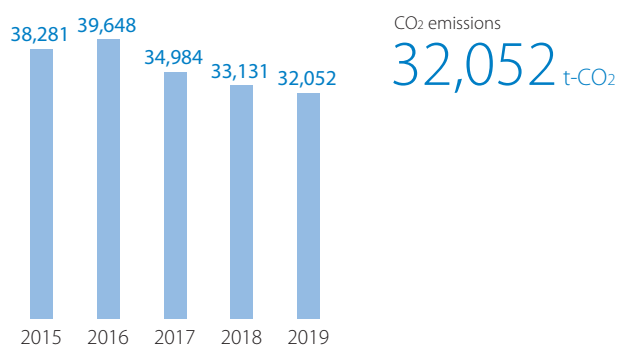
- Net income per share is calculated by deducting the average number of treasury shares during each fiscal year from the average number of shares outstanding during each fiscal year.
- In the 2016 consolidated fiscal year, the Company implemented a change in accounting policy regarding purchase discounts. The figures for the 2015 consolidated fiscal year have been restated retrospectively to reflect this change in accounting policy.

## Non-Financial Highlights

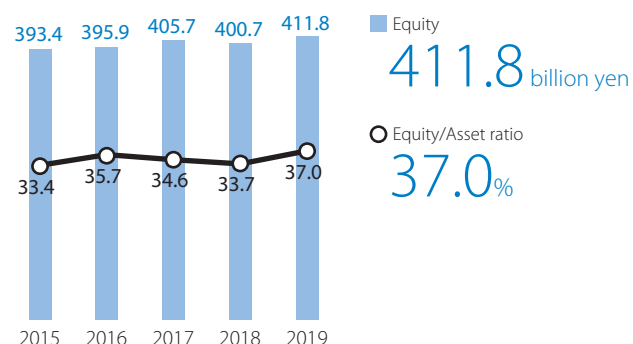
### Total equity, Total assets



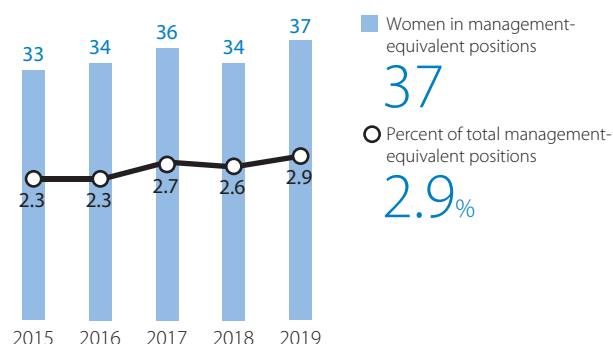
### CO<sub>2</sub> emissions\*



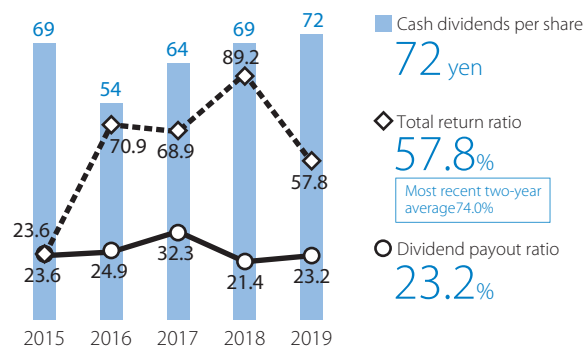
### Equity, Equity/Asset ratio



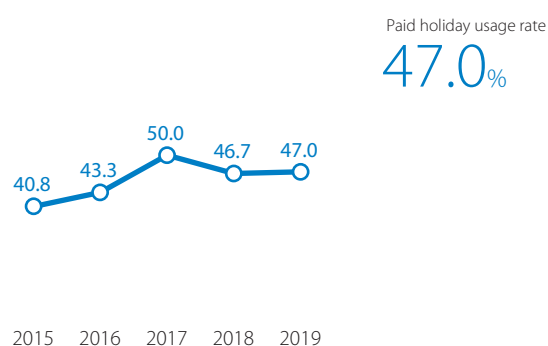
### Women in management-equivalent positions, Percent of total management-equivalent positions\*



### Cash dividends per share, Total return ratio, Dividend payout ratio



### Paid holiday usage rate\*



\* Suzuken Co., Ltd.

# VALUE CREAT

## To Our Stakeholders

### Carrying on Our Founding Spirit and Aiming for Greater Growth and Value Creation

In April 2020, a new management system was put in place, and I retired as Chairman of the Board to take on the position of Director and Supreme Advisor. In my new role, I will offer advice to those parts of the company that oversee management or are involved in management execution. At the same time, I will work to continue our corporate culture. Since the establishment of Suzuken Co. Ltd. in 1932, our founding spirit, expressed in the words, “for society, for people” and “learning from our customers,” has served as our guide for developing various businesses not only in pharmaceutical wholesaling but throughout the field of health creation, in areas including pharmaceutical research and development, manufacturing, manufacturer support, pharmacies, and long-term care.

The Suzuken Group’s business environment is presently undergoing dramatic change and there is a need to create new value in response to developments in society. These include increasingly sophisticated and diverse healthcare needs due to advancing digitalization and other factors, the need to stem pharmaceutical disposal losses, and the emergence of disasters and pandemics.

Serving the needs of a constantly changing society and maintaining and further developing our business makes it necessary to reform our business model based on a bold change in thinking. In addition, we must construct a new organization for responding to change and make steadfast efforts to develop Group human resources. Furthermore, it is also essential for individual employees to remember our founding spirit, realize that all of us have a hand in our success, and act single-mindedly for the benefit of our customers.

By continuing to embrace the corporate culture that has made the Suzuken Group what it is, and adapting to the changing times, I aim to help the Suzuken Group sustain its growth and achieve even greater corporate value in the future.

荻野芳樹



# ION

Yoshiki Bessho

Director and Supreme Advisor  
Suzuken Co., Ltd.



## A History of Health Creation

# The Suzuken Group Growing by Creating Value for Society

Since its establishment in 1932, Suzuken has sought to play an essential role for society while developing and expanding its operations as an independent enterprise unaffiliated with any pharmaceutical manufacturer.

Here, we provide highlights of the Suzuken Group's history of adaptation to ever-changing circumstances as it has striven to create value.

Exceeds  
¥1  
trillion

Fiscal 2002

¥1.06 trillion

Net Sales

1930 1940 1950 1960 1970 1980 1990 2000 2003

1994  
Registered the Company's shares on Japan's over-the-counter market

1997  
Designated for listing on the first sections of the Tokyo and Nagoya stock exchanges

## Suzuken Group Business Segments

### Pharmaceutical Distribution Business

Global Business

1932

**Suzuki Kenzo Shoten (Suzuki Kenzo Store) is established as a sole proprietorship pharmaceutical wholesaler in the city of Nagoya**

Suzuki chooses to establish the business based on his father's advice to, "Do things that benefit others."



1964

**Company is renamed "Suzuken Co., Ltd."**

Suzuken grows to serve over 10,000 customers and lead the industry in sales. It also becomes the first pharmaceutical wholesaler to be crowned "general pharmaceutical trading company."

1998

**Intensifies M&A Strategy Implementation**

Suzuken announces a merger with Akiyama Inc., a Hokkaido-based pharmaceutical wholesaler. Business expansion via M&A takes hold in earnest.

1974

**Becomes the first Japanese pharmaceutical wholesaler to enter Singapore**

The Overseas Department is established in 1971. Consistent with the founder's belief that, "The world is our market," Suzuken sets its sights on the global market and enters the Singapore market.

### Pharmaceutical Manufacturing Business

#### Pharmacy Business

### Healthcare-Related Services Business

Medical Equipment and Supplies Manufacturing Business

Manufacturer Support Services Business

Nursing Care Business

1953

**Establishes Pharmaceutical Manufacturing Business**

Suzuken establishes Sanwa Kagaku Kenkyusho Co., Ltd., while maintaining its wholesale business. It refers to lessons learned during World War II and the post-war period, when everything was in short supply, and takes its first step toward diversification.



1984

**Enters the field of diagnostic reagents**

Glutest, a simple blood glucose monitor that later becomes a mainstay product, is released, marking Suzuken's entry into the field of diagnostic reagents.

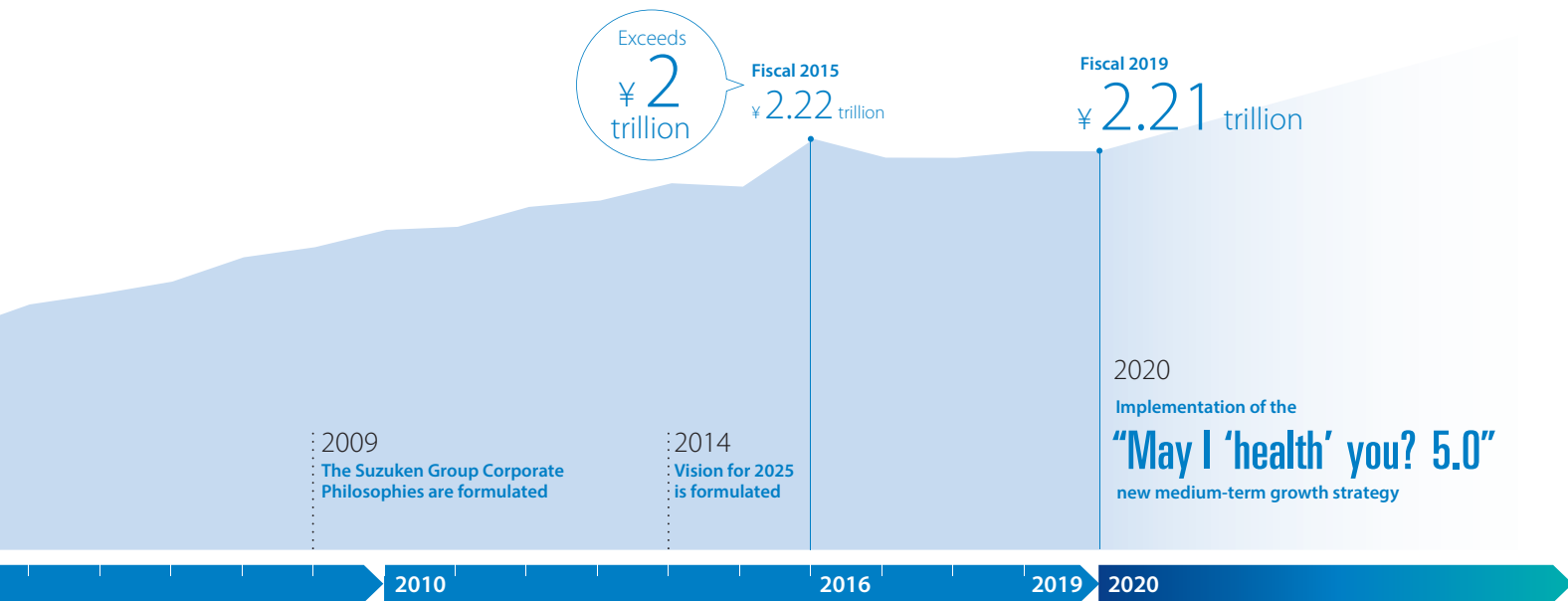


1975

**Establishes Medical Device Manufacturing Business**

Aiming to become a supplier of everything related to healthcare, Suzuken establishes a medical device manufacturing department and releases ECG-reading and other medical devices in 1979.





2006

**Becomes the first pharmaceutical wholesaler to establish a sales network covering all 47 prefectures of Japan**

As a national wholesaler with community-focused operations, Suzuken provides stable supplies of pharmaceuticals to medical institutions and pharmacies.

2012

**Becomes the first pharmaceutical wholesaler to launch a comprehensive support business focused on the field of rare diseases**

Suzuken enters the distribution/coordination business for orphan drugs in response to a wide array of issues and needs in the field of rare diseases.

2017

**Introduces the Cubixx System**

Meeting exacting standards for temperature control, inventory management, and security, the Cubixx System makes total traceability a reality for specialty drugs.



2008

**Enters China**

Aiming to benefit the health of people in Asia, Suzuken establishes Shanghai Suzuken Huzhong Pharmaceutical Co., Ltd. (currently SPH Suzuken Huzhong (Shanghai) Pharmaceutical Co., Ltd.) and begins pharmaceutical distribution operations.



2016

**Enters South Korea**

Suzuken enters a capital and business alliance with BOKSAN NICE Co., Ltd. which is pursuing pharmaceutical distribution with Busan Metropolitan City and the Seoul Capital Area as the core market.



2019

**Joins with partners to build a medical information platform**

Suzuken enters into a capital and business alliance with medical IT partners to develop and offer new digitalization-based solutions.

2008

**Expands the Pharmacy Business in line with the growing separation of prescription and dispensing functions**

Recognizing the issues and needs of pharmacies, Suzuken absorbs Pfercos Co., Ltd. and expands the Pharmacy Business to contribute to the advancement of local healthcare systems.



2005

**Becomes the first pharmaceutical wholesaler to undertake contract distribution for pharmaceutical manufacturers**

Suzuken builds a distribution network that satisfies manufacturers' strict quality management standards.



2011

**Expands the Nursing Care Business**

S-Care Mate Co., Ltd. is established to contribute to local medical services and local communities. The Nursing Care Business is expanded in the Chugoku and Chubu regions, and Tokyo metropolitan area.



2018

**Creates a global distribution platform for cell and gene therapy (CGT) products**

Suzuken partners with a US wholesaler to link that company's global cold chain with the Suzuken Group's own cold chain in Japan.



## Value Creation Model

# Aiming to Realize New Value Creation That Solves Social Issues by Combining Digital and Real-World Resources

## Our Business Environment and the Issues

### Escalating social security costs

Efforts to control national healthcare and pharmaceutical expenditures  
Efforts to reduce unused medicines and pharmaceutical waste-related losses  
Promotion of generic drug usage

### Growth of the specialty pharmaceutical market

Increase in high-price pharmaceuticals, biopharmaceuticals, cell and gene therapy (CGT) products, and other products including orphan drugs  
Strict temperature management, warehouse management, security management

### Advancement of a comprehensive community care system

Enhancement of local healthcare  
Provision of medical care in local communities and remote areas

### Advancement of the digital society

Use of AI and IoT  
Advance of remote diagnostic and remote drug usage guidance  
Construction of digital platforms for medical, nursing, and health-management fields

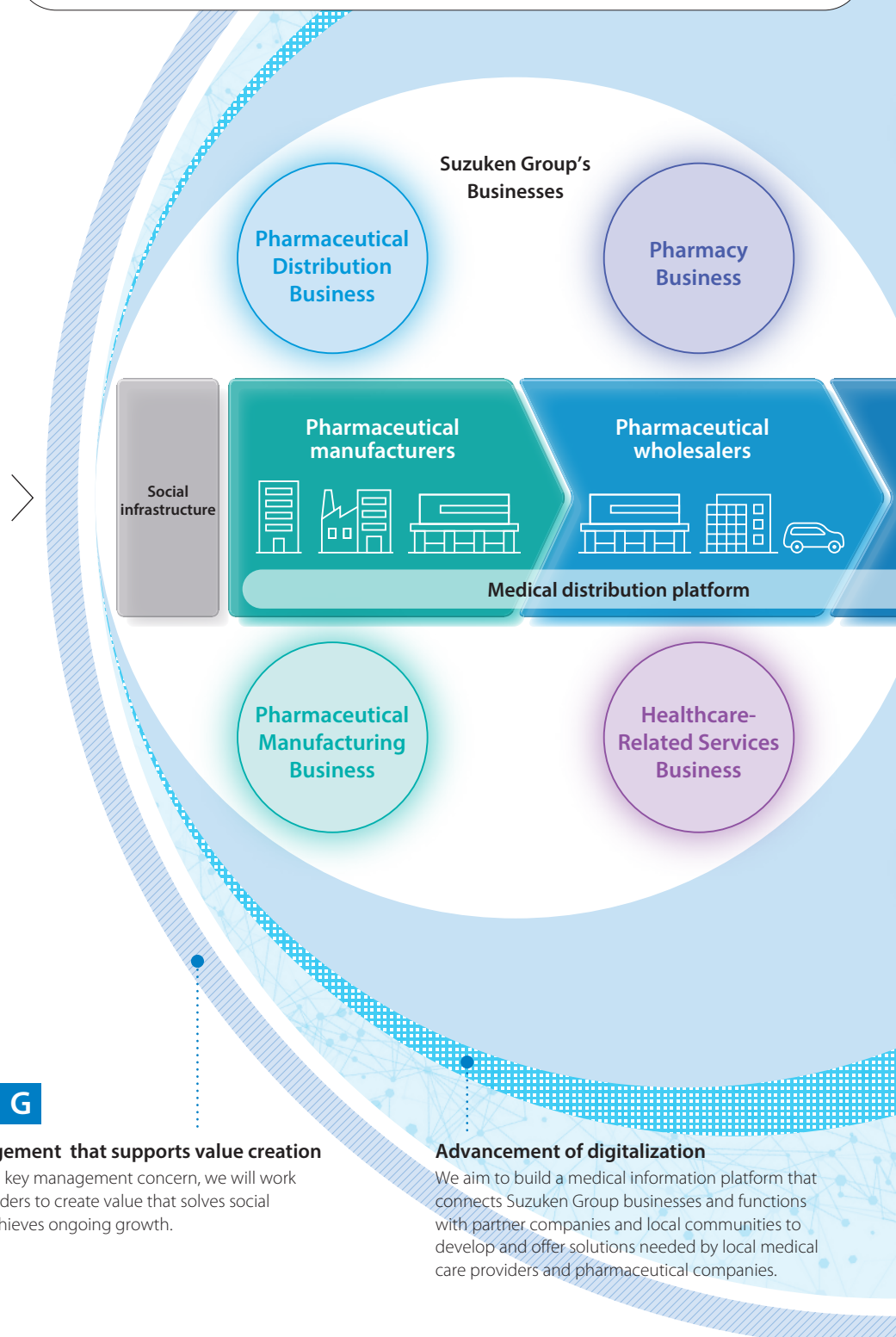
### Emergency situations

Earthquakes, floods, and other natural disasters  
Pandemics

### Circulation of counterfeit pharmaceuticals

Inclusion of counterfeit products  
Improper business transactions

## Value Extension through Suzuken Group Businesses Working with Each Other and with Outside Partners



## ESG

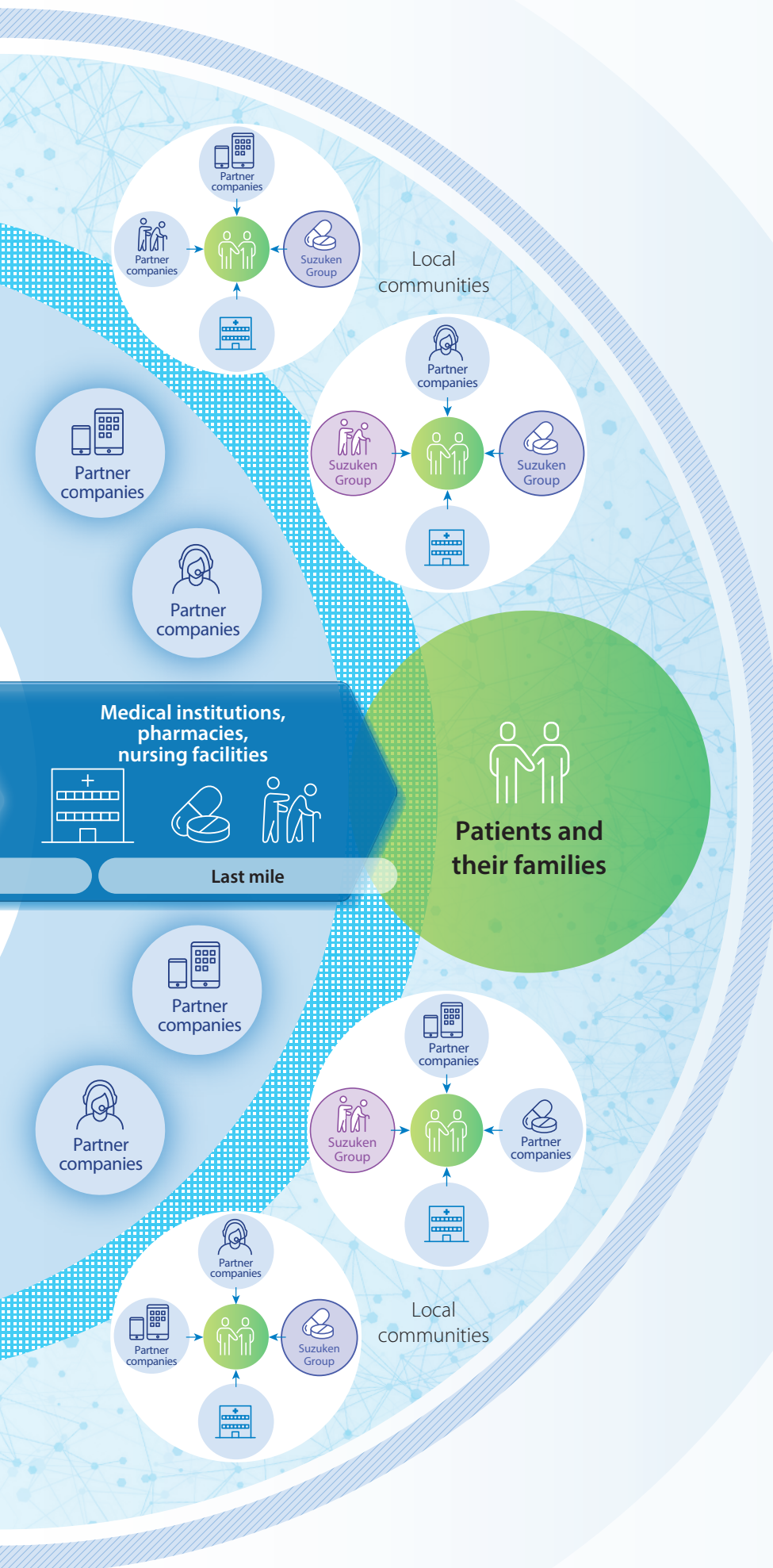
### ESG management that supports value creation

With ESG as a key management concern, we will work with stakeholders to create value that solves social issues and achieves ongoing growth.

### Advancement of digitalization

We aim to build a medical information platform that connects Suzuken Group businesses and functions with partner companies and local communities to develop and offer solutions needed by local medical care providers and pharmaceutical companies.





## Value to Society

### The Pharmaceutical Distribution Function as Social Infrastructure

#### Safe, Secure, and Reliable Pharmaceutical Distribution

By enhancing the quality of pharmaceutical distribution, while evolving our medical distribution platform, we are fulfilling our social mission by building a system that will maintain pharmaceutical distribution even during times of disaster or other emergencies.

#### Reduced Social Costs

We help to reduce social costs through efforts aimed at promoting shared distribution and improving shipping efficiency in the supply chains of pharmaceutical companies, optimizing distribution stock, reducing pharmaceutical waste, and lowering the number of unused medicines.

### Contributions to Local Communities

#### Solutions for Local Healthcare and Nursing Care Issues

Moving forward with the construction of a platform for offering healthcare and nursing care to everyone equally, the Suzuken Group, through its pharmaceutical wholesale, pharmacy, and nursing care businesses, helps to solve healthcare and nursing care issues.

#### The Suzuken Group and SDGs



The Suzuken Group's pharmaceutical distribution function, and businesses and functions contributing to local communities, are social infrastructure the operation of which furthers progress toward achievement of the Sustainable Development Goals adopted by the United Nations Member States in 2015.

## ESG Management

# Working with Stakeholders to Strengthen ESG Initiatives

## Basic Concepts

The Suzuken Group's business domain is health creation and our mission is to continue contributing to rich and fulfilling lifestyles that are full of smiling faces. We, therefore, aim to work through our business activities to increase our Group value by fulfilling our function as social infrastructure, while also helping to solve social issues and providing society with value.

Working with a diversity of stakeholders is crucial to our value chain. As we nurture even greater trust in our stakeholder relationships, we aim to achieve sustainable growth by giving rise to even greater value that helps to resolve social issues.

### Suzuken Group Stakeholders



### Critical ESG Themes and Key Initiatives

	Social Issues	Critical Themes	Key Initiatives
<b>E</b> Environment	<ul style="list-style-type: none"> <li>Reduction of environmental pollution from R&amp;D activities</li> <li>Environmentally friendly distribution systems</li> <li>Desire to bring about a low-carbon society</li> </ul>	<ul style="list-style-type: none"> <li>Environmental protection initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of environmental policies</li> <li>Establishment of management structure</li> <li>Global warming prevention (CO<sub>2</sub> emissions reduction) initiatives</li> <li>Waste reduction, promotion of recycling and reuse</li> </ul>
<b>S</b> Social	<ul style="list-style-type: none"> <li>Reliable supplies of pharmaceuticals and vaccines</li> <li>Emergence of natural disasters and pandemics</li> <li>Pharmaceutical distribution in line with global quality standards</li> <li>Strict management of specialty drugs</li> <li>Elimination of unused medicines and pharmaceutical waste</li> <li>Preventing the distribution of counterfeit pharmaceuticals</li> <li>Creation of a platform for providing community-based healthcare</li> <li>Workstyle reforms</li> <li>Realizing diversity in employment</li> </ul>	<ul style="list-style-type: none"> <li>Reliable supplies of pharmaceuticals</li> <li>Reduction of social costs</li> <li>Realization of diverse, flexible work styles</li> <li>Promotion of diversity</li> <li>Group human resource development</li> <li>Contributions to local communities</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of the medical distribution platform</li> <li>High-quality distribution in compliance with international standards</li> <li>Strengthening of BCP measures</li> <li>Introduction of infrastructure applying digital technology</li> <li>Reduction of pharmaceutical waste</li> <li>Promotion of participation by people of diverse backgrounds</li> <li>Creation of venues for development of the entire Group</li> <li>Intra-Group collaboration on initiatives for local communities</li> <li>Social contribution activities*</li> </ul>
<b>G</b> Governance	<ul style="list-style-type: none"> <li>Response to Japan's Corporate Governance Code</li> <li>Ensuring Board effectiveness</li> <li>High-quality disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of the governance system</li> <li>Group governance</li> <li>Compliance</li> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of Group governance and compliance systems</li> <li>Fostering awareness of compliance as a top concern</li> <li>Strengthening of risk management systems</li> </ul>

\* Please refer to Suzuken's website for more information. (<https://www.suzuken.co.jp/en/csr/social.html>)

## Identifying Critical ESG Themes and Strengthening Initiatives

Amid increasingly diverse ESG issues facing companies, the Suzuken Group has identified ESG themes of particular importance. We have selected these themes from the perspectives of expanding business opportunities and risk mitigation, and—in light of our entire value chain—changes in the business environment and directions in which society is moving. The table below presents critical ESG themes that the entire Suzuken Group is addressing.

In addition, we have identified ESG themes that are specific to certain business segments. Initiatives for addressing these are discussed in the sections of this report that cover individual business segments (see P29-30, P34, P38, and P42).

We pursue initiatives concerning the ESG themes we have identified as particularly important for us and regularly make changes to them based on ISO26000, GRI, and other international standards, criteria for socially responsible investment, stakeholder opinions, and other information sources.

Going forward, we believe people's values, perceptions of behavior, and social issues will be greatly impacted by the novel infectious coronavirus disease, COVID-19. To continue to create new value and maintain sustainable growth, we will advance new initiatives to address these changes.

In support of that effort, we will practice ESG management, and information disclosure, for the Suzuken Group as an integrated whole.

Key Indicators	Unit	FY 2017	FY 2018	FY 2019	FY 2020 (Comparison)	Remarks
CO <sub>2</sub> emissions	t-CO <sub>2</sub>	34,984	33,131	<b>32,052</b>	—	Suzuken (Calculated based on information on greenhouse gas calculation methods and emission coefficients published by Japan's Ministry of the Environment)
Electricity usage (vs. prior year)	1,000 kw (%)	47,741 (98.3)	46,548 (97.5)	<b>45,723 (98.2)</b>	—	Suzuken
Gasoline usage (vs. prior year)		4,194 (95.3)	3,850 (91.7)	<b>3,548 (92.1)</b>	—	Suzuken
Consolidated subsidiaries	kl	51	53	<b>46</b>	—	Consolidated
Consolidated workforce		15,816	15,585	<b>15,477</b>	—	Consolidated
Female employees (% of total)	(%)	1,172 (28.7)	1,132 (28.4)	<b>1,119 (28.0)</b>	—	Suzuken
Female managers (% of total)	(%)	36 (2.7)	34 (2.6)	<b>37 (2.9)</b>	—	Suzuken
Female average years of continuous employment / Workforce average years of continuous employment	%	47.1	54.0	<b>54.6</b>	—	Suzuken
Women as a % of new hires	%	48.8	29.8	<b>36.8</b>	—	Suzuken
Employment rate for people with disabilities	%	2.19	2.12	<b>2.30</b>	—	Suzuken, Suzuken JoinUs
% of annual paid leave taken	%	50.0	46.7	<b>47.0</b>	—	Suzuken
Employees who resign within 3 years of being hired	%	8.6	4.4	<b>14.2</b>	—	Suzuken (New graduates hired)
Directors (Outside directors) (Female directors)		9 (3) (0)	9 (3) (0)	<b>9</b> <b>(3)</b> <b>(0)</b>	10 (3) (1)	Suzuken
Audit & Supervisory Board members (Outside members)		4 (2)	4 (2)	<b>4</b> <b>(2)</b>	4 (2)	Suzuken
No. of Board of Directors meetings held (Attendance)	No. (%)	23 (97)	24 (98)	<b>23</b> <b>(99)</b>	—	Suzuken
No. Audit & Supervisory Board meetings held (Attendance)	No. (%)	17 (95)	15 (96)	<b>15</b> <b>(98)</b>	—	Suzuken
Compliance training participation rate	(%)	100	100	<b>100</b>	—	36 Group companies

Notes: Figures are actual data for each fiscal year or as of the end of each fiscal year. The employment rate for people with disabilities, however, is as of June 1.

# GROWTH STR



Hiromi Miyata

Suzuken Co., Ltd.  
President and  
Chief Executive Officer



# STRATEGY

## Interview with Suzuken's President

# To Be a Company That Contributes to the Field of Healthcare Creation Accelerating Change as We Enter Our Third Phase of Development

### Q<sub>1</sub> | Could you please provide a recap of fiscal 2019?

First of all, on behalf of all of us at the Suzuken Group, I would like to express our sincere condolences for those who have passed away because of the COVID-19 virus. We extend our sympathy to their friends and family members and are praying for the speedy recovery of those who are still battling this disease.

Turning to your question, the Suzuken Group's mission is to reliably supply pharmaceuticals regardless of the circumstances. After the Japanese government's emergency declaration, we instituted a rotating staffing system and worked with partner companies to establish backup systems to ensure our ability to fulfill our mission. We have also been helping to expand distribution of infection prevention tools that our partner companies are providing. The changes we have made in the way we staff our operations and in our marketing activities remain in effect even though the government has rescinded its emergency declaration, and we are implementing digital technology infrastructure in response to changes necessitated by the pandemic.

In November 2019, Suzuken underwent an on-site investigation by Japan's Fair Trade Commission as part of its investigation of alleged violations of the Antimonopoly Law. The allegations concern bids we submitted to the Japan Community Health Care Organization. We take these allegations very seriously, and are cooperating fully with the investigation, and are strengthening our compliance systems to ensure such concerns will not arise again in the future.

As for our results, we recorded consolidated net sales of ¥2,213,478 million, up 3.8% from the previous year, operating income of ¥32,571 million, up 19.6%, and net income attributable to owners of the parent of ¥28,213 million, down 6.6%. In fiscal 2019, the ethical drug market suffered negative impacts from drug price revisions following the consumption tax hike and from patients not visiting healthcare providers, to avoid possible COVID-19 infection. Even so, the market still managed to grow,

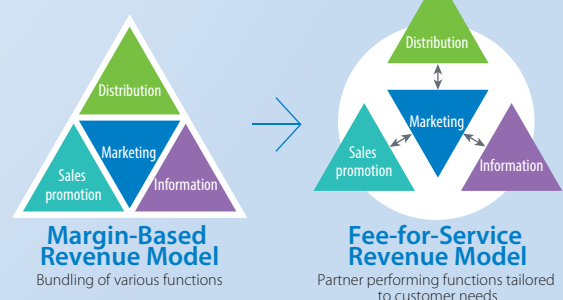
and we believe, because of an expanded oncology drug market and contributions by specialty drugs and other new pharmaceuticals. Against that backdrop, we moved to implement our medium-term growth strategy, and produced the results noted above, by identifying and responding to the true needs of customers, taking steps to realize low-cost operations, and collaborating with partner companies to develop new functions and business models.

Regarding dividends, we paid an interim dividend of ¥32 per share, a regular year-end dividend of ¥36 per share, reflecting a ¥4 per share increase, and a ¥4 per share commemorative dividend to mark the third full year of Cubixx System operations. Based on the full-year dividend of ¥72 per share, the consolidated dividend payout ratio was 23.2% and our average total return ratio for the most recent two-year period was 74.0%.

### Q<sub>2</sub> | Fiscal 2019 was the final fiscal year covered by the One Suzuken 2019 medium-term growth strategy. How would you assess implementation of the strategy?

Under our One Suzuken 2019 medium-term growth strategy, we defined the three years it covered as a period for creating the strength we would need for pioneering our own future. Toward that end, we set out to achieve the four "ones."

#### New Revenue Model



## Interview with Suzuken's President

## Key Points of the New Medium-Term Growth Strategy



These were: 1) Be “Number One”—Strive to maximize customers’ trust; 2) “One Point Improvement”—Improve productivity; 3) “Only One”—Create a unique business model; and 4) “One Group”—Strengthen the Group’s common business platform.

In assessing our performance, I would like to emphasize the solid progress we achieved in transitioning to a fee-for-service revenue model from our previous margin-based revenue model. The era in which we could count on ethical drug market growth driving sales volume, and sales revenue and earnings rising as a result has ended. Now we must earn the business of customers by offering new added value through MS activities, distribution functions, and other means. The Suzuken Group, therefore, has collaborated with various other companies under the concept of open innovation to sow the seeds of new value creation.

Furthermore, in the area of specialty drugs, which includes orphan drugs and cell and gene therapy (CGT) products, we expanded our domestic provision of all-in-one distribution services for pharmaceutical companies newly entering, or introducing a new product to, the Japanese market. To date, we have handled products including Kymriah, the first CAR-T cell therapy to be distributed by Novartis Pharma KK in Japan, and Zolgensma suspension for intravenous infusion, a gene therapy product for treating spinal muscular atrophy. And we have already begun to see results, such as growing adoption of our Cubixx traceability system for specialty drugs. These have contributed to our performance and enabled us to largely achieve our One Suzuken 2019 objectives.

### Q<sub>3</sub> | What is your outlook for fiscal 2020?

For the consolidated fiscal year ended March 31, 2021, the spread of the COVID-19 virus has created too many uncertainties, so we are refraining from making any performance forecasts. However, as soon as it becomes possible to announce appropriate, rational projections, we will do so.

As for dividends, we aim to uphold our principle of paying a steady dividend and distributing generous shareholder returns with a full-year dividend of ¥72 per share consisting of dividends of ¥36 per share at the interim and year-end.

### Q<sub>4</sub> | What are the main points of the medium-term growth strategy implementation of which began in April 2020?

With our business environment in the midst of dramatic change and additional impacts from the Japan Fair Trade Commission’s on-site investigation and the COVID-19 pandemic, we are standing at a major crossroads. As a result, change is happening at an accelerated rate. Looking at Kenzo Suzuki’s establishment of Suzuken as the beginning of the first phase of our existence, and our listing on the first section of the Tokyo Stock Exchange, in 1997, as the start of the second, we are now entering the third phase—one in which our objective is to solidly implement our previous medium-term growth strategy, One Suzuken 2019, and realize our 2025 vision of becoming a presence indispensable for medical care and health.

Our new medium-term growth strategy includes three focal points. Consisting of Only One—New business establishment for the third development phase; As One—Growth of each business and exercising synergy between businesses; and One Point Improvement—Promoting a leaner structure, these are the three “Ones.” A key point is linking all three to create synergies. Considering that our customers’ business environments and society itself are also changing, it is crucial that we respond to a wide variety of issues and needs with speed. Therefore, on April 1, 2020, we reorganized our operations into three main units, the Wholesale Business Headquarters, Healthcare Business Headquarters, and Corporate Management Headquarters.

“May I ‘health’ you? 5.0” expresses the underlying principle of our new medium-term growth strategy. Guided by these words, we will contribute to society in the field of health creation by employing even greater speed, more new ideas, and a new level of collaboration with other companies to pioneer the future.

### Q<sub>5</sub> | Could you provide a detailed explanation of the underlying principle, “May I ‘health’ you? 5.0”

“May I ‘health’ you? 5.0” expresses our desire to be a company that is a contributor, an indispensable presence in the field of health creation (“health”), not only in Japan but throughout Asia (“you”),

## The Suzuken Group and SDGs

### SUSTAINABLE DEVELOPMENT GOALS



in the age of Society 5.0, the digital society Japan is aiming to realize. Our goal is to practice business in a new way that resolves social issues for not only healthcare professionals – the customers to whom we have traditionally provided services and other forms of value – but also Japanese society and other parts of Asia.

Since its inception, the Suzuken Group has pursued business based on its founding spirit expressed with the words, “for society, for people” and “learning from our customers.” The pharmaceutical distribution function we perform as a type of social infrastructure, and our various businesses and other functions contributing to society, encapsulate that founding spirit and help to resolve the social issues raised as SDGs. The actions we take in accordance with the principle of “May I ‘health’ you? 5.0” will enhance our corporate value and contribute to the ongoing development of society.

#### Q<sub>6</sub> | What are the key points of ESG management?

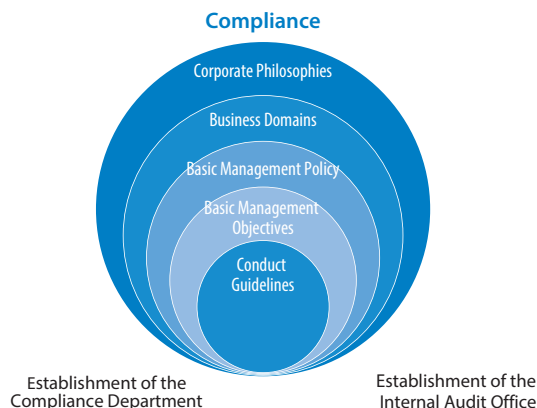
While fulfilling its role as an element of social infrastructure, the Suzuken Group continues to rise to the challenge of creating new value for realizing systems capable of providing medical and nursing care to local communities. ESG management serves as a foundation for that endeavor.

In April 2020, we made strengthening our governance and compliance systems our highest priority and implemented significant organizational changes. Looking to the future, we are taking steps to enhance the diversity of Suzuken’s Board of Directors. As part of that effort, in June 2020 a female director was appointed to oversee pharmaceutical affairs, internal controls, and auditing. She is the first woman to hold that position during Suzuken’s history as a public company.

In the areas of the environment and society, we are involving our entire group in efforts to promote safe, secure, and reliable pharmaceutical distribution; contribute to local communities, and solve the problems of unused medicines and pharmaceutical waste to reduce social costs.

For the Suzuken Group, people are the greatest management resource and that will remain so going forward. Therefore, I am committed to creating as many opportunities as possible for our employees to act on their desire to fulfill their social mission and

## Compliance as a Top Concern



contribute to society by supporting medical care and good health, even amid the COVID-19 pandemic. I aim to provide employees with new opportunities such as the chance to participate in the creation of new businesses and take part in intra-Group personnel exchanges.

Regarding our BCP, as well, we will apply what we have learned through measures, such as rotating staffing, as we continue with efforts to create systems that enable us to reliably supply pharmaceuticals under any circumstances.

#### Q<sub>7</sub> | Lastly, what is your message for stakeholders?

In 2020, its 88th year of operation, the Suzuken Group embarked on its third phase of development to realize its vision of being a presence indispensable for medical care and health.

Our mission will remain relevant so long as people put a premium on lifelong health. We will create new value in the boundless field of opportunity spanning medical and nursing care. We urge you to expect great things from the Suzuken Group.

Hiromi Miyata

Suzuken Co., Ltd.  
President and Chief Executive Officer

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# To be a presence indispensable for medical care and health Moving steadily forward in achieving our Vision for 2025

## Vision for 2025 and the Medium-Term Growth Strategy

In our One Suzuken 2016 medium-term growth strategy, which we began implementing in 2014, we set forth the long-term vision of becoming "a presence indispensable for medical care and health" by fiscal 2025. Since then, we have been striving to develop solutions based on thorough identification of needs and working to strengthen our Group management to achieve the One Suzuken integrated Group management ideal. As our business environment changes with increasing rapidity, we believe the Suzuken Group must undergo even greater degrees of change and evolution.

### Vision for 2025

The Suzuken Group will continue to create new added value in the fields of medicine and nursing care to be "a presence indispensable for medical care and health" in Japan as well as other parts of Asia.

May I "health" you? 5.0

One Suzuken 2019

One Suzuken 2016

## One Suzuken 2019 Achievements in New Value Creation under the Open Innovation Concept

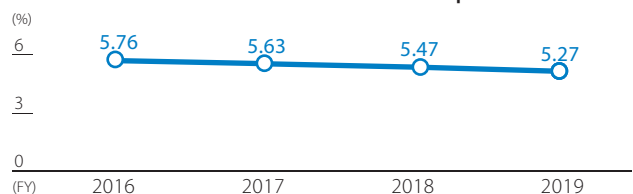
### Promoting Our Change from a Margin-Based Revenue Model to a Fee-for-Service Revenue Model

Success in changing our revenue model is the factor that will have the greatest impact on the Suzuken Group's future growth. We must further evolve the services and functions we perform to more closely match those our customers need. To create new value in the form of added value through services, we actively advanced collaboration with partner companies performing a wide range of functions (see the diagram below).

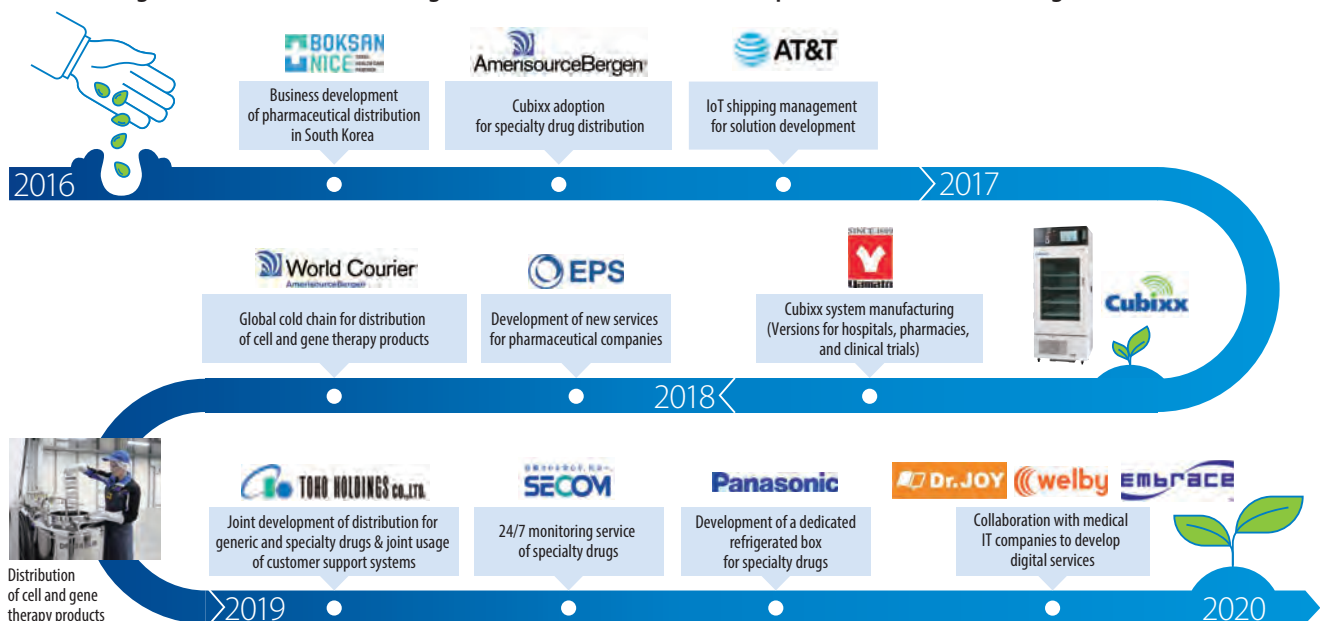
### Advancing Restructuring for Low-Cost Management

With the goal of eliminating waste, we have worked to achieve productivity improvements by revising work processes and making organizational changes throughout the Group. Through steady improvements in selling, general and administrative expense efficiency in our pharmaceutical distribution business, we achieved a fiscal 2019 selling, general and administrative expense ratio that is 0.49 percentage points lower than the figure for fiscal 2016.

### Pharmaceutical Distribution Business SG&A Expense Ratio



## Transitioning Revenue Model from Margin-Based to Fee-for-Service—Open-Innovation Partnering





# May I “health” you? 5.0

## The Suzuken Group’s New Distribution Model for a New Product Category

### Specialty Drugs

#### Expanding Contract Distribution by Evolving Our Medical Distribution Platform

We are expanding our contract distribution of specialty drugs, which requires strict temperature control and tight management of inventories and security. Having built a medical distribution platform, we offer a wholesale distribution function and wealth of experience and results as a pioneer in manufacturer support services. Our strong performance has made us the specialty drug distribution leader with contracts to handle 33 orphan drugs for 20 companies. By not only responding to the outsourcing needs of pharmaceutical companies but also working to improve shipping efficiency within supply chains and optimize distribution stock, we are helping to reduce social costs.

#### Manufacturer Distribution and Orphan Drug Distribution Contracts

(Companies) ■ Manufacturer distribution ■ Orphan drug distribution



#### Specialty Drug Distribution Customers Embrace

We are promoting Cubixx, a specialty drug traceability system, on a nationwide basis. At present, the system has been adopted by over 140 users—mainly core hospitals. Employing IoT, RFID, and other digital technologies developed by partner companies, the system provides total traceability from shipping through inventory management. In so doing, it lightens the inventory management workload for medical institutions and pharmacies and helps to resolve the problem of obsolete inventory. In March 2020, we introduced Cubixx CT, a system that is designed for clinical trials and

will significantly improve work efficiency for those handling investigational drugs.

#### Building a Global Distribution Platform for Cell and Gene Therapy (CGT) Products

The market for cell and gene therapy (CGT) products is forecast to grow, and, underpinned by our medical distribution platform, we are proceeding with the development of a nationwide storage and distribution function for these products. We already provide next-day delivery to medical institutions throughout Japan and are working with a U.S. pharmaceutical wholesaler to create a global distribution platform. Our goal is to offer domestic and international contract distribution services based on joint proposals.

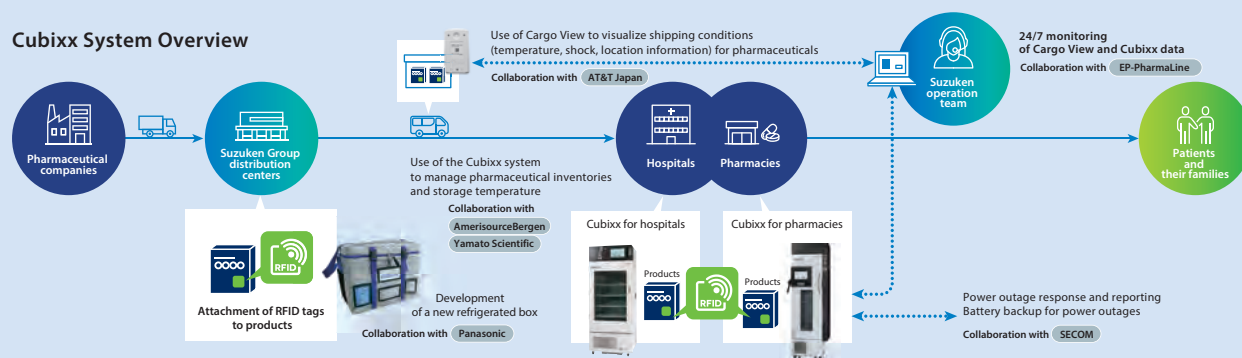
#### Main Distribution Agreements

Dec. 2018	Ishin Pharmaceutical Co., Ltd. CGT product under development
May 2019	Novartis Pharma K.K. Kymriah suspension for intravenous infusion, the first CAR-T cell therapy to be distributed in Japan
Aug. 2019	SanBio Co., Ltd. Regenerative cell medicine under development
May 2020	Novartis Pharma K.K. Zolgensma suspension for intravenous infusion, a gene therapy product for treating spinal muscular atrophy

### Generic Drugs

In April 2019, Suzuken established TS Pharma Co., Ltd. as a joint venture with Toho Holdings Co., Ltd. By engaging in product planning and R&D, and negotiating manufacturing contracts, TS Pharma aims to offer reliable supplies of generic drugs that patients will see as high-quality. In June 2019, the company began selling Silodosin Tablets/OD Tablets, a drug for easing urination difficulty caused by benign prostatic hyperplasia, and commenced sales of five other generic drugs in June 2020.

#### Cubixx System Overview



## Special Feature: “May I ‘health’ you? 5.0”—the New Medium-Term Growth Strategy

# Aiming to Offer New Value and Solutions by Connecting the Three “Ones” to Create Synergies

## What We Aim to Be during a Time of Digitalization in the Field of Health Creation

In the Society 5.0 era cited in the “May I ‘health’ you? 5.0” basic philosophy of our new medium-term growth strategy, we believe that the proliferation of AI and IoT, and advance of the digital transformation, will lead to positive developments and rapid progress in collaborations among medical care, pharmaceutical distribution, long-term care, and healthcare services. The value creation targets will expand to include not only physicians, pharmacists, and other healthcare professionals but Japanese society as a whole. In this period of transition, the Suzuken Group believes there will be a need for healthcare distribution platform and other business development concepts centered on pharmaceutical companies in addition to the provision of solutions based on concepts focusing on medical institutions, healthcare professionals, and patients. At the Suzuken Group, we are committed to actively collaborating with other companies to strengthen our businesses and functions, and offering value that helps to solve social issues in the area of health creation, in order to make ourselves an indispensable presence in the future.

## The Three Strategies of the “May I ‘health’ you? 5.0” Medium-Term Growth Strategy and Their Main Points

### Only One:

#### New Business Establishment for the Third Development Phase

To offer new solutions for an age of digitalization, we aim to build a platform for advancing community-based healthcare and solving issues for pharmaceutical companies.

Digitalization is moving forward through the application of AI and IoT, advances in the remote provision of medical exams and medication instructions, and the development of digital platforms for the fields of medical care, long-term care, and health maintenance. In response to these developments, we have entered into capital and business alliances with companies offering digital solution functions for the field of healthcare. The Suzuken Group, by having its real management resources network information from the digital world, will bring together information for local communities and offer new solutions. We will also pursue new business models for contributing to community-based healthcare and consider opportunities for expanding our product portfolio.

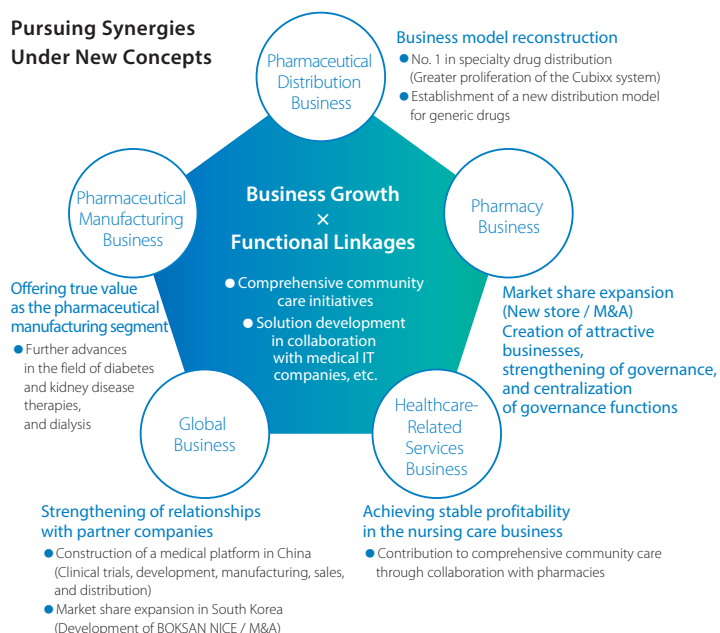
### As One:

#### Growth of Each Business and Exercising Synergy between Businesses

To offer new value as an integrated group, we will pursue synergies among our various businesses. Drawing on Suzuken Group and partner company functions, we will seek to achieve a totally new kind of value

creation. Connecting these efforts to the growth of existing businesses will contribute to “Only One” business creation.

### Pursuing Synergies Under New Concepts

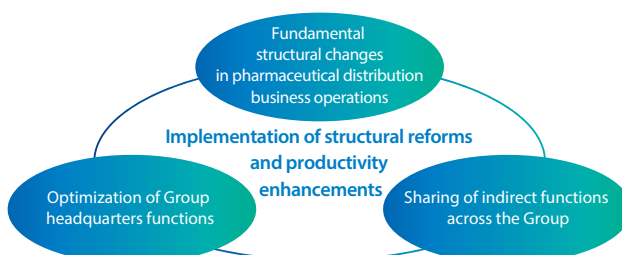


### One Point Improvement:

#### Promoting a Leaner Structure

Continuing with the reforms we began implementing with the previous medium-term growth strategy, we will make our businesses even more robust. We will reconstruct the business model for our pharmaceutical distribution business by implementing “Only One” and “As One” initiatives, and in the process greatly change our approaches for providing services and value. At the same time, we will move forward with fundamental structural changes in pharmaceutical distribution business operations. Adding to our ongoing efforts to eliminate waste, we will work to expand sharing of indirect functions across the Group and optimize Group back-office functions to achieve significant progress in centralization and efficiency in order to realize Group-wide productivity improvements.

### Seeking Even Greater Efficiency



# May I "health" you? 5.0

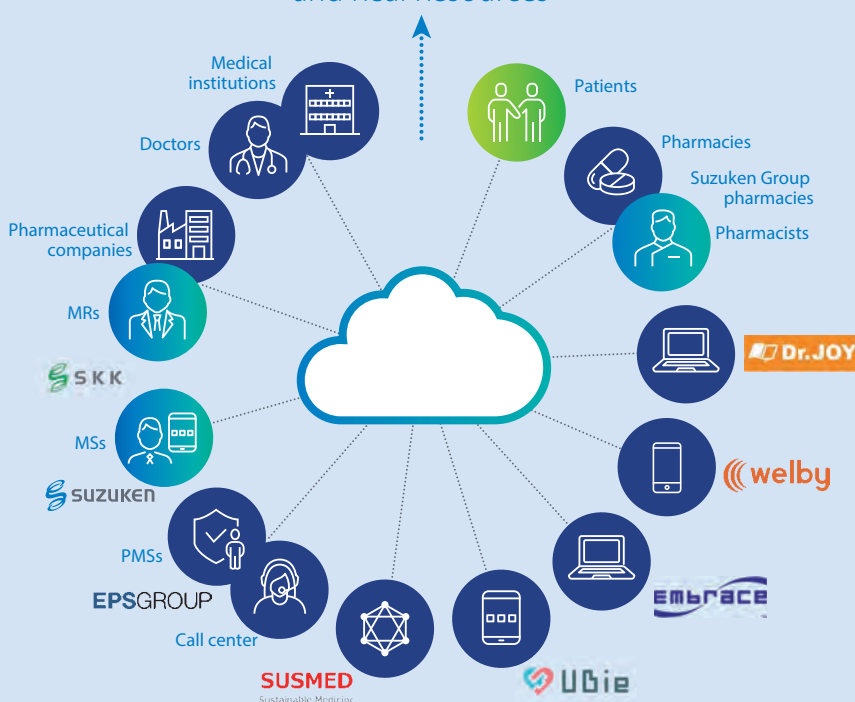
## New Business Model for a Digital Age

### Building a Healthcare Platform for Promoting Community-Based Healthcare and Solving Issues for Pharmaceutical Companies

The key point of our new business model for a digital age is that the Suzuken Group will play the role of networking information. Switching from one-way information provision and gathering to networking puts us in a better position to build an innovative healthcare platform, and develop and offer solutions.

As of July 2020, we have entered into capital and business alliances with the five companies shown below. With all of them, we share the desire to make healthcare in Japan even better by harnessing the power of digital technology to solve issues at the front lines of medical care. The combination of their functions; the clinical trial, clinical research, and medical contact center capabilities of the EPS Group, an ongoing partner; the Suzuken Group's businesses; and the Cubixx System Project and other management resources enable us to build a medical information platform made possible only by a health creation company.

### Solution Services Combining Digital and Real Resources



#### Main Initiatives with Partner IT Companies

- Enhancing information value by providing the digital services of each company
- Proliferation of COVID-19 pandemic support tools (Welby MyKarte, AI Monshin Ubie)

#### Value through Collaboration

- Support for greater efficiency and safety in medical care
- Further enhancement of community healthcare cooperation
- Workstyle reforms for medical institutions

#### Partner Companies

#### Profile

<b>Dr. JOY Co., Ltd.</b>	Dr. JOY offers the Dr. JOY medical institution support platform featuring functions for managing suppliers, physician work attendance, information sharing among pharmacists, and links with local communities. As of the end of June 2020, this system was being used by 6,309 institutions and around 79,000 individuals.
<b>Welby, Inc.</b>	Welby has developed the Welby MyKarte PHR (Personal Health Record) system for centrally managing health-related information ordinarily held by various medical institutions and pharmacies. As of the end of March 2020, the system was being used by 13,000 institutions and has been downloaded approximately 720,000 times.
<b>Embrace Co., Ltd.</b>	Embrace offers the completely private Medical Care Station SNS for medical and long-term care professionals. Recommended by numerous medical associations, this system is being used by 113,000 medical and long-term care professionals as of the end of June 2020.
<b>Ubie, Inc.</b>	Ubie developed the AI Monshin Ubie, medical interview service using tablets, for improving administrative work efficiency in medical settings. As of the end of April 2020, this system has been adopted by around 200 medical institutions.
<b>SUSMED, Inc.</b>	SUSMED is an R&D-focused company advancing digital medicine. It has created medical apps and AI-based automatic analysis systems, and holds numerous patents for medical applications of blockchain technology.

# Integrated Group Management through an Even Stronger Governance System

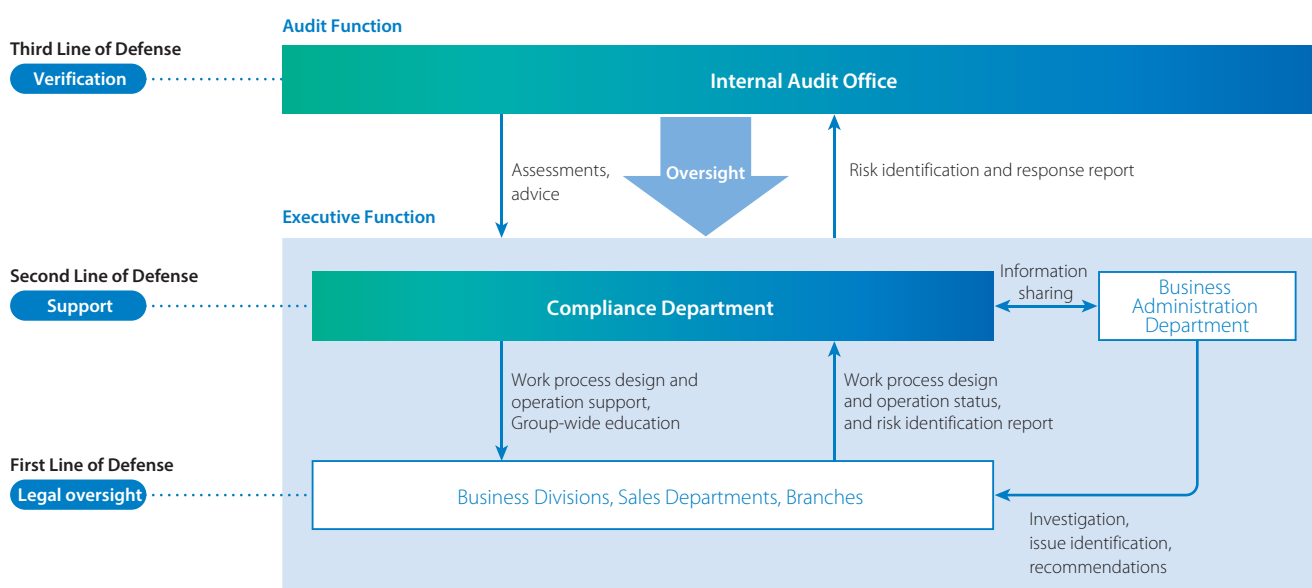
## Start of a New Group Governance System

Integrated Group management is indispensable for implementing the new “May I ‘Health’ You? 5.0” medium-term growth strategy.

In November 2019, as we were developing our new medium-term growth strategy, and in the midst of our discussions concerning Group governance strengthening, we underwent an on-site investigation by the Japan Fair Trade Commission in connection with suspected violations of the Antimonopoly Law. For the Suzuken Group, which aspires to be a presence indispensable to medical care and health, there

is nothing more important than having the trust of society. Compliance has traditionally been our top concern in pursuing business activities, and we have devoted significant efforts to fostering and enhancing compliance awareness in every one of our employees. Therefore, on this occasion, we have re-examined governance from a Group perspective and, in April 2020, instituted a governance approach consisting of Group-level strategic planning, stronger management controls, and a three-tiered defense scheme.

## New Three-Tiered Stratified Defense Scheme



### Compliance Department

This department, which reports directly to the president, oversees and manages all types of risk. It coordinates risk-related matters among managers, departments and subsidiaries. Furthermore, it performs centralized management for monitoring and analyzing the status of all types of risks for the entire organization and for proposing and implementing countermeasures.

In line with the direction set for fiscal 2020—making compliance a top concern through changes in the awareness and conduct of individual employees—the office is focusing on ascertaining and analyzing actual circumstances, establishing and implementing a system for discussing issues and making decisions, and planning and implementing education and training measures.

### Internal Audit Office

The Internal Audit Office is in charge of internal audits and J-SOX (the Japanese law specifying Sarbanes-Oxley audit requirements) internal controls. It oversees the effectiveness of control functions for business activity lines at business sites and Group companies, monitors legal compliance and propriety, and, together with the Pharmaceutical Affairs Supervisory Office, performs a verification function to ensure fairness and independence.

In fiscal 2020, the office, in focusing on eliminating unjust and improper activities, and reducing risk, as part of its efforts to strengthen the Group's compliance, risk management, and governance, is working to revise auditing and auditing approaches targeting serious risks.



# May I “health” you? 5.0

## Messages from the Executive Officers in Charge



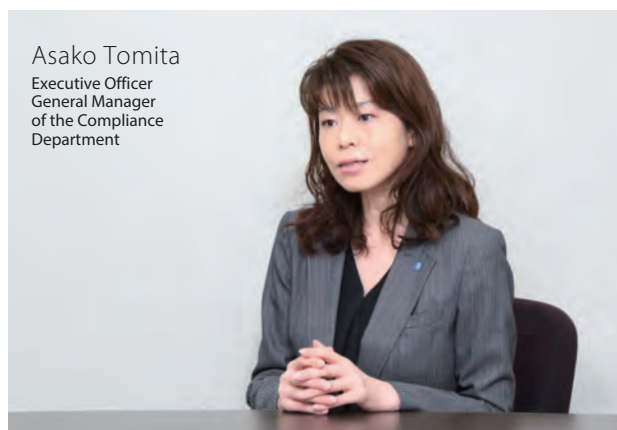
**Chie Takahashi**  
Director and Executive Officer  
In charge of Pharmaceutical Affairs,  
Internal Control, and Audit,  
and General Manager  
of Pharmaceutical Affairs  
Supervisory Office

### **I Aim to Support Sound Management and Growth for the Suzuken Group.**

The Suzuken Group has strengthened its governance, so that it can rise to the challenge of again taking great steps forward, this time as its third phase of development.

The Internal Audit Office, in its position reporting directly to the president, functions as the eyes and ears of management and is an independent organization monitoring the governance system. I believe that it must evolve with the times, and with changes in the industry and the Company. As a form of that kind of evolution, we have introduced audits that are theme-oriented and cross organizational boundaries, and strengthened the verification function the office performs for administrative departments. These changes add to the office's original audits focusing on each organizational unit. I think of the Internal Audit Office as an organization that performs medical examinations on the company and provides advice for improving its condition. To detect problems early on, or prevent them altogether, and identify latent risks, we will perform audits that are meticulous and leave no stone unturned. Staffed with people having experience as a sales or branch manager, and people selected from Group companies, the office can draw on a diverse range of knowledge and understanding. Indeed, a single event can elicit various hypotheses and ideas informed by the experience of our internal auditors and be addressed with multifaceted analyses. To always detect events that should gain their attention, in addition to collaborating with Audit & Supervisory Board members, we strive to maintain keen awareness of developments inside the Group, gather information on their own, and take immediate action when problems arise. We will also lend strong support to the Compliance Department.

Compliance is the bedrock upon which company activities take place. The Internal Audit Office is committed to protecting the company and employees, while doing its best to perform its function, and I will stand with them in fulfilling my responsibilities.



**Asako Tomita**  
Executive Officer  
General Manager  
of the Compliance  
Department

### **I Aim to Provide Support That Enables Employees to Have Confidence and Pride in Their Daily Activities.**

The Compliance Department was established in April 2020. Its purpose is to implement measures for providing basic knowledge for identifying and evaluating risks, while respecting the authority and responsibilities of each business headquarters, sales department, and branch, all of which form the first line of defense.

When I come into contact with MSs, who perform sales activities, I understand that they think very seriously about what they can do to support their customers.

Compliance is the foundation for activities aimed at boosting customer trust. My aim is not to obstruct but to help individual MSs achieve success with their activities.

It is important to understand why the rules have been created, to accept their significance, and to embrace them in actions. And we will provide support that leads to concrete action, so that the consequences of not following the rules are clearly understood and sales activities emphasizing compliance as a top concern are possible.

In November 2019, Suzuken underwent an on-site investigation by Japan's Fair Trade Commission in connection with suspected violations of the Antimonopoly Law. This made me feel very strongly that the Compliance Department must maintain a deep understanding of our businesses, including work processes, and be able to think about business risk together with front-line employees. The Suzuken Group holds up sincerity and a sense of ethics as standards of behavior. Amid the advancement of reforms aimed at making the Suzuken Group a presence indispensable for medical care and health, I aim to help enhance our corporate value by contributing to efforts to make compliance a top concern and the basis of these reforms.

# Pharmaceutical Distribution Business



## Business Environment

### Restraining Healthcare Expenditures Amid Rising Social Security Costs

With a falling birth rate and aging population, Japan is seeing rapid growth in its social security costs, which now account for large portions of both national and regional government budgets. In response, drug price revisions to control pharmaceutical costs, promotion of generic drug usage, and other initiatives aimed at reducing national healthcare expenditures are being taken. As a result, the ethical drug market cannot be expected to grow as it has in the past.

### A Reliable Pharmaceutical Supply Function as Social Infrastructure

In their role of securely and reliably providing pharmaceuticals, even amid natural disasters, pandemics, and other emergency circumstances, pharmaceutical wholesalers operate as a form of social infrastructure. Fulfilling this mission requires that distribution systems be continuously updated.

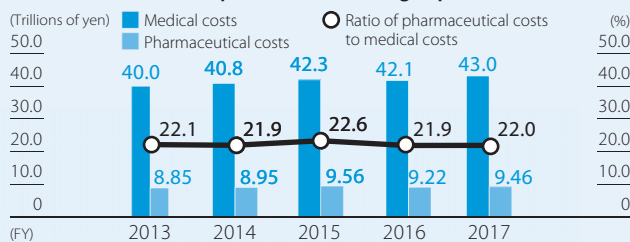
### Abiding by the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs

Under Japanese government leadership, these guidelines came into effect in April 2018. Abiding by them requires an expansion of initiatives for eliminating the negative primary margin between the purchase price and wholesale price, improving conditions with regard to delivery without price agreement, and promoting unit-price-based transactions.

### Abiding by the Guidelines for Prescription Drug Marketing Information Provision

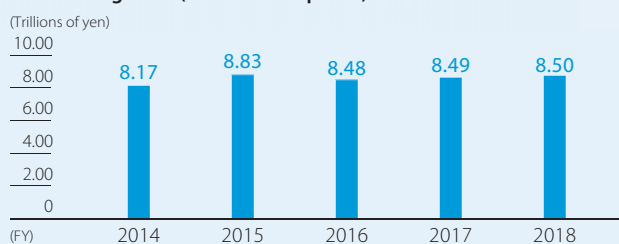
Full application of these guidelines began in October 2019, and their coverage extends to pharmaceutical wholesaling that includes the provision of sales information. As a result, it is now necessary to have in place systems, and educational and other functions, for properly providing information necessary for the proper usage of ethical drugs.

### National Healthcare Expenditures and Drug Expenditure Ratio



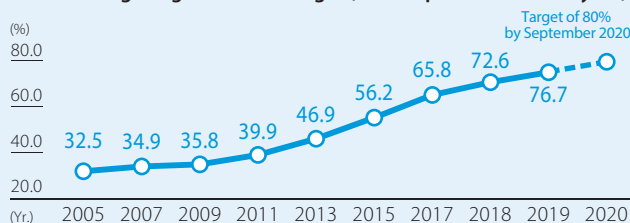
Source: Drug Pricing Subcommittee, Central Social Insurance Medical Council, Ministry of Health, Labour and Welfare, November 8, 2019

### Ethical Drug Sales (based on list prices)



Source: Crecon Research & Consulting Inc.

### Generic Drug Usage Rate and Target (as of September of each year)



Note: The usage rate is calculated as usage of generic drugs divided by usage of original drugs plus usage of generic drugs.

Source: Promotion of the Use of Generic Drugs, Ministry of Health, Labour and Welfare  
Outline of NHI Price Revision, Ministry of Health, Labor and Welfare

## Fiscal 2019 Results

Despite lower sales of drugs for treating hepatitis C, efforts to promote generic drug usage, drug price revisions following the October 2019 consumption tax hike, and patients not visiting medical institutions to avoid the COVID-19 virus, we believe the ethical pharmaceutical market still managed to expand in fiscal 2019. This is because of growth in the market for oncology drugs and contributions from specialty drugs and other new pharmaceuticals.

Net sales rose on the strength of overall market expansion and higher sales of specialty drugs and other new pharmaceuticals in particular.

Operating income grew in line with higher sales and as a result of thorough efforts to negotiate prices commensurate with the value of individual ethical drugs.

For the fiscal year, net sales came to ¥2,125,374 million (up 4.0% year on year) and operating income was ¥28,085 million (up 22.9% year on year).

## Main Initiative

### Striving to Maximize Customers' Trust through "Smile Activities"

In the spirit of our founder's admonition to learn from customers, the entire Suzuken Group has been engaged in "Smile Activities"<sup>\*1</sup> since fiscal 2013. Continuously responding to the desires and needs of customers, we will discover their true needs and offer optimal solutions. We believe that steadfastly adhering to this approach will allow us to build solid trust-based relationships with customers and strengthen the Suzuken Group. "Smile Activities" will also help to enhance productivity.

### Low-Cost Management Initiatives

We are working to change our operating cost structure to eliminate waste. We have undertaken an effort to achieve greater shipping efficiency through the implementation of a shipping management system, changes to the functions of individual locations and branches, and other operational revisions in areas of sales and distribution, and are moving forward with improvements in indirect functions such as procurement and personnel. To achieve low-cost management, we are also accelerating efforts in areas such as sharing of indirect functions across the Group and optimizing back-office functions.

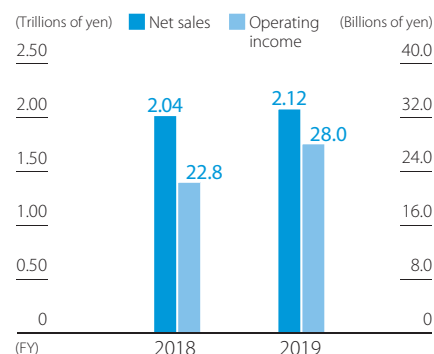
### Transitioning from a Margin-Based Revenue Model to a Fee-For-Service Revenue Model

Though the ethical drug market cannot be expected to grow, we must still fulfill our mission as social infrastructure and provide solutions to our customers. To do that, we are modifying the activities, roles, and functions of MSs,<sup>\*2</sup> and transitioning from a margin-based revenue model to a fee-for-service revenue model.

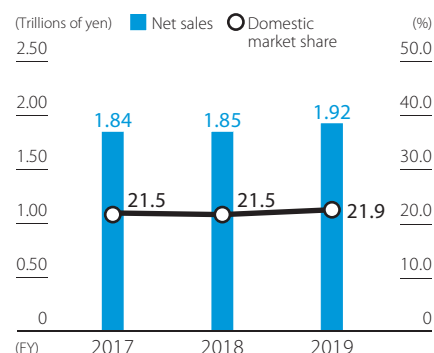
ES-Link Co., Ltd., a company established on October 1, 2018 in cooperation with EPS Holdings, Inc., is offering its ES-NAVIGATION remote detail service provided by MSs, and PMS<sup>\*3</sup> support. Combining functions from both company groups, ES-Link aims to be a company capable of offering comprehensive effectiveness and efficiency enhancement recommendations that respond to the needs of the marketing, logistics, and development units of pharmaceutical manufacturers.

Suzuken has also collaborated with Toho Holdings Co., Ltd. to jointly develop the

### Results for the Fiscal Years 2018 and 2019



### Net Sales of Ethical Drugs and Share of the Domestic Market



<sup>\*1</sup> Smile Activities: An ongoing initiative in which customer input is gathered through daily activities and proprietary surveys, and all employees participate in responding to customer needs

<sup>\*2</sup> MS (Marketing Specialist): Pharmaceutical wholesale representatives who visit medical institutions and pharmacies to introduce pharmaceuticals, conduct business negotiations, and provide and collect information

<sup>\*3</sup> PMS (Post Marketing Surveillance): Studies undertaken to ensure quality, effectiveness, and safety after the market launches of pharmaceuticals and medical devices approved by the Ministry of Health, Labour and Welfare

## Progress Updates by Business    Pharmaceutical Distribution Business

PS+Management pharmaceutical inventory management system and the PS+Voice automatic voice recognition and electronic medication history system, and partnered with Yamato Scientific Co., Ltd. to jointly develop the Medifiims PE asset management system for pharmacies. ES-Link will strive to build customer trust by offering solutions for efficiency enhancement and other needs.

To create the conditions that will allow us to provide new solutions in a digital age, we have entered into capital and business alliances with medical IT companies Dr.JOY Co., Ltd.; Welby, Inc.; Embrace Co., Ltd.; Ubie, Inc.; and SUSMED, Inc. Combining the Suzuken Group's management resources with the functions and resources of our partners, we aim to build a medical information platform for solving problems faced by community-based healthcare providers and by pharmaceutical companies.

### Strengthen the Medical Distribution Platform

The Suzuken Group, in order to fulfill its social mission of securely and reliably distributing pharmaceuticals, has structured a healthcare distribution platform for providing a comprehensive array of services encompassing manufacturer and wholesale distribution. We respond to the supply chain outsourcing needs of pharmaceutical companies but also strive to reduce social costs by promoting greater shipping efficiency and optimized distribution stock through shared distribution.

### GDP-Compliant Distribution Quality

Good Distribution Practice <sup>\*4</sup> Guidelines were announced in Japan in December 2018, making the provision of distribution quality in conformance with the guidelines a key topic for the industry. The Suzuken Group led the industry in implementing a traceability system and ensuring quality in storage and shipping. Presently, we are moving forward with an initiative in which we are drawing on the quality management knowhow we developed in manufacturer distribution to build a national wholesale distribution network that promises high distribution quality in wholesale distribution centers and locations throughout Japan. In August 2019, we acquired ISO 9001: 2015 certification for our Miyagi Distribution Center, and now we are focusing on operating the industry's first integrated distribution center combining wholesale distribution, manufacturer distribution, and a transportation terminal; developing BCP measures for times of disaster; and formulating an emergency distribution scheme in collaboration with EP-PharmaLine Co., Ltd.

### Addressing Drug Category Changes

#### Addressing Specialty Pharmaceuticals

The Suzuken Group developed Cubixx, a new specialty-drug traceability system covering everything from wholesale distribution, to medical institutions and pharmacies. Employing RFID <sup>\*5</sup> and IoT<sup>\*6</sup> digital technology, Cubixx enables comprehensive traceability from shipping through inventory management. We are promoting this system nationwide and have already had it adopted by over 140 users, mainly regional hospitals and hospitals specializing in certain diseases. Citing the system's 24/7 real-time monitoring, customers have informed us that once-difficult resale decisions have been simplified and that the ability to adjust inventories has reduced pharmaceutical disposal losses and lightened workloads. Cubixx has been awarded related patents as a pharmaceutical traceability system and is helping to reduce social costs as infrastructure for fulfilling the social mission of safely and securely delivering specialty drugs.

### Business Locations and Shipping Fleet of the Pharmaceutical Distribution Business

(as of March 31, 2020)

Branches.....	240
Wholesale distribution centers.....	18
Shipping fleet.....	1,854 vehicles



The industry's first integrated distribution center (Rokko Seishin Distribution Center)



The Cubixx System

<sup>\*4</sup> GDP (Good Distribution Practice): Quality management guidelines for the transportation and storage of pharmaceuticals

<sup>\*5</sup> RFID (Radio Frequency Identification): Automatic recognition system that uses radio signals to read and write stored information about individual people or objects

<sup>\*6</sup> IoT (Internet of Things): A system that adds internet connections to items such as sensors, drive systems, buildings, vehicles, and electronic devices that previously have not had them. These items connect to servers and cloud services to share information



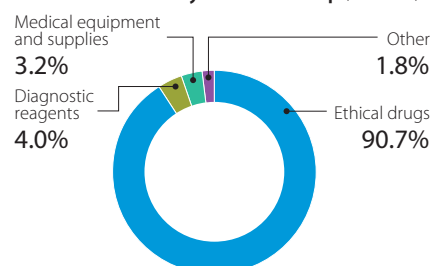
### Responding to Generic Drugs

We will build an unprecedented procurement function that makes the most of the special qualities of an integrated distribution center to provide high-quality, highly efficient medical distribution and even greater customer satisfaction. TS Pharma Co., Ltd., established in collaboration with Toho Holdings in April 2019, will engage in planning and negotiating for the production of generic drugs. Its ultimate purpose is to reliably provide safe, affordable, high-quality generic drugs in a way that reflects a patient-centric perspective. While developing a new distribution model for generic drugs, TS Pharma will work with pharmaceutical manufacturers to enhance supply chain efficiency by employing joint production systems, joint procurement, and manufacturer distribution.

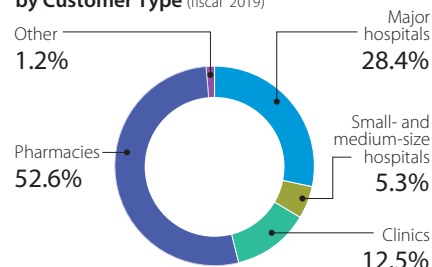
### Responding to Needs for Community-based Healthcare Collaboration and Comprehensive Community Care Systems

The Suzuken Group is engaged in pharmaceutical distribution and the provision of long-term care services throughout Japan and, through individual branches, sales departments and companies, has entered into cooperation agreements with local governments nationwide for comprehensive community care systems. In addition, realizing the importance of local collaboration among people in different professions, we are moving forward with the creation of a system that will allow our sales representatives to help connect health care and long-term care professionals with one another. Another of our aims is to create a new distribution model for the “last mile” between medical institutions and patients.

### Sales Breakdown by Product Group (fiscal 2019)



### Breakdown of Ethical Drug Sales by Customer Type (fiscal 2019)



Major hospitals: 200 or more beds  
Small- and medium-size hospitals: 50–199 beds  
Clinics: 49 or fewer beds



Cooperation Agreement signed with Obu City, Aichi Prefecture

### Japan's Health Insurance System and NHI Drug Price Standards

Two features of Japan's health insurance system are “universal health insurance,” which allows all residents of Japan to receive high-quality care for fixed individual payments, and “free access,” which enables people to choose their preferred institution for treatment.

Under such a universal health insurance system, official prices for pharmaceuticals in Japan are set by the National Health Insurance (NHI) Drug Price Standard, and the health insurance system pays official prices (drug price basis) to medical institutions and pharmacies. Wholesale prices at which pharmaceutical wholesalers supply medical institutions and pharmacies, however, are decided based on free competition.

#### Ethical Drug Distribution Price in Japan



### The Role of Pharmaceutical Wholesalers

In Japan, 97% of the ethical drugs that are used by the country's medical institutions and pharmacies are supplied via pharmaceutical wholesalers. In contrast with pharmaceutical wholesalers in other countries, wholesalers for other types of products, and logistics companies, Japan's pharmaceutical wholesalers perform the following five functions, fulfilling a socially important role in support of public healthcare services.

Function	Description
Physical distribution	Procurement, storage, quality control, shipping, and other physical transfer functions
Sales	Sales promotion, sales management, proper usage promotion, and other MR-like functions
Information	Handling of information in a way that is neutral, fair, and does not favor any particular pharmaceutical manufacturer
Financial	Receivables and payables management, including collection of payments
Demand-supply adjustment	Allocation in accordance with overall demand and supply

## Critical ESG Initiatives

## S Strengthening BCP Measures

## Building a Reliable Pharmaceutical Supply System Amid the COVID-19 Pandemic and the Government's Emergency Declaration

It is essential that we maintain reliable supplies of pharmaceuticals and other products to medical institutions, pharmacies, and other customers, even amid the COVID-19 pandemic and the Japanese government's emergency declaration. To do this, while also protecting the health of our customers and employees, we have constructed a supply system with a rotating staffing scheme. We have also joined with partners Toho Holdings Co., Ltd. and Yagami Seisakusho Co., Ltd. to examine joint distribution, delivery agency, and other distribution

system possibilities. Within Suzuken, we established a pandemic response headquarters to gather information from Suzuken Group members and take steps to fight the virus. In addition, we are collaborating with healthcare IT partners to jointly promote usage of tools they have developed to both stem the risks of hospital-acquired infection and support the healthcare system.

Conditions continue to change on a daily basis and we will respond swiftly and appropriately to developments as they occur.

## Main Business Continuation and Pandemic Response Measures



April 2020

## Joint Promotion of the Welby MyKarte COVID-19 Information Sharing App for Medical Professionals



Suzuken has joined with Welby Inc. to promote Welby MyKarte, an information sharing tool it developed for use by medical institutions and pharmacies. Suzuken and Welby entered into a capital and business alliance in November 2019. By tracking the health condition of medical professionals, the app helps to reduce the risk of hospital-acquired infections.

May 2020

## Joint Promotion of the "AI Monshin Ubie" Medical Interview App for Medical Institutions Fighting the COVID-19 Pandemic



Suzuken is jointly promoting the AI Monshin Ubie medical interview app developed by Ubie, Inc., a company with which it entered into a capital and business alliance in April 2020. The app, which is used by patients before and after a hospital visit, and as part of hospital triage, helps to reduce the risk of hospital-acquired infections and lightens the workload of medical professionals.

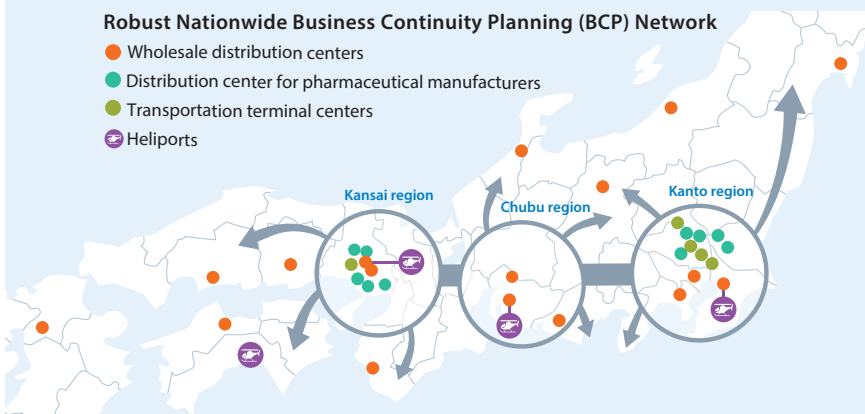
## Creating an Unprecedentedly Resilient BCP Network

Drawing on lessons from the Great East Japan Earthquake, our manufacturer distribution and wholesale distribution businesses have worked together to construct a resilient nationwide distribution network with key facilities in Tokyo, Nagoya, and Osaka. In times

of disaster, this distribution network will work with governmental authorities and pharmaceutical companies to swiftly deliver the pharmaceuticals needed by hospitals and other medical facilities in disaster zones.

## Robust Nationwide Business Continuity Planning (BCP) Network

- Wholesale distribution centers
- Distribution center for pharmaceutical manufacturers
- Transportation terminal centers
- Heliports



## Key BCP Facilities

## Facilities with On-site Generators

- 72-hour self-sufficiency: The Toda, Meinan, Hanshin and Seishin distribution centers
- Other distribution locations are equipped with on-site power generation facilities and small generators.

## Facilities Storing Diesel and Gasoline

- Chuo Unyu Co., Ltd. keeps fuel sufficient for approximately one week of joint distribution in the Kanto region.

## Satellite and Priority Phone Systems

- Satellite phones (Installed at main bases and distribution centers)
- Priority phones (All branches)

## Employee Safety Confirmation System

- A system is in place for confirming the safety of all Group employees via email and periodic training is conducted.

## S Group Human Resource Development

### Advancing Integrated Human Resources Development for the Group

The Suzuken Group is developing the human resources necessary to realize its vision for 2025. We do this through joint training for all Group employees and by creating employee self-development opportunities.

In addition, for select employees, we hold training that includes discussions with top management and group work and is aimed at providing participants with broadened opportunities such as the chance to take part in a new project. Self-development is also important and we actively encourage it. To better prepare the Group for digitalization, for example, we encourage employees to obtain the IT Passport, a national professional qualification indicating that holders possess basic IT-related knowledge.



Selective training participants engaged in a deep discussion of sustainable growth for the Group

## S Promotion of Diversity

### Advancement of Women

All Suzuken Group companies have established action plans based on the Act on Advancement of Measures to Support Raising Next-Generation Children and the Act on Promotion of Women's Participation and Advancement in the Workplace, and are promoting workplace participation by female employees. Eight Group companies have acquired the Eruboshi (awarded to companies with outstanding conditions for the advancement of women) and Kurumin (awarded to companies with childrearing support in place) certifications from the Ministry of Health, Labour and Welfare as shown below.



The Eruboshi and Platinum Kurumin certifications awarded to S.D. Logi

### Employment of People with Disabilities

Suzuken established Suzuken JoinUs Co., Ltd. as a special subsidiary in December 2013 to actively hire people with disabilities.

As of June 1, 2020, people with disabilities comprised 2.41% of the workforce. That level exceeds the standard under Japanese law.

## S Promoting the Health of Employees and Their Families

### Certified Health & Productivity Management Organization

In March 2020, Suzuken, S.D.Logi Co., Ltd., and the Suzuken Health Insurance Society were all designated by the Japanese Ministry of Economy, Trade and Industry as Certified Health & Productivity Management Organizations. All three organizations devote significant efforts to promoting the physical and mental health of both employees and their families, encouraging employees to use paid days off, and training managers to look after the wellbeing of subordinates.



Suzuken and S.D. Logi were designated Certified Health & Productivity Management Organizations in the large company, and small and medium enterprise categories, respectively.

## E Reducing CO<sub>2</sub> Emissions and Energy Usage

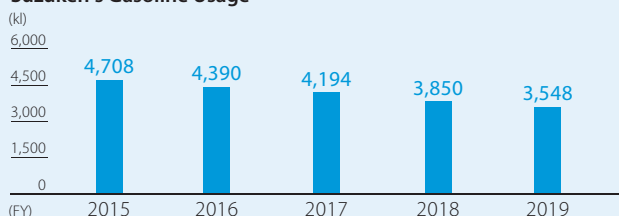
### Reducing Gasoline and Electricity Usage

To reduce Suzuken's gasoline usage, we are switching to energy-saving vehicles, promoting the use of telematics services,\* and advancing eco-driving initiatives. In fiscal 2019, these efforts helped to reduce our gasoline usage by 7.9% compared to the previous fiscal year. As for electricity usage, we established the goal of cutting our usage by 1% year on year. To achieve it, we took steps such as introducing LED lighting in all of our business locations and adjusting time and temperature settings for air-conditioning. As a result, we achieved a 1.8% reduction, exceeding our goal for fiscal 2019.

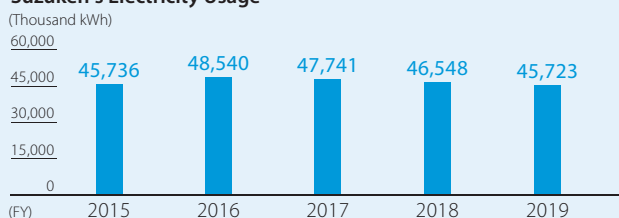
Measures such as these also helped to reduce our fiscal 2019 CO<sub>2</sub> emissions by 96.7% year on year.

\* Telematics service: A system that uses a dedicated vehicle-mounted device to gather travel data and data on operating conditions, driver characteristics, and other matters in real time

#### Suzuken's Gasoline Usage



#### Suzuken's Electricity Usage



# Pharmaceutical Manufacturing Business



## Business Environment

### Drug Pricing System Reform

In fiscal 2018, the drug pricing system was completely overhauled. The purposes of the reforms were to lighten the burden on citizens and improve the quality of healthcare, while also providing for the sustainability of the National Health Insurance system and promoting innovation. Drug prices will undergo frequent revisions under the revised System for Premiums to Promote the Development of New Drugs and Eliminate Off-Label Use, and a scheme for gradually reducing prices for long-listed drugs (those that have been covered for more than 10 years) based on prices for generic drugs has been introduced. These and other changes are expected to have large direct effects on the earnings structure of the pharmaceutical industry. Fiscal 2020 drug pricing system reforms were implemented to encourage the development of outstanding drugs by recognizing innovation, and to further the substitution of generics for long-listed drugs.

### Initiatives Targeting Unmet Medical Needs

Pharmaceutical manufacturers are engaged in vigorous R&D efforts to fulfill unmet medical needs, especially for cases in which treatment satisfaction and effectiveness are particularly low.

### Abiding by the Guidelines for the Improvement Commercial Transaction Practices of Ethical Drugs

These guidelines, which were formulated to help ensure the proper usage of ethical drugs and to promote better health, came into full effect in October 2019. They cover all documentation and other information used in the provision of sales information, regardless of the method or medium of provision. Pharmaceutical companies covered by the guidelines are required to implement internal systems and evaluate relevant personnel, conduct training, prepare and maintain procedure manuals and activity records, and respond to instances of the improper provision of sales information.

### Prevention, Early Diagnosis, and Treatment of Lifestyle Diseases

Lifestyle diseases are important not only as negative factors affecting healthy lifespans but also for their major impacts on national healthcare expenditures. They account for 60% of deaths and 30% of healthcare expenditures. Therefore, reducing risk factors and limiting complications are important for maintaining the quality of life and rectifying healthcare expenditures.

A key focal point is diabetes. Over three million patients have been diagnosed as having this disease and an estimated 20 million have been deemed prediabetic. For diabetic nephropathy, a complication of diabetes, early diagnosis and proper treatment are critical. Accounting for 39.0% of patients receiving dialysis (as of December 2017), this condition is the number one reason for people to undergo this treatment.

#### Number of Diabetes Patients (as of October of each year)



Source: "Patient Survey," Ministry of Health, Labour and Welfare

## Fiscal 2019 Results

Net sales decreased slightly, despite focused efforts to maximize early sales of METOANA Combination Tablets, a new product for the treatment of diabetes mellitus, and promote sales of SUINY Tablets, a DPP-4 inhibitor,\*1 and URIADEC Tablets, an agent for hyperuricemia and gout. Outweighing these efforts were factors such as license fee income recorded in the previous consolidated fiscal year but not in fiscal 2019 and the introduction of generic alternatives for SEIBULE Tablets, an antidiabetic agent that improves postprandial hyperglycemia in patients with diabetes mellitus, following the end of patent protection.

Operating income rose as a result of efforts to rein in selling, general and administrative expenses.

For the fiscal year, the segment recorded net sales of ¥44,693 million (down 5.0% year on year) and segment operating income of ¥1,181 million (up36.0% year on year).

## Main Initiatives

### Increase Prescriptions for Mainstay Products

#### Pharmaceutical Manufacturing Business

In November 2018, we introduced METOANA Combination Tablets, a type 2 antidiabetic agent. METOANA Combination Tablets combine the mechanism of action of SUINY Tablets, a medicine that lowers blood glucose, and Metformin Tablets, a drug to improve conditions of declining insulin sensitivity; therefore, are expected to result in better blood glucose control and greater patient adherence.\*2 In February 2019, we launched LAGNOS NF JELLY for Oral Administration Divided Pack 12g, a preparation for chronic constipation and treatment of hyperammonemia. By strengthening cooperation between our pharmaceutical wholesale business and sales operations, we are working to maximize sales of new products early on.

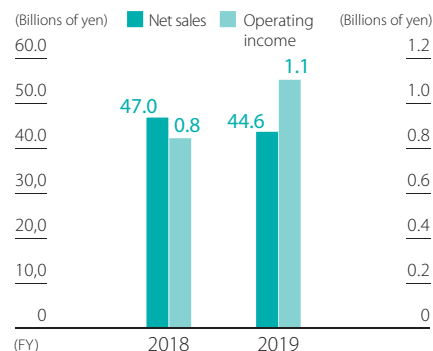
Regarding URIADEC Tablets, an agent for hyperuricemia and gout, the emergence of new scientific evidence has added energy to our efforts to draw on resources throughout the Suzuken Group to amplify MR detailing activities (provision of explanations to physicians) on both the significance of treating hyperuricemia and the unique effectiveness of URIADEC Tablets. In November 2019, we introduced Darbepoetin Alfa BS Injection, a biosimilar\*3 long-acting erythropoiesis-stimulating agent.

#### Diagnostic Reagent Business

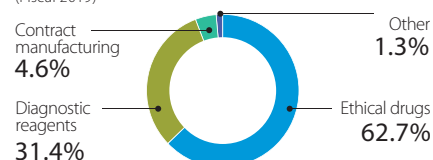
In our diagnostic reagent business, we are continuing to provide blood glucose monitors and sensors, and diagnostic reagents for infectious diseases and use in the field of pediatrics. Among our most successful products is a compact blood glucose monitor that patients themselves can use and has won high marks for its ease of use, safety, and outstanding accuracy. These qualities have made it the top selling product of its kind in Japan.

In September 2019, we introduced the GLUTEST MINT II glucose analyzer for hospitals and the MintSensor II sensor for exclusive use with the GLUTEST MINT II analyzer, and in July 2020 we began sales of the GLUTEST AQUA blood glucose monitor.

### Results for the Fiscal Years 2018 and 2019



### Net Sales Breakdown for Main Businesses (Fiscal 2019)



### Main Products



SUINY Tablets



METOANA Combination Tablets



LAGNOS NF JELLY for Oral Administration Divided Pack 12 g



URIADDEC Tablets



Darbepoetin Alfa BS Injection



GLUTEST AQUA

\*1 DPP-4 inhibitor: Medication that aims to inhibit the action of DPP-4, an enzyme that breaks down incretin, a gastrointestinal hormone

\*2 Patient adherence: Active participation by the patient in deciding and following a treatment regimen

\*3 Biosimilar: A pharmaceutical product that is highly identical in terms of quality, safety, and effectiveness to a biotechnological drug already approved as containing a new active ingredient but developed by a different manufacturer



## Progress Updates by Business    Pharmaceutical Manufacturing Business

### R&D (Pipeline) Update

As a pharmaceutical manufacturer, our ongoing growth relies on the development of new pharmaceuticals. We view diabetes, and kidney and dialysis-related areas, as areas with substantial unmet medical needs and strong potential as new growth markets. These areas are at the center of our efforts to develop new pharmaceuticals and enhance our pharmaceutical development pipeline.

We have in-licensed a therapeutic agent for secondary hyperparathyroidism (SK-1403) from EA Pharma Co., Ltd. and applied to the manufacture and sale of this product to the Japanese Ministry of Health, Labour and Welfare on August 25, 2020.

### New Initiatives Based on Collaboration

In March 2019, we entered into a domestic promotion alliance with FUJIFILM Toyama Chemical Co., Ltd. for Insulin Glargine BS Injection Kit "FFP," an insulin biosimilar. This alliance will help to boost the presence of this product in the field of diabetes treatments.

Meanwhile, KyosoMirai Pharma Co., Ltd. and Sanwa Kagaku Kenkyusho Co., Ltd. are collaborating with TS Pharma Co., Ltd., a company we established together with Toho Holdings Co., Ltd. to develop generic drug sales. Sales of Silodosin OD Tablets, a drug for easing urination difficulty caused by benign prostatic hyperplasia, began in June 2019 and five other generic drugs will be offered beginning in June 2020.

### Developing New Drugs with Proprietary OSDrC Technology

OSDrC (One-Step Dry-Coating Technology) is a drug formulation technology developed by Sanwa Kagaku Kenkyusho. We are using this technology to perform drug development and manufacturing under contract for pharmaceutical companies in Japan. Rotary tablet presses with variable double punches enabling production of dry-coated tablets in a single step can be used, for example, to make divided tablets with two cores and tablets of nearly any shape. They make it possible to design and manufacture high-value-added drugs.

We will continue to give technical presentations at academic seminars and trade shows to promote technology for manufacturing a wide range of dry-coated tablets that respond to medical needs.

### Pharmaceutical Manufacturing Business

**Locations** (as of March 31, 2020)

Pharmaceutical manufacturing plants..... **3**



Fukushima Factory



Kumamoto Factory

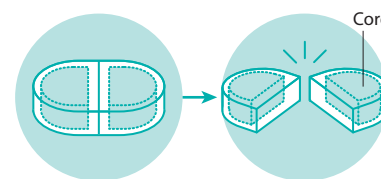


Hokkaido Factory

### Manufacturing Diverse Drug Formations for Patient Needs

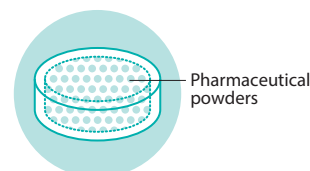
#### Multi-Core Tablets

Divided tablets with two cores can be manufactured in one step. This makes it possible to adjust the dose by cutting a tablet in half.



#### Dry-Coated Tablets with Poorly Compressible Cores

Core pharmaceutical powders can be encased with an outer coating. This technology can be used for oral rapid disintegration tablets as well.



## Critical ESG Initiatives

### E EHS<sup>\*1</sup> Initiatives

#### Promoting Resource Conservation and Waste Management

Chemical and other substances used as pharmaceutical ingredients can impact ecosystems when they are emitted or disposed of in the course of a manufacturing process. Therefore, strict management based on environmental laws and regulations intended to minimize those impacts is essential. Furthermore, it is important to see to it that manufacturing plants are properly managed from environmental and sanitation/hygiene perspectives.

Sanwa Kagaku Kenkyusho Co., Ltd. has established its Environmental Committee and formulated targets with an action plan for environmental protection. Efforts are underway to identify emissions of chemical substances and to exercise proper management in accordance with the PRTR system<sup>\*2</sup> in order to reduce emissions of air pollutants. High-efficiency systems are being adopted and visual representations of energy usage are being advanced to save energy and counter climate change. The amount of material recycled is being increased to steadily reduce the final waste disposal rate.

<sup>\*1</sup> EHS (Environment, Health and Safety): More and more pharmaceutical companies are giving weight to EHS evaluations when selecting a manufacturing subcontractor

<sup>\*2</sup> PRTR (Pollutant Release and Transfer Register) system: System whereby the volume of chemical substances (that may be harmful to human health and the ecosystem) discharged from a place of business into the environment (atmosphere, water, soil) and the volume of such substances included in waste transferred from a place of business are monitored by the business operator and reported to the national government, which compiles and publishes discharge and transfer volumes according to notification data and estimates

#### Energy-Saving and Climate Change Targets

Fiscal 2020 CO<sub>2</sub> emissions

**15% reduction**

Base year: Fiscal 2005 per unit production

### S Quality and Safety Management Initiatives

#### Quality Assurance and Stable Supplies of Pharmaceuticals

Sanwa Kagaku Kenkyusho is building a quality assurance system in line with international standards and has moved to ensure the stable supply of its main products by introducing double-line production at two facilities, one each in Fukushima and Kumamoto prefectures. It is also pursuing production technology R&D and has devoted significant attention to transferring production technology knowledge and experience to further the development of younger employees. To help ensure QCD (quality, cost, delivery), the highest priority of production management, "meister education" (technical education for pharmaceutical manufacturing technicians) is conducted for employees early in their careers.

### S Education on Diabetes Prevention, Treatment, and Recuperation

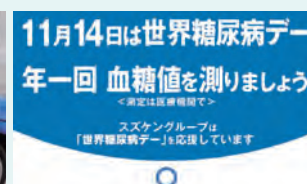
#### Cosponsoring and Participating in World Diabetes Day Activities

In October and November of every year, the Suzuken Group engages in activities aimed at raising awareness of diabetes prevention, treatment, and recuperation. These activities are undertaken in support of World Diabetes Day, which the United Nations has decided shall be marked every year on November 14. During October and November, Sanwa Kagaku Kenkyusho MRs and Suzuken Group wholesale companies' MSs wear a pin badge in the shape of the Blue Circle, which symbolizes World Diabetes Day.

In addition, Sanwa Kagaku Kenkyusho and Suzuken Group wholesale companies cooperate in holding diabetes-related seminars throughout the year. In fiscal 2019, 188 of these seminars were held throughout Japan.



Vehicle displaying a World Diabetes Day sticker



World Diabetes Day is November 14 Check Your Blood Sugar Once a Year

#### Response to the COVID-19 Pandemic

##### Sales of a Rapid Detection Kit for COVID-19 Antibodies

Sanwa Kagaku Kenkyusho Co., Ltd. began selling a rapid detection kit for COVID-19 antibodies on July 15, 2020. While DNA and antigen tests are used to determine whether a person is currently infected with the COVID-19 virus, antibody tests can indicate whether a person has been infected in the past. The company hopes that its sale of this product can contribute to ending the COVID-19 pandemic as quickly as possible.



Kit including testing device and bottle of buffer solution

# Pharmacy Business



## Business Environment

### Promoting Family Pharmacists and Pharmacies

The Ministry of Health, Labour and Welfare is supporting the concept of family pharmacists and pharmacies—local pharmacies and their pharmacists who use their expertise and ICT to ascertain what medicines a patient is taking and then provide the patient with assistance in managing and using them. Family pharmacists and pharmacies can help patients avoid taking excessive amounts of medications or duplicate medications. They also provide patients with guidance on proper medication usage to avoid having to dispose of old or unused medications. In so doing, they contribute to greater safety and effectiveness of drug therapies, and propriety in healthcare spending.

Family pharmacists and pharmacies will be relied upon to perform three functions: unified and continued monitoring of medication usage, providing 24-hour and in-home service, and allying with medical institutions and other related organizations (see page 37).

### “Health Support Pharmacies” Helping to Maintain and Improve the Health of Local Residents

A “health support pharmacy,” as defined in the Enforcement Regulations of the Pharmaceuticals and Medical Devices Act, is a pharmacy that offers functions necessary for the continued use of the pharmacy by patients as well as for actively supporting patients in taking the lead in maintaining and improving their own health. Health support pharmacies offer the basic functions of family pharmacists and pharmacies while actively helping local residents maintain and improve their health (see page 37).

### Changes for Pharmacists and Pharmacies Under the 2019 Revised Pharmaceutical Affairs Law

To strengthen pharmacist and pharmacy functions for supporting patients who are being treated at home, and to bolster information sharing and collaboration with local medical facilities, the 2019 revised Pharmaceutical Affairs Law establishes a legal framework (effective September 1, 2020) concerning the monitoring of medication usage and provision of medication usage guidance by pharmacists after they prepare medications for patients. Regarding pharmacies with specified functions, the revised law introduces a system for awarding certifications and identifying certified pharmacies (effective August 1, 2021).

#### Pharmacies with Specified Functions

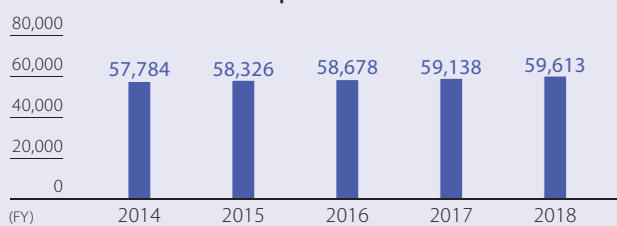
- **Locally networked pharmacies:** Pharmacies capable of working with other medical facilities to support patients when they are admitted to or discharged from a hospital, or are being cared for at home
- **Pharmacies collaborating with specialized medical institutions:** Pharmacies capable of working with other medical facilities in managing specialized pharmaceuticals for the treatment of cancer and other diseases

### Online Medication Instruction System

In the past, pharmacies were required to provide medication instructions in person. However, with the December 2018 passage of the revised Pharmaceutical Affairs Law, it becomes possible to provide medication instructions online in September 2020.

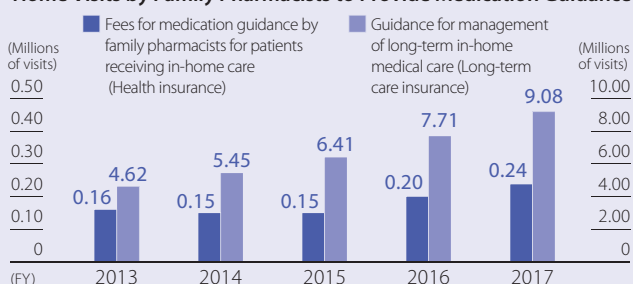
In addition, as a measure to help prevent the spread of the COVID-19 virus among the public and in medical care facilities, authorities have taken the step of allowing even initial medical examinations to be performed online.

#### Number of Pharmacies in Japan



Source: Outline of Report on Public Health Administration and Services FY2018, Ministry of Health, Labour and Welfare  
Number of Pharmacies and Prescriptions, Ministry of Health, Labour and Welfare

#### Home Visits by Family Pharmacists to Provide Medication Guidance



Source: Central Social Insurance Medical Council, Ministry of Health, Labour and Welfare

## Fiscal 2019 Results

Net sales rose on the strength of factors such as higher sales of medications and growth in technical fees for dispensing, the latter resulting from efforts to strengthen family-pharmacy functions. These outweighed the impact of fewer prescriptions being filled due in part to a relative increase in long-term prescriptions and fewer patient visits to healthcare providers amid the COVID-19 pandemic. Operating income declined in part because of the higher cost of hiring and keeping pharmacists.

For the fiscal year, the segment recorded net sales of ¥96,439 million (up 1.9% year on year) and operating income of ¥1,736 million (down 8.8% year on year).

## Main Initiatives

### Local-Favorite-Pharmacy Initiative

The Suzuken Group is working to build a platform that includes pharmacies as a key element, and we contribute to local communities by drawing on strengthened existing pharmacy functions and on new functions derived through collaborations.

At a time when it is necessary for pharmacies to not only fill prescriptions covered by the insurance system but also contribute more broadly to their communities, we aim to make all of our pharmacies into family pharmacies staffed with family pharmacists. We are committed to strengthening their abilities to perform healthcare functions including the provision of patient-oriented services, helping patients remain healthy, and encouraging patients to be examined by a physician when necessary.

In addition, based on our vision of pharmacies as key elements of comprehensive community care systems, we will begin to offer services that reduce the burden on in-home medical- or long-term-care patients, and their families, and allow them to live with a greater sense of safety and peace of mind. Among other functions, this system will support medical and long-term care professionals with “last mile” distribution to the patient’s home.

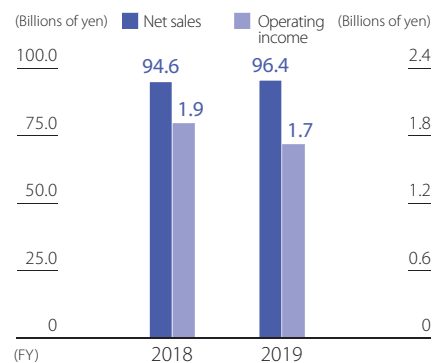
### Strengthening Our Operational Foundation and Improving Productivity

As of the end of March 2020, the Suzuken Group was operating 613 pharmacies throughout Japan. This figure includes the effects of locations added through M&A and new construction and of closings of unprofitable locations. As we proceed to build our brand on safety and peace of mind, we are also working to strengthen our operational foundation and improve productivity.

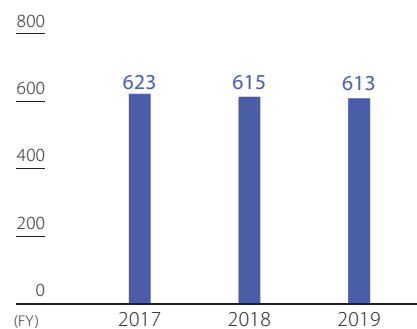
Responding to the Ministry of Health, Labour and Welfare’s April 2019 memorandum on the topic of drug compounding operations, we are advancing initiatives aimed at boosting productivity by taking steps such as changing the work performed by pharmacists and adopting devices that aid drug compounding.

In addition, we are helping to reduce social costs by lightening workloads and cutting pharmaceutical disposal losses. Our approaches for achieving results in these areas include the use of inventory management systems to more tightly control obsolete inventory, and implementation of the Cubixx System, the specialty drug traceability system being advanced by the Suzuken Group.

### Results for the Fiscal Years 2018 and 2019



### Number of Suzuken Group Pharmacies\*



\* As of each fiscal year end



Inside a Pfercos Co., Ltd. pharmacy

### Cross-Profession Linkages and In-Home Care through Community Health Care Cooperation Initiatives

The development of pharmacies specializing in meeting in-home care needs and the establishment of adjacent offices providing support for long-term medical care that allows patients to stay in their homes are underway as community health care cooperation initiatives.

As local governments advance regional healthcare concepts, we are creating more opportunities to network with local medical association liaisons, local main hospitals, key Pharmacist Association people, physicians who provide in-home care, care managers, and other healthcare professionals. Working with the Suzuken Group's pharmaceutical wholesaling and nursing care businesses, the pharmacy business is creating venues for promoting cross-profession linkages at the local level.

On another front, we are enhancing our ability to handle electronic prescriptions and provide remote drug usage guidance.



Pfercos Co., Ltd. pharmacist providing in-home medication guidance

### Human Resource Development through Conference Presentations

Every year, Suzuken Group members operating pharmacies give presentations covering a wide range of topics at various types of academic and medical/pharmaceutical conferences. Based on the belief that giving shape to the problem awareness of individuals and solving problems from the patient's perspective will have benefits for the future, we actively develop human resources through these activities.

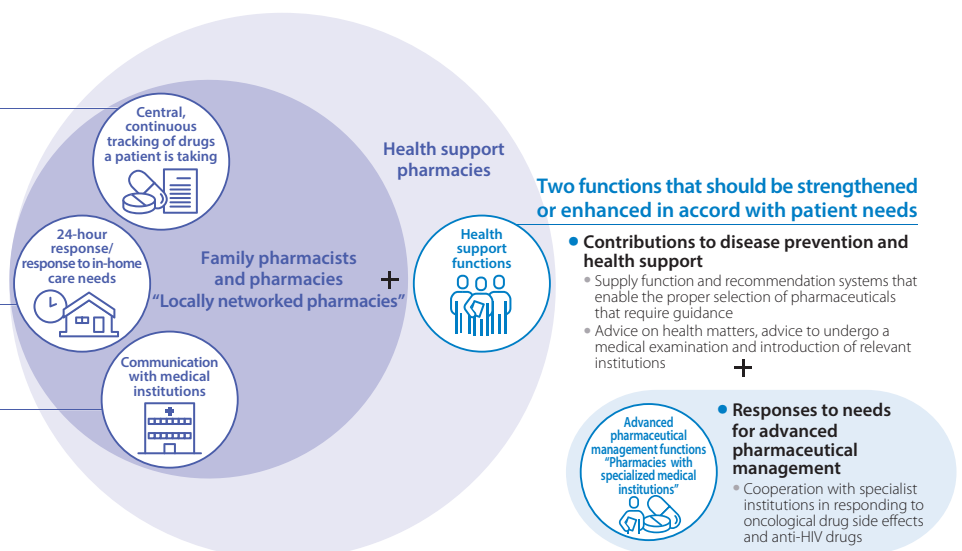


Poster presentation at the 52nd JPA Congress of Pharmacy and Pharmaceutical Science, which was attended by 20 Pfercos Co., Ltd. pharmacists

### Vision of Patient-Oriented Pharmacies From Nearby to Family to Community

#### Three functions family pharmacists and pharmacies should perform

- Ongoing confirmation of side effects and effectiveness
- Prevention of polypharmacy or duplication of drugs, and interactions
  - Use of ICT (electronic medication journals, etc.)
    - To track prescriptions from all medical institutions from which a patient is receiving care
    - To centrally and continuously monitor for the purposes of management and guidance for all drugs, including over-the-counter drugs
- Night-time, holiday, weekend response to in-home care needs
  - 24-hour response
  - Pharmaceutical management and medicine usage guidance for in-home care patients
- Readiness to question prescriptions and make recommendations
- Feedback on side effects and medication usage
- Advice on pharmaceutical and health matters
- Advice to undergo an examination at a medical institution
  - Information sharing on a medical information network



Source: Prepared based on information from "Vision of Patient-Oriented Pharmacy," Ministry of Health, Labour and Welfare (October 23, 2015)



## Critical ESG Initiatives

### E Reducing Unused Medications and Pharmaceutical Waste

#### Guidance by Pharmacists to Promote Proper Drug Usage

In Japan, medicines going unused because prescriptions were not followed has become a serious problem for society. Solving this problem requires detailed drug usage guidance by pharmacists. Suzuken Group pharmacies provide simple, clear advice on how to take medications, and they use one-dose packaging<sup>\*1</sup> and perform brown bag reviews<sup>\*2</sup> to help patients take their medications as prescribed.

<sup>\*1</sup> One-dose packaging: Combining drugs to be taken at the same time in a single package

<sup>\*2</sup> Brown bag review: Pharmacists taking the lead in monitoring the amounts and types of prescription drugs, OTC drugs, and supplements patients regularly use to check for side effects, interactions, and other problems

#### Group-wide Effort to Reduce Pharmaceutical Waste

Greater emphasis on the use of generic drugs and the rising use of specialty drugs have highlighted for pharmacies the importance of strictly managing quality and inventory in accordance with the characteristics of individual products.

The Suzuken Group is helping to reduce pharmaceutical disposal losses through integrated quality and inventory management achieved with measures such as implementation of the Cubixx specialty drug traceability system and inventory management systems.



Small-footprint INE40A Cubixx unit developed for use by pharmacies

### S Supporting Education for the Next Generation

#### Accepting Students for Long-Term Practical Training and Internships

In support of pharmacy student education, Suzuken Group pharmacies offer long-term practical training and internships, and conduct early experiential learning programs for first-year college students. At Pfercos Co., Ltd. and S-mile Co., Ltd., a total of 186 certified practical instruction pharmacists lead the practical training of pharmacy students.



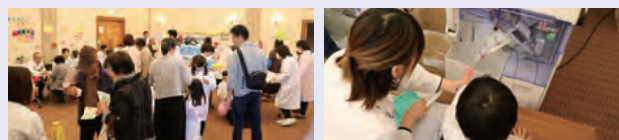
Training being conducted for pharmacy students

### S Contributions to Regional Communities

#### Supporting the Health of Local Residents

Suzuken Group pharmacies throughout Japan hold events where they offer health checkups and advice as well as opportunities for children to experience the work of a pharmacist in play settings. The Suzuken Group is also establishing "self-care pharmacies" with a broad range of functions for promoting the self-care efforts of local residents and is introducing pharmacies with both Certified Nutrition Care Stations<sup>\*3</sup> and in-home care support offices.

<sup>\*3</sup> Certified Nutrition Care Stations are facilities certified by the Japan Dietetic Association as being able to provide nutrition care support and guidance to the residents of a local area. At these facilities, registered dietitians, care managers, and pharmacists cooperate to promote better health for local residents.



S-mile Co., Ltd. holds collaborative industry-academia health fairs in the Okayama area. (Left) Health checkups and nutrition advice (Right) Children's pharmacist

#### Response to the COVID-19 Pandemic

##### Preventing Infection in Customer Interactions

At Suzuken Group pharmacies, employees wear masks and face shields, frequently disinfect their hands (left), and use an alcohol-based disinfectant to clean indoor surfaces to prevent transmission of the COVID-19 virus. Counter partitions (right) and vinyl curtains have also been installed as an additional measure to prevent infection by droplets.



Disinfecting hands



Counter partition

##### Three Suzuken Group Pharmacists Dispatched to the Diamond Princess

The Diamond Princess, a cruise ship docked at the Port of Yokohama, suffered a mass outbreak of COVID-19 infections. Suzuken Group pharmacies responded to this situation by dispatching three pharmacists to help prevent the further spread of the virus.

# Healthcare-Related Services Business

- Manufacturer Support Services Business
- Nursing Care Business



## Business Environment

### Expansion of the Specialty Drug Market

The Suzuken Group defines specialty drugs as orphan drugs, biopharmaceuticals, high-price pharmaceuticals, and products related to cell and gene therapy (CGT) requiring strict temperature control, inventory management, and security management. The market for specialty drugs is expected to grow, but in responding to that growth it will also be necessary to meet increasingly complex and varied needs, and to reduce social costs by streamlining inventory management and reducing pharmaceutical disposal losses.

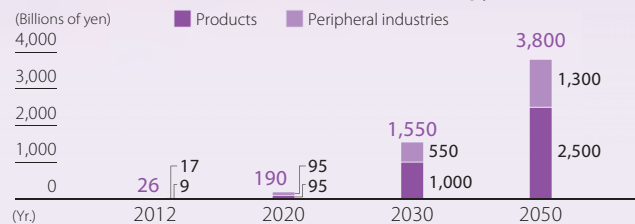
With regard to CGT products, in particular, the acceleration of research in recent years is fueling expectations that the market, and those of related industries, will experience rapid expansion. CGT products are especially temperature sensitive, and meeting exacting temperature control requirements will necessitate the implementation of a shipping and storage platform.

### Building Comprehensive Community Care Systems

Amid rising demand for medical and nursing care for the elderly, comprehensive community care systems are being built with completion targeted for 2025. These systems will constitute an integrated provider of residential, medical, long-term care, preventive, and daily life support services to enable people who require a high degree of care to continue to live in a familiar environment in ways that suit them.

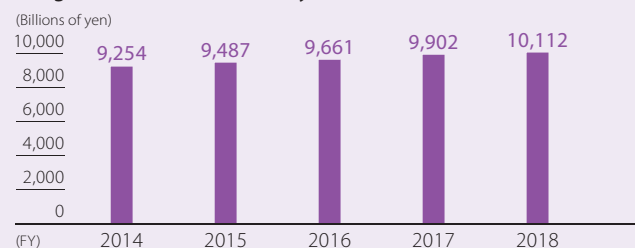
Comprehensive community care systems are being developed by local governments which function as insurers and must reflect the special characteristics of each local area's identity.

### Domestic Market Forecast for Cell and Gene Therapy (CGT) Products



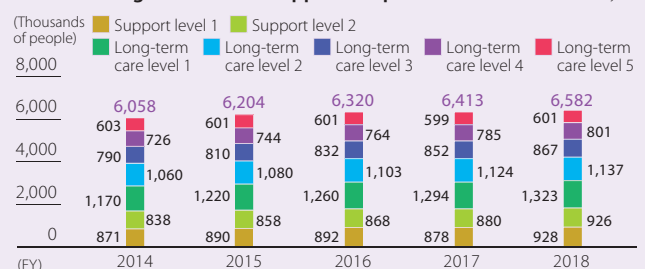
Source: "Study Group on Commercialization and Industrialization of Regenerative Medicine," Ministry of Economy, Trade and Industry

### Long-Term Care Insurance Payments



Source: "Status Report on the Long-Term Care Insurance System (Annual Report)," for 2018, Ministry of Health, Labour and Welfare

### Certified Long-Term Care or Support Recipients (as of the end of each fiscal year)



Source: "Status Report on the Long-Term Care Insurance System (Annual Report)," for 2018, Ministry of Health, Labour and Welfare

## Fiscal 2019 Results

Segment net sales rose mainly due to higher revenue resulting from an increase in contracts in the manufacturer support services business (manufacturer distribution, orphan drug distribution) and a rise in users in the nursing care business. Despite this higher revenue, however, operating income declined as the greater number of contracts in the manufacturer support services business led the pharmaceutical distribution business, which provides distribution services to the former, to revise its pricing schedule to reflect capital investments, workload, and other initiatives undertaken to meet the expanded business needs.

The segment reported fiscal year net sales of ¥100,673 million (up 62.1% year on year) and segment operating income was ¥1,364 million (down 1.6% year on year).

As of March 31, 2020, the manufacturer support services business was performing distribution (including distribution of investigational drugs) for 53 companies. At the same time, it was contracted by 20 companies to distribute 33 orphan drugs.

## Main Initiatives

### [Manufacturer Support Services Business]

#### Realizing Quality Management in Line with Global PIC/S GDP Standards

In our contract distribution business for pharmaceutical manufacturers, which the Suzuken Group began providing in 2005, we practice strict temperature and quality control in conformance with GMP\*<sup>1</sup> standards. At our manufacturer distribution centers, we gained GMP-compliant ISO 9001 certifications in 2008, have updated those certifications to the 2015 version, and provide quality control in conformance with the PIC/S\*<sup>2</sup> GDP\*<sup>3</sup> global standards. With the start of operations at Chuo Unyu Co., Ltd.'s Medical Terminal (photo on page 42) in October 2018, more efficient joint pharmaceutical distribution is now being provided in the Kanto Area. In addition, efforts are being made to expand the area in which we are able to offer our Direct Cool\*<sup>4</sup> refrigerated distribution service for pharmaceuticals.

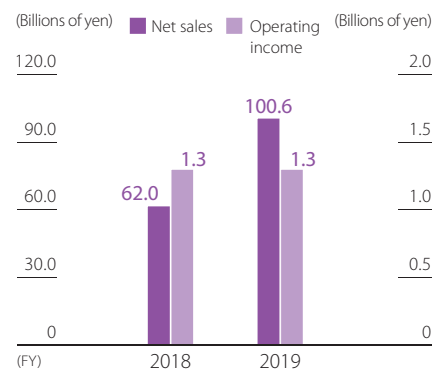
#### Building an All-In-One Contracting Model for Orphan Drugs

S.D. Collabo Co., Ltd. resolves issues in the domestic distribution of orphan drugs and provides launch support to pharmaceutical companies. In addition, working with EPS Holdings, Inc., it has built an all-in-one contracting model that offers a wide array of services such as distribution for manufacturers, sales to medical institutions, and support for treatment outcome studies for orphan drugs. Given the strength of its contract distribution performance, in June 2019, Alnylam Japan K. K. selected S.D. Collabo to be the sole provider of distribution services for ONPATTRO intravenous infusion, the world's first RNAi therapeutic. S.D. Collabo will draw on not only its distribution function but also its deep expertise and wealth of human resources to expand its business going forward.

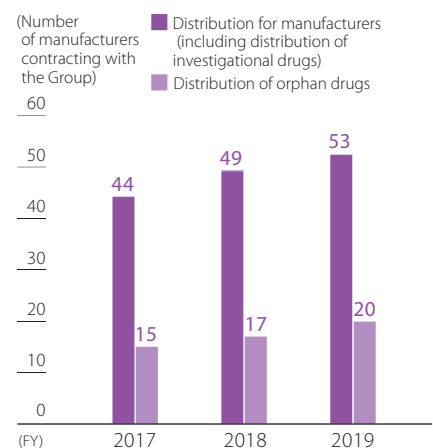
#### Building a Platform for Cell and Gene Therapy (CGT) Products

S.D. Collabo Co., Ltd. has been performing storage and distribution of clinical-trial-stage cell and gene therapy (CGT) products as a subcontractor since October 2016. In preparation for the anticipated growth in launches of cell and gene therapy (CGT) products the company has adopted extremely safe and reliable systems using liquid nitrogen as a coolant for strict temperature control and the use of frozen storage containers for shipping. As a BCP measure, the company has established critical infrastructure locations throughout

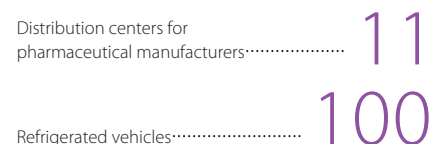
### Results for the Fiscal Years 2018 and 2019



### Contracts for Manufacturer Distribution



### Nationwide Locations and Distribution Fleet of the Manufacturer Support Services Business (as of March 31, 2020)



\*1 GMP (Good Manufacturing Practice): Manufacturing and quality management guidelines for pharmaceuticals

\*2 PIC/S: A combination of abbreviations for the Pharmaceutical Inspection Convention (PIC) and the Pharmaceutical Inspection Co-operation Scheme (PICS), which are two international cooperation organizations that aim to improve cooperation among governments and inspection authorities in the areas of GMP and GDP

\*3 GDP (Good Distribution Practice): Quality management guidelines for the transportation and storage of pharmaceuticals

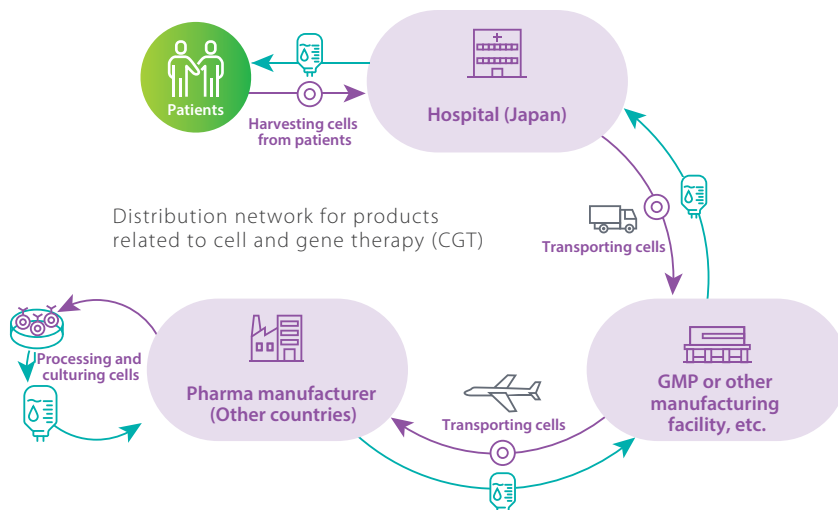
\*4 Direct Cool: Temperature controlled service in which pharmaceuticals (2–8°C) are shipped from Chuo Unyu Medical Terminals throughout the country directly to pharmaceutical wholesale distribution centers

## Progress Updates by Business Healthcare-Related Services Business

Japan. In addition, to handle cases in which tissues or cells for cell and gene therapy (CGT) products are collected in Japan, sent overseas, and then returned to Japan after processing or cultivation, the company entered into an agreement with World Courier, part of the U.S.-based AmerisourceBergen drug wholesale group, in September 2018, to create a global network (see the diagram below).

As part of its effort to offer a rich selection of services responding to the high-level, multifaceted needs of pharmaceutical companies, S.D. Collabo has embarked on initiatives such as initiating the joint development of the R-SAT system for tracking patients using cell and gene therapy (CGT) products and, as a first for a pharmaceutical wholesaler, obtained manufacturing (packaging, labelling, storage) authorization allowing it to store, label, and make product shipping decisions for cell and gene therapy (CGT) products.

### Global Distribution Platform for Cell and Gene Therapy (CGT) Products



### [Nursing Care Business]

#### Providing High-Quality Long-Term Care Services Customized for Local Needs

S-Care Mate Co., Ltd. mainly offers facility-based services in 23 locations in the Tokyo metropolitan area and Chubu region. Sanki Wellbe Co., Ltd. operates in 77 locations to provide visiting nursing care services in the Chugoku region, which has a large number of towns and villages. These companies provide visiting care services customized to serve local needs. They offer a full line of services to respond to the changing conditions of users at all levels of need for assistance and long-term care.

Maintaining sufficient staffing of long-term care workers has become an urgent matter. In response, our long-term care companies are taking steps, such as establishing systems for earning professional qualifications, to improve employee satisfaction, and are adopting robotic, fall-prevention, and other technologies to help staff members perform their jobs.

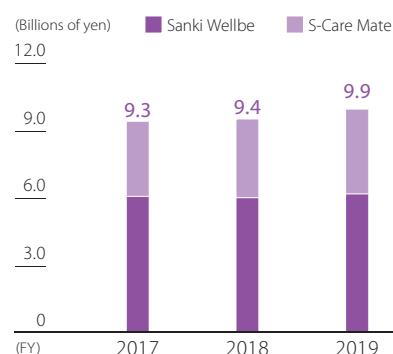
#### Promoting the Establishment of Comprehensive Community Care Systems

The Suzuken Group aims to establish a medical and long-term care collaboration model in which our pharmaceutical wholesaling and pharmacy businesses are constituent elements. As a long-term care service provider helping to enable comprehensive community care systems through actions such as delivering medicines from our pharmacies and having our pharmacists provide usage guidance, we aim to further strengthen our efforts along these lines.

### Main Distribution Agreements for Cell and Gene Therapy (CGT) Products

December 2018	Became the exclusive Japanese distributor for a CGT product under development by Ishin Pharmaceutical Co., Ltd.
May 2019	Became the exclusive Japanese distributor for Kymriah, the first CAR-T cell therapy to be distributed by Novartis Pharma K.K. in Japan
August 2019	Signed a basic agreement with SanBio Co., Ltd. concerning the commercial distribution of a regenerative cell medicine being developed by that company and embarked on the joint development of a patient support system
May 2020	Entered into an agreement with Novartis Pharma K.K. for the domestic distribution of its Zolgensma suspension for intravenous infusion, a gene therapy product for treating spinal muscular atrophy

### Nursing Care Business Net Sales



S-Care Station Hiratsuka a provider of adult daycare and short-term care services (Hiratsuka City, Kanagawa Prefecture)



## Critical ESG Initiatives

### S Distribution that Meets International Standards for Quality

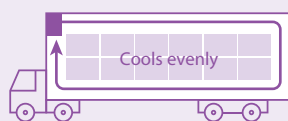
#### Strict Quality Management at Distribution Locations and in Vehicle Deployment

Chuo Unyu Co., Ltd., which handles pharmaceutical shipping and storage for pharmaceutical companies, is now conducting joint distribution for over 100 companies. The company responds to the diverse needs of pharmaceutical companies through quality management in conformance with the PIC/S GDP global standards.

#### Key Quality Management Initiatives

- Medical Terminal (lower right): Cold-storage drugs are kept at temperatures of 2–8°C and room-temperature drugs at temperatures of 1–30°C. A monitoring system prevents breakdowns and malfunctions by setting off an alarm when a temperature excursion is detected.
- Proprietary Cold Air Circulation System (lower left): This system maintains a constant temperature within the cargo areas of temperature-controlled vehicles. A temperature monitoring system ensures quality control during shipping.
- 24-hour Monitoring: Digital tachographs (driving data recorders) are installed in delivery vehicles. Also equipped with temperature sensors, this system tracks the vehicle's location and monitors environmental conditions within the vehicle.

#### Cold Air Circulation System



#### Chuo Unyu Medical Terminal



### S Ensuring Pharmaceutical Effectiveness and Safety

#### A New Traceability System for Resolving Investigational Drug Management Issues

In March 2020, development of Cubixx CT, an investigational drug traceability system, was completed and the system was put into use at clinical trial sites. Managing investigational drugs requires evaluation of effectiveness and safety, which must be done with strict quality control and in accordance with procedures at various temperature ranges. Data for these evaluations must be recorded, and Cubixx CT provides a temperature record backup. With the added ability to set multiple temperature ranges (for example, 15–25°C, 1–30°C, etc. in addition to the traditional 2–8°C), we believe Cubixx CT enhances work efficiency for those handling investigational drugs.



Cubixx CT

### S Initiatives for Collaboration with Local Communities

#### Healthcare Events for Local Residents

The Suzuken Group's nursing care business, in pursuing its aim to provide long-term care services that respond to local needs, holds events that local residents can participate in. It does this as one way to help maintain communities where residents are confident they can continue to live into their old age.

In our long-term care facilities, we regularly hold classes for developing care helpers for people with dementia - people who can provide support to local residents who have dementia and to their families. These classes are held for local residents and are led by our employees who are Caravan Mates (trained instructors for developing care helpers for people with dementia). In fiscal 2019, the company's employees conducted 18 of these classes.



S-Care Mate invited elementary school students to visit one of its adult daycare locations. Students expressed great interest and had many questions about facilities such as a bathing device that can be used with the care recipient in a sitting position and functional training equipment.



Sanki Wellbe's classes for developing care helpers for people with dementia include skits and quizzes to help participants learn in a positive atmosphere.

### S Contributing to Local Communities

#### Comprehensive Community Care Systems

To help people in local communities throughout Japan live with a greater sense of safety and peace of mind, the Suzuken Group has entered into agreements with local governments to promote comprehensive community care systems and better health, and to protect the elderly and improve life for those with dementia.

#### Main Cooperation Agreements

Obu City, Aichi Prefecture	This agreement with Obu City and the Obu City Medical Association, Obu City Dental Association, and Obu City Pharmaceutical Association covers the supply of pharmaceuticals during times of disaster, promotion of understanding of comprehensive community care, and the strengthening of relationships across the field of healthcare.
Chita City, Aichi Prefecture	This agreement calls for the holding of seminars on nutrition management and other topics for medical professionals.
Machida City, Tokyo	This agreement calls for participation in a project of Machida city, the preparation of the project portal site, the creation of a medical and nursing resource map with profiles, and location on medical and long-term care facilities in the city. In addition, seminars are held to strengthen cross-profession collaboration.

#### Response to the COVID-19 Pandemic

##### Implementation of Online Visitation

Sanki Welby and Escare Mate, which operate nursing homes, have taken various infection control measures in accordance with the guidelines provided by the local medical association. One of them is the introduction of a video call system. This system allows friends and family members to engage in online visits with users of their facilities.



Visit with a facility user via a video call system



## Progress Updates by Business

## Global Business

The Suzuken Group works with its business partners to create new value that contributes to medical care and better health for the people of China, South Korea, and other parts of Asia.



#### Further Strengthening of Our Businesses in China and South Korea

**BOKSAN NICE Co., Ltd.**

**South Korea** Capital and business alliance with BOKSAN NICE Corporation-Strengthening of the distribution function through a joint project

**SPH Suzuken Huzhong (Shanghai) Pharmaceutical Co., Ltd. (Joint venture)**

**Suzuken (Shenzhen) Pharmaceutical Co., Ltd. (Joint venture)**

**China** Pharmaceutical distribution business restructuring Building a collaboration model with EPS EKISHIN Co., Ltd.

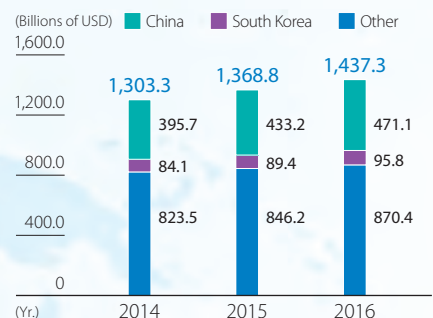
### Overall Medical Care Spending and Market Trends in China and South Korea

In line with growing populations and economies, Asian countries other than Japan are seeing rapid increases in spending on medical care. Compared to an average annual growth rate of 1.5% in medical care spending in Japan over the years 2012 to 2016, the average annual growth rate for Asia as a whole (26 countries and regions) over the same period was a high 5.1%. In China, the rate was 9.6% and the pharmaceutical market, benefiting from factors such as rising incomes and improvements to the medical insurance system, is now the second largest in the world. The government is engaged in ongoing efforts to control medical care spending, but further improvements to the medical care insurance system and the rapid aging of the country's population are expected to keep the market growing at a moderate pace.

In South Korea, where spending on medical care has been growing at an average annual rate of 6.4%, forecasts call for continuing developments in advanced medicine and government-led efforts to hold medical care spending down.

As governments move ahead with reforms to their healthcare systems, tremendous efforts are also being made to achieve advances and greater efficiency in pharmaceutical distribution, and the Suzuken Group is drawing attention for the experience and knowledge it has developed in Japan.

#### Overall Medical Care Spending in Asia as a Whole, and China and South Korea



Source: WHO NHA Indicators  
(Currency exchange rates are the 2010 rates for conversion to U.S. dollars.)

## China

## Strengthening Healthcare Platform Functions in China

Suzuken has been developing pharmaceutical distribution operations in Shanghai and Qingdao by establishing in 2008, a joint venture (49.9% ownership), Shanghai Suzuken Huzhong Pharmaceutical Co., Ltd. (now SPH Suzuken Huzhong (Shanghai) Pharmaceutical Co., Ltd.), with Shanghai Pharmaceutical Co., Ltd., a major Chinese pharmaceutical wholesaler.

In September 2016, Suzuken acquired a 35% stake in EPS EKISHIN Co., Ltd.,\*1 a member of the EPS Group. Together, the two are helping Suzuken (Shenzhen) Pharmaceutical Co., Ltd. (20% stake held by Suzuken) to introduce the products of Japanese pharmaceutical companies to the Chinese market and are performing technical sales promotion activities throughout China on behalf of Suzuken (Shenzhen) Pharmaceutical.

Working with its partners, Suzuken draws on R&D, clinical trial, manufacturing, sales, sales promotion, distribution, and collection functions to create a healthcare platform capable of providing customers with the one-stop services they need.

Looking to the future, Suzuken will continue to create new added value for the field of healthcare in China.



Outstanding employees of SPH Suzuken Huzhong (Shanghai) Pharmaceutical Co., Ltd. are invited to Suzuken's head office every year to participate in training.

\*1 EPS EKISHIN Co., Ltd. is a specialized trading company connecting Japan and China in the field of healthcare. Its wide-ranging business pursuits span areas as varied as CRO services, pharmaceutical manufacturing, and sales agency for digital diagnostic imaging equipment.

## South Korea

## Contributing to the Distribution of Pharmaceuticals and the Further Development of the Pharmaceutical Industry in South Korea

Suzuken entered into a capital and business alliance with BOKSAN NICE Co., Ltd.\*2 taking a 45% stake in that company in June 2016. Drawing on knowledge it has developed in the field of health creation in Japan, the Suzuken Group is supporting BOKSAN NICE in its efforts to expand its pharmaceutical distribution business to cover all of South Korea and advance joint R&D in medical-care related businesses.

The Suzuken Group is also helping BOKSAN NICE to enhance its corporate value through joint projects for strengthening its distribution functions and management platform.

By supporting the development of BOKSAN NICE, we are also contributing to the advancement of pharmaceutical distribution and industries related to medical care in South Korea.



Working on a joint project with BOKSAN NICE Co., Ltd.

\*2 BOKSAN NICE Co., Ltd. with operations mainly in Busan Metropolitan City and the Seoul Capital Area, is a pharmaceutical distribution leader in South Korea.

# GOVERNANCE

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## Compliance with Corporate Governance Code

Please refer to the Company's Corporate Governance Report for the status of implementation of the 11 principles that should be disclosed under the Tokyo Stock Exchange's Corporate Governance Code.

### Corporate Governance Report

<https://www.suzuken.co.jp/en/csr/pdf/governance.pdf>

## State of Corporate Governance

### Suzuken's Basic Philosophy Regarding Corporate Governance

The Suzuken Group positions the strengthening of corporate governance as an important theme of management. Moreover, through efforts focused on strengthening our managerial systems, strengthening our risk management systems, and promoting disclosure and accountability, we will endeavor to increase stakeholder trust in our group and achieve our continued and sound development.

### Overview of Corporate Governance Systems

Suzuken employs a system in which the Board of Directors is responsible for the oversight of management and the decision-making process, and executive officers are responsible for performing business operations. We have terminated the retirement benefit system for directors and Audit & Supervisory Board members, reduced the number of directors, and established a compensation system that is linked to the company's performance and each individual's contributions. In addition, the Articles of Incorporation specify a one-year term for directors in order to increase their responsibility regarding their duties.

For the management of subsidiaries, we supervise and audit the performance of executives and employees of subsidiaries. The primary measures are sending directors and Audit & Supervisory Board members to subsidiaries, receiving reports and approving decisions as required by the affiliated company management rules, and periodically auditing subsidiaries by using Suzuken's Audit & Supervisory Board members, Internal Audit Office, and accounting auditor. Furthermore, each subsidiary has an internal control system and guidance program that reflects the characteristics of its business operations.

### Corporate Governance Quick Facts in Fiscal 2020

Organization form	Company with a Board of Company Auditors
Number of directors (outside directors)	10 (3)
Number of Audit & Supervisory Board members (outside members)	4 (2)
Director terms	1 Year
Has executive officer system	Yes
Independent auditor	Deloitte Touche Tohmatsu

### Main Meetings Held in Fiscal 2019

Board of Directors:	23 times
Audit & Supervisory Board:	15 times
Attendance by outside directors at Board of Directors meetings:	100%
Attendance by outside Audit & Supervisory Board members at Board of Directors meetings:	97%
Attendance by outside Audit & Supervisory Board members at Audit & Supervisory Board meetings:	96%



## Directors and Board of Directors

The Board of Directors examines important matters and reaches decisions in accordance with laws, regulations, the Articles of Incorporation, the Board of Directors Rules and other internal rules. The Board also oversees the performance of the directors and executive officers.

There were 23 meetings of the Board of Directors in the fiscal year that ended March 31, 2020, and the Board of Directors made decisions about matters prescribed by law and important matters concerning management. Furthermore, by using reports from directors and executive officers, the directors conducted mutual supervision of the suitability and efficiency of how the directors performed their duties.

## The Audit & Supervisory Board and Its Members

The Audit & Supervisory Board meets once a month, in principle, and holds other meetings as required. In the fiscal year ended March 31, 2020, there were 15 meetings at which the Audit & Supervisory Board members received audit reports and discussed other matters.

Audit & Supervisory Board members attend meetings of the Board of Directors and other important meetings. Attendance is based on Audit & Supervisory Board members audit standards prescribed by the Audit & Supervisory Board members and the fiscal year audit policy and audit plan. In addition, Audit & Supervisory Board members receive information about the performance of duties from directors, executive officers, internal auditing departments, and other units. Audit & Supervisory Board members also check documents concerning important decisions and other documents. Furthermore, responsibilities include audits at the head office, audits of the operations and assets at major business sites and subsidiaries, and the proper establishment and operation of compliance, risk management, and other internal control systems. Reports are received from subsidiaries as required.

To reinforce the monitoring function of the Audit & Supervisory Board, Suzuken has two full-time members who have a thorough understanding of internal issues and two outside members, one of whom is an attorney and the other an accountant.

## Internal Audits

The Internal Audit Office (staff of 11) performs internal audits. This office, which reports directly to the president, audits business sites and subsidiaries in accordance with internal auditing regulations. Audits confirm that internal controls are functioning properly, with particular emphasis on compliance and risk controls.

Audits are performed based on an audit plan for each fiscal year that is created by the Internal Audit Office and approved by the president. Field audits and document audits are performed and audit reports are submitted to the president. When the president decides that an audit report shows improvements are needed, the

Internal Audit Office submits an Improvement Directive to the applicable department. The office then receives an Audit Improvement Status Report describing the preparation and implementation of an improvement plan. To promote greater audit efficiency and effectiveness, internal auditors confer with Audit & Supervisory Board members on the preparation of the annual audit plan and regularly report audit results to the Audit & Supervisory Board.

## Nomination and Compensation Committee

To discuss nomination and compensation for the directors, executive officers, and counselors, Suzuken has a Nomination and Compensation Committee, which is composed of five members—the Director and Supreme Advisor, the representative director, and three outside directors. Transparency and objectivity are ensured by having outside directors comprise the majority of the committee members. The chairperson of the committee is appointed by the Board of Directors from among the committee members.

This committee was not established in accordance with any law or regulation.

## Elements of Officer Compensation

At Suzuken, officer compensation is determined by the Board of Directors based on an upper limit of ¥600 million yen in total for all officers and the introduction of restricted stock awards, which are to be limited to 10% of the total compensation paid to officers as a group.

Regarding director compensation, we have implemented an overall evaluation system using performance indicators for the entire company and for the areas under the responsibility of individual directors. This system is based on the Director, Executive Officer, and Counselor Evaluation Bylaws and the Director, Executive Officer, and Counselor Compensation Bylaws. The Nomination and Compensation Committee conducts a comprehensive and objective examination of evaluation results after which the Board of Directors makes final compensation decisions. Compensation for Audit & Supervisory Board members is determined based on discussions among the members. Compensation for the Director and Supreme Advisor, outside directors, and outside Audit & Supervisory Board members is paid in fixed amounts.

For fiscal 2019, compensation for directors and Audit & Supervisory Board members consisted of the following elements.

### Total Compensation Amounts for Members of the Board of Directors and Audit & Supervisory Board

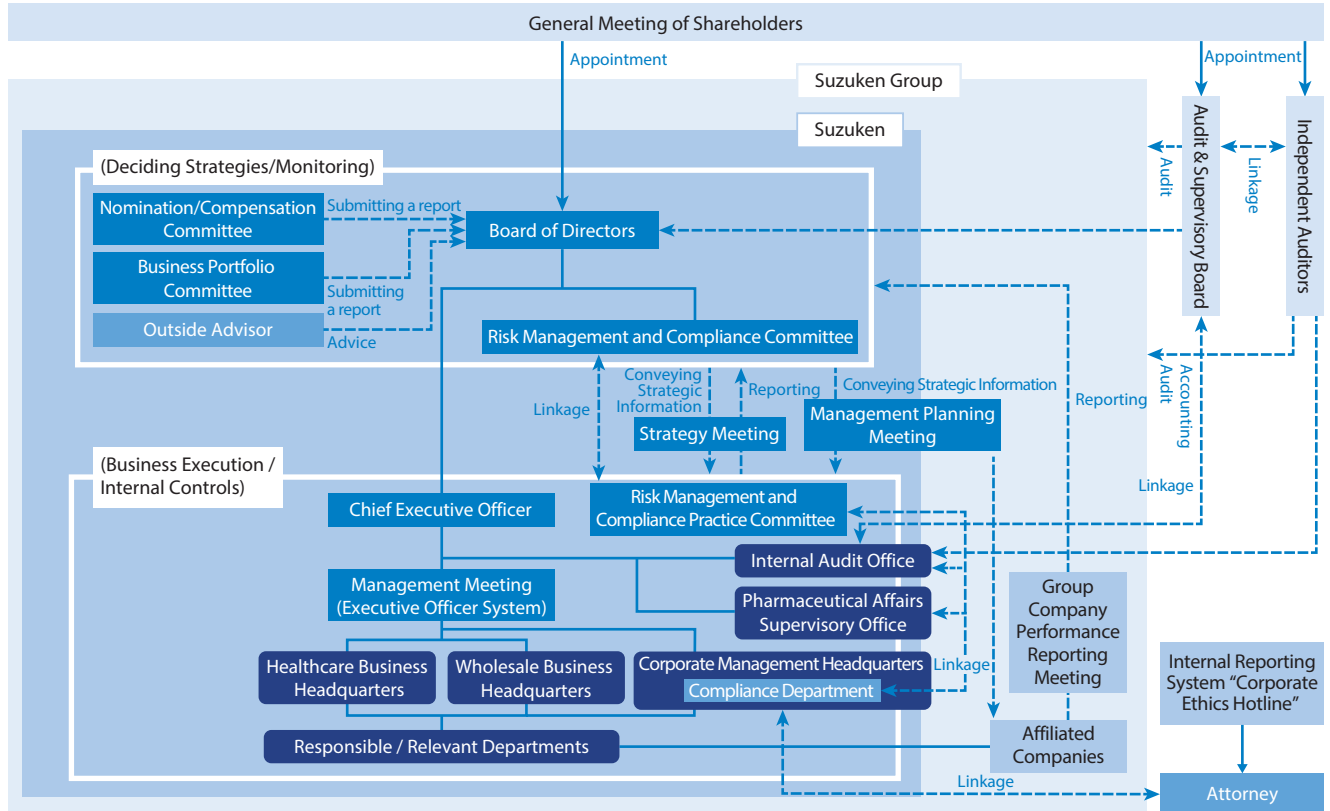
9 directors	¥423 million (including ¥36 million for 3 outside directors)
4 Audit & Supervisory Board members	¥53 million (including ¥17 million for 2 outside members)

The compensation figure for directors (excluding outside directors) includes ¥42 million in restricted stock.



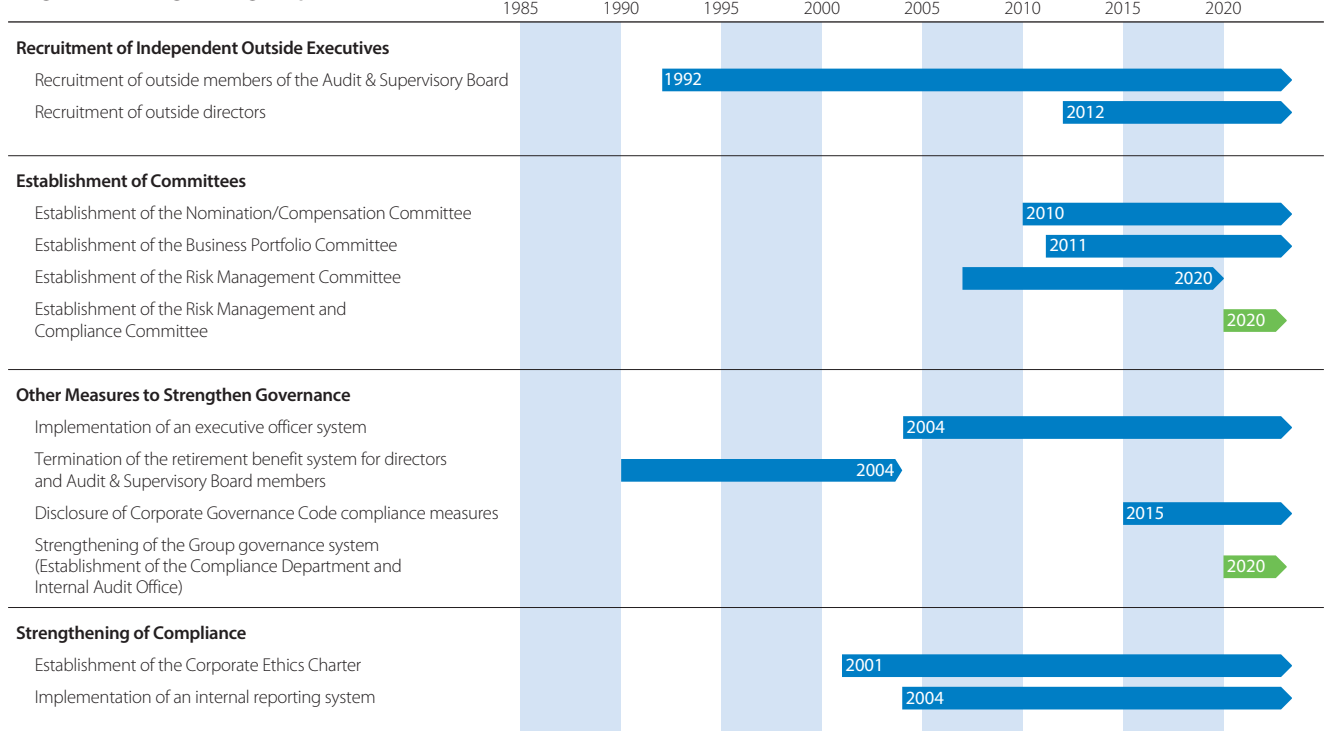
## Corporate Governance

### Overview of Framework for Corporate Governance



Note: The committees are not committees as legally defined.

### Progress in Strengthening Corporate Governance



### Balance, Diversity, and Size of the Board of Directors as a Whole

The Board of Directors meets twice a month, as a rule, and engages in swift, efficient decision-making. Board members, who are selected without regard to gender or age, include inside members possessing a wealth of knowledge and experience regarding the Company's businesses, and outside members, among whom are an attorney and a certified public accountant, with outstanding knowledge and expertise. The board benefits from the diverse backgrounds of its members and is of an appropriate size (limited to no more than ten members by the Articles of Incorporation).

The Audit & Supervisory Board includes an attorney and a certified public accountant, who are experts in their respective fields. As outsiders, they comprise a majority of the membership and ensure the consideration of multiple perspectives in decision-making, and oversight and monitoring.

The outside members of the Board of Directors and the outside members of the Audit & Supervisory Board have no conflicts of interest involving the Company and have been designated as independent officers.

Executive officers participate in one of the two monthly meetings of the Board of Directors, making these occasions venues for developing future leaders. The same meeting is also attended by the presidents of the three main pharmaceutical distribution business subsidiaries, whose participation, as observers, helps to strengthen the Group's integrated management platform.

### Evaluation of the Effectiveness of the Board of Directors

Results of the evaluation of the effectiveness of Suzuken's Board of Directors for the fiscal year that ended March 31, 2020 are as follows:

#### (1) Summary

The Board of Directors is systematically linked with meeting bodies such as the Nomination and Compensation Committee, the Business Portfolio Committee, the Management Meeting, the Management Planning Meeting and the Group Company Performance Reporting Meeting (hereinafter referred to as "linked meeting bodies"), enhance the governance of the entire Group. Accordingly, the Company carried out the evaluation of the effectiveness of the Board of Directors, while confirming that these meeting bodies are systematically linked with the Board of Directors, for which the relationships among them are shown in the Overview of Framework for Corporate Governance.

#### (2) Persons responsible for evaluation and entities to be evaluated

In order to secure neutrality and independence, independent outside directors and independent outside Audit & Supervisory Board members are responsible for the evaluation of the effectiveness of the Board of Directors, and the Corporate Planning Department

functions as a secretariat for carrying out the evaluation.

With regard to the evaluation of the effectiveness of the Board of Directors, the independent outside directors monitor the activities of not only the Board itself but also those of the linked meeting bodies. Independent outside directors and independent outside Audit & Supervisory Board members constantly attend all or part of meetings of the Board of Directors and the linked meeting bodies throughout the business year. They also monitor whether the Board of Directors has functioned effectively and whether corporate governance has functioned well across the Group, based on the confirmation that the Board of Directors is systematically linked with these linked meeting bodies.

#### (3) Perspectives for evaluation

The evaluation of the effectiveness of the Board of Directors is carried out from the following perspectives:

- 1) Whether the Group's corporate governance is appropriately constructed/maintained
- 2) Whether medium- and long-term strategies are determined appropriately
- 3) Whether implementation of the determined medium- and long-term strategies is monitored appropriately
- 4) Whether the executive management's awareness of compliance has been appropriately developed

#### (4) Collation of evaluation results

After the end of each business year, independent outside directors and independent outside Audit & Supervisory Board members report and discuss the details monitored by each director/auditor and collate evaluation results of the effectiveness of the Board of Directors for the said business year. The collated results are submitted as an agenda item to the Board of Directors, which discusses them to arrive at a shared understanding with directors having operational responsibilities. The evaluation results collated through these methods are submitted to the Board of Directors and Management Meeting and shared/confirmed by all directors and executive officers.

#### (5) Evaluation results of the effectiveness of the Board of Directors for the fiscal year ended March 2020

Evaluation results of the effectiveness of the Board of Directors for the fiscal year that ended on March 31, 2020, which have been confirmed through the above-mentioned process, are as follows:

- 1) The Board of Directors consists of six internal directors and three outside directors, and four auditors attend it, which has been appropriately operated with the exchange of vigorous and various opinions.
- 2) The linked meeting bodies hold vigorous discussions to determine matters submitted by the Board of Directors for deliberation,

## Corporate Governance

implement a PDCA cycle across the Group and decide on other matters appropriately.

- 3) It has been recognized that the Board of Directors has been steadily promoting corporate governance across the Group through implementation of Suzuken's medium-term growth strategy "One Suzuken 2019" and other measures.
- 4) It has been recognized that the Board of Directors has appropriately determined the Group's medium- and long-term strategies in cooperation with the Business Portfolio Committee, etc.
- 5) It has been recognized that the Board of Directors has appropriately monitored the implementation of the Group's medium- and long-term strategies in cooperation with the Management Meeting, the Group Company Performance Reporting Meeting, etc.
- 6) The Company's Board of Directors is working to instill compliance awareness throughout the Group through means such as messaging from top management and the building of a training system. Regarding the on-site investigation conducted in November 2019 by the Japan Fair Trade Commission in regard to suspected violations of the Antimonopoly Law, it has been recognized that the Company is working to respond properly to the investigation.
- 7) It has been recognized that improvements have been made in terms of agenda item usage, distribution of meeting materials, and other aspects of the management of Board of Directors meetings.
- 8) It has been recognized that the reorganization of linked meeting bodies in response to changes in the business environment, and initiatives such as the development of the new medium-term growth strategy, are being properly monitored.

### (6) Evaluation direction for fiscal 2021

In light of the process for evaluation of the effectiveness of the Board of Directors for the fiscal year that ended on March 31, 2020, the evaluation for this fiscal year shall be conducted by understanding the following tasks:

- 1) Confirmation of the status of legal compliance systems throughout the Group
- 2) Confirmation of the implementation status of the new medium-term growth strategy

### Training of Directors and Corporate Auditors

Suzuken conducts training for newly appointed directors and corporate auditors on risk and compliance. Furthermore, we also provide the necessary external training, e-learning based internal training, and so forth, that is needed for them to adequately fulfill their roles and responsibilities.

### Appointment of Outside Directors and Outside Audit & Supervisory Board Members

The Company has three outside directors and two outside Audit & Supervisory Board members, all of whom are independent executives with no personal, investment, business, or other vested interests in the Company.

The Company appointed those outside executives having judged that they are highly independent executives with no attributes corresponding to items specified by securities exchanges as having potential conflicts of interest with ordinary shareholders.

The Company does not have clearly defined criteria or policies related to independence for appointing outside directors and outside Audit & Supervisory Board members. When making such appointments, however, we make judgments on the premise that they satisfy standards for independence set by financial exchanges, possess high levels of knowledge and insight, and are capable of performing their duties as outside executives from perspectives that are independent of top management.

## Compliance

### Basic Philosophy of Compliance

Following the motto “Compliance is the most significant action,” the Suzuken Group is making efforts to foment an awareness of compliance in each and every employee, and realize continued improvement.

All of our employees strive for “Harmony between growing the business and the interests of society” by not only upholding the law but also acting in a manner that meets the expectations and demands of stakeholders.

### Establishment of the Suzuken Corporate Ethics Charter

We established the “Suzuken Corporate Ethics Charter” and Corporate Ethics Charter Guidelines to clarify the basic code of conduct that each and every employee should practice in a proactive and independent manner.

### Compliance Training and Employee Pledges

Group directors, executive officers, and employees learn about compliance via e-learning and other means every year as part of efforts to instill the idea of compliance. After learning, each person pledges to always be cognizant of the fact that compliance is their highest priority and to not commit any violations. Furthermore, discussions of compliance topics are conducted in the workplace.

### Preventing Corruption and Other Improprieties

In our Corporate Ethics Charter Guidelines, we have established fair, just, and transparent transactions and equal relationships, together with legal and regulatory compliance, as standards of conduct, and we work to prevent corruption and other types of improprieties. Along with compliance training aimed at instilling in officers and employees the importance of compliance, we also regularly conduct training on anti-corruption laws in other countries.

### Respect for Intellectual Property

To not only avoid violating the rights of others but also promote the effective use of our own intellectual property, we have established the further enhancement of business performance and protection of assets as a standard of conduct within our Corporate Ethics Charter Guidelines.

### Initiatives Promoting Compliance with the Antimonopoly Law

On November 27, 2019, Suzuken was the subject of an on-site investigation conducted by the Japan Fair Trade Commission (JFTC) in connection with a suspected violation of the Antimonopoly Law in relation to bids submitted to the Japan Community Health Care Organization (JCHO). We take this matter seriously and are cooperating fully with the JFTC’s investigation.

To further strengthen our governance system, we established the Compliance Department and the Internal Audit Office in April 2020 and undertook other restructuring measures as well.

We have newly formulated a code of conduct regarding the Antimonopoly Law and are conducting an ongoing education effort to enhance the knowledge and awareness of individual employees. And a contact point and dedicated phone line have been established as an integrated system for receiving and responding to contacts from employees wanting advice or having concerns related to the Antimonopoly Law.

In addition to the above, activities in violation of the Antimonopoly Law have been added as an internal audit item. Going forward, we will make every effort possible to never again be suspected of an Antimonopoly Law violation.

### Initiatives for the Provision of Information on Pharmaceutical Affairs and Products

The Pharmaceutical Affairs Supervisory Office has been established under the direct authority of the president to oversee pharmaceutical affairs and information. It has established systems for effectively and efficiently complying with the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs, the Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, and Cosmetics, and Japanese GDP Guidelines. It has also put in place systems for strengthening cooperation among Group companies.

### Basic Ideas on Pharmaceutical Distribution

The distribution of pharmaceuticals is important largely because of its significance for the public. Distributing pharmaceuticals is a social responsibility that pharmaceutical wholesalers must fulfill. The Company has built a supply chain that complies with the JGSP\* guidelines established by the Federation of Japan Pharmaceutical Wholesalers Association. To prevent the distribution of counterfeit pharmaceuticals, for example, we have acted to ensure compliance through steps such as building a legitimate-sale system for conducting sales activities in compliance with related laws and rules.

\* JGSP (Japanese Good Supplying Practice): Practical guidelines for managing quality and safety in supplying pharmaceuticals



## Compliance / Risk Management

### Basic Ideas and Approaches on Excluding Relationships with Anti-Social Forces

Based on our awareness that a company is a public organ of society, and in accordance with highest ethical standards, Suzuken has a strong commitment to fulfilling its social responsibilities. We are resolutely opposed to anti-social forces and groups that threaten public order and safety.

Our Corporate Ethics Charter and Corporate Ethics Charter Guidelines, which are important standards of conduct, define the proper attitude and specific measures for dealing with improper or illegal demands from anti-social forces and groups. Through education and training via internal communication systems and other channels, we make all directors, executive officers, and employees aware of how to deal with these demands.

The Risk Management and Compliance Committee, which builds and manages close relationships with external expert organizations and includes the risk managers of subsidiaries among its members, studies risks associated with the Suzuken Group. This committee shares information about anti-social forces obtained from external specialized organizations and other sources so that everyone can be alert. To prevent any damages in the event that an anti-social element becomes a customer or shareholder and makes improper or illegal demands, we will endeavor to conduct appropriate corporate surveys and promptly collect information about anti-social forces from specialized external organizations and other sources.

## Risk Management

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### Basic Concepts of Risk Management

At the Suzuken Group, risk management is a first-order priority where we take preventative measures against the occurrence of risk and seek to minimize impacts when risks are realized by grasping the situation quickly and dealing with it promptly and appropriately. Through such measures, we work to gain even more trust from our stakeholders and improve the Group's corporate value.

### Main Organizations and Positions Comprising the Risk Management System

Suzuken views compliance as one of the fundamental elements of business activities. Furthermore, we understand that protecting our assets is necessary for meeting the expectations of all stakeholders. This is why we are dedicated to establishing, maintaining and operating an effective risk management framework.

#### 1) Board of Directors

The Board of Directors has the authority to perform the overall supervision of risk management from a strategic standpoint. In addition, the directors reach decisions about the appropriate allocation of resources and comprehensive risk countermeasures to facilitate the trouble free execution of corporate strategies.

#### 2) Officer in Charge of Risk Management

This officer supervises risk management for the entire Suzuken Group. Duties include oversight and instructions for the Risk Management and Compliance Committee, Segmental Risk Management Practices Committees, Risk Management and Compliance Practices Committee, Review and Supervisory Practices Committee for Sales Information Provision Activities, Internal Audit Office, departments associated with risk management, and risk management officers.

#### 3) Risk Management and Compliance Committee

This committee, which is supervised by the Board of Directors, determines risk management policies and goals to ensure that the Suzuken Group's risk management is performed properly. The committee submits information and reports to the directors as required.

#### 4) Business Segment Practices Committees

Business Segment Practices Committees examine the measures from practical perspective and submit essential reports and proposals to the Risk Management Committee to manage risks of the Group segments in an effective and efficient manner.

### 5) Risk Management and Compliance Practices Committees

Risk Management and Compliance Practices Committees examine the measures from practical perspective and submit essential reports and proposals to the Risk Management and Compliance Committees to manage risks of the entire Group in an effective and efficient manner.

### 6) Review and Supervisory Practices Committees for Sales Information Provision Activities

Review and Supervisory Practices Committees for Sales Information Provision Activities effectively and efficiently review and supervise the sales information provision activities of the Group. The Committees examine the challenges from practical perspective and submit essential reports and proposals to the Risk Management and Compliance Committees for the purpose of submitting necessary proposals based on regular reports provided by the Pharmaceutical Affairs Supervisory Office.

### 7) Compliance Department

The office coordinates risk related matters among managers,

divisions and subsidiaries. The office also performs centralized management for monitoring and analyzing the status of all types of risks for the entire organization and for proposing and implementing countermeasures.

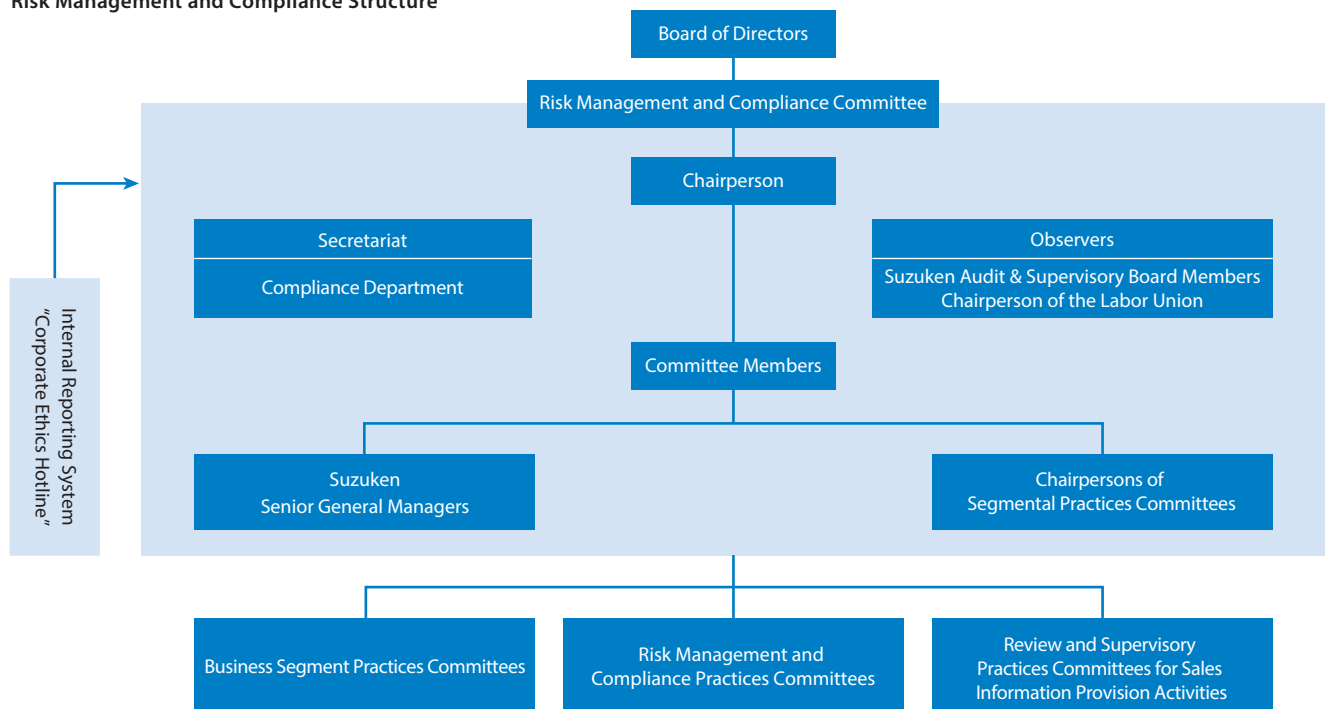
### 8) Persons Responsible for Each Head Office Department (Risk Owners)

For primary risks, risk information is collected quickly by working with the Compliance Department and proposals and other actions are taken to prevent specific problems from happening again.

### 9) Risk Officers

Risk Officers are responsible for risk management at individual departments and subsidiaries. One role is telling employees about items concerning risk management that were examined by a risk management committee. Another role is performing risk management and educating employees about risk management.

### Risk Management and Compliance Structure



## Risk Management / Messages from Outside Directors

### Introduction of the Corporate Ethics Hotline, Suzuken's Internal Reporting System

The Corporate Ethics Hotline has been established to supplement legal and regulatory compliance systems at Suzuken and its subsidiaries. The Group employees and those involved in the Group's business activities can report through the Corporate Ethics Hotline when they become aware that an act of violation of a law, regulation or the Articles of Incorporation, or any action that would damage the Group brand has been conducted or is about to be conducted at the Company and the Group companies. Through this internal reporting system, risks are detected at an early stage and corrective measures are promptly taken.

### Strengthening Information Security

Information that is collected, accumulated, transferred, or provided is an asset of extreme importance for business activities. To properly protect information assets and respond to risks, the Suzuken Group has established its Information Security Policy. We are also systematically establishing information security measures to help ensure the proper operation and management, development, and use of information systems and networks, and are enhancing employee awareness through regular training.

The information security organization is composed of the Board of Directors, employees responsible for information security, the Risk Management and Compliance Committee, and other participants. Led by the Compliance Department it is working to protect information assets against improper use and abuse, and striving to strengthen information security, including cyber security, to minimize potential losses.

With information security risks rising with the advance of digitalization, we will raise the security level for the entire Group by revising our Information Security Policy when necessary and strengthening our information security systems, as we construct new business models that respond to digitalization.

## Messages from Outside Directors

Keisuke Ueda  
Outside Director



### Building a Governance System Worthy of a Trusted Corporate Group

As an outside director, I think my role is to help make the Suzuken Group an organization that is trusted by shareholders and other stakeholders.

At Suzuken, Board of Directors meetings are held twice a month. Executive officers and the presidents of the three main pharmaceutical distribution businesses attend one of those meetings as observers, and this has boosted Group awareness. Though issues, such as compliance strengthening, must be addressed, I feel that this kind of change in the Board of Directors meetings shows that measures taken through the previous medium-term growth strategy have resulted in steady improvements in Suzuken Group governance.

In Western countries, there is a growing acceptance that the degree to which companies contribute to society through their businesses is a measure of corporate credibility. To achieve sustainable growth going forward, the Suzuken Group, too, must acknowledge this societal development and create businesses that contribute even more to society.

Under the new medium-term growth strategy, implementation of which began with fiscal 2020, the Group will focus on formulating new business models, creating a flexible governance system that enables swift decision-making, and developing human resources. In addition, even greater efforts will be made to strengthen Group governance, including subsidiary management.

Toshiaki Iwatani  
Outside Director



### Expecting Much from New Business Model Construction and New Directors

I believe one of the most important roles of an outside director is to act on behalf of shareholders in monitoring management to determine whether it is putting forth strategies that envision the future, and whether it is properly implementing management PDCA cycles.

Based on results for the fiscal 2019 Board of Directors effectiveness evaluation, the second year this was performed, it was confirmed that improvements had been made regarding issues cited the previous fiscal year.

One of the linked meeting bodies covered by the effectiveness evaluation, the Business Portfolio Committee, in particular, plays a critical role. It engages in candid discussions of conditions at existing businesses and matters concerning new businesses, and examines topics such as medical IT company partnerships and alliances for building new business models. Now I am looking forward to its contributions for building new, post-COVID-19 business models.

In response to the November 2019 on-site investigation conducted by the Japan Fair Trade Commission, it is necessary to redouble efforts in the area of compliance and to rebuild public trust in the Suzuken brand.

In fiscal 2020, three new directors have been appointed, and I am hopeful for their abilities to perform functions not previously present on the Board. As for myself, I am committed to continuing to act as a check on management in the various committees in which I participate.

Yasunori Usui  
Outside Director



### Changing Our Organization for Stronger Compliance and Developing New Businesses

The Suzuken Group consists of over 50 companies pursuing various businesses in the field of health creation. The trust of society is critical for conducting businesses that protect and promote the health of the public.

In April 2020, therefore, the risk management and compliance system was revised in an effort to strengthen Group governance. As additional measures, the Internal Audit Office was established directly under the president, and the Compliance Department was created under the Corporate Management Headquarters. It is my desire to see the Suzuken Group move on to even greater achievement and see its corporate value rise, with compliance as a top concern throughout the entire Group.

To fulfill its social mission, the Group must anticipate changes in society and adjust its businesses accordingly. Though there are things that cannot be known ahead of time, pursuing new businesses as part of the new medium-term growth strategy requires proactive investment to pioneer new pathways, and bold, risk-aware action.

Looking ahead, I hope to see the Business Portfolio Committee, which is tasked with considering new business opportunities, engage in deep, free-ranging discussions to paint the future of the Suzuken Group.



## Directors, Audit & Supervisory Board Members

### Directors



**Yoshiki Bessho**

**Supreme Advisor**

Apr. 1966: Joined Tokai Bank, Ltd. (current MUFG Bank, Ltd.)  
 Mar. 1970: Joined the Company  
 Aug. 1970: Director  
 Jan. 1973: Managing Director  
 Dec. 1973: Senior Director  
 Apr. 1975: Representative Senior Director  
 Jun. 1983: President  
 Jun. 2004: President and Chief Executive Officer  
 Apr. 2007: Chairman and Executive Officer  
 Apr. 2020: Director and Supreme Advisor (current post)



**Hisashi Tamura**

**Senior Executive Officer  
 Senior General Manager of Wholesales  
 Business Headquarters**

Apr. 1984: Joined the Company  
 Jul. 2010: General Manager of the Mie Sales Dept.  
 Apr. 2012: Executive Officer (non-director)  
 Apr. 2014: General Manager of the Nagoya Sales Dept.  
 Apr. 2015: Managing Executive Officer (non-director)  
 Apr. 2016: General Manager of the Sales Promotion Dept.  
 Jun. 2016: Managing Executive Officer  
 Apr. 2017: Deputy Senior General Manager of the Sales Headquarters  
 General Manager of the Sales Promotion Dept.  
 Apr. 2020: Director, Senior Executive Officer (current post)  
 Senior General Manager of Wholesales Business Headquarters (current post)



**Hiromi Miyata**

**President and Chief Executive Officer**

Apr. 1984: Joined the Company  
 Jun. 2006: General Manager of the Distribution Dept.  
 Jun. 2008: Executive Officer (non-director)  
 Apr. 2009: General Manager of the Corporate Planning Dept.  
 Apr. 2011: Managing Executive Officer (non-director)  
 Apr. 2012: Senior Executive Officer (non-director)  
 Jun. 2012: Senior Executive Officer  
 Apr. 2013: Senior General Manager of the Corporate Planning Headquarters  
 General Manager of the Corporate Planning Dept.  
 Apr. 2014: Senior General Manager of the Corporate Planning Headquarters  
 Apr. 2015: Vice President and Executive Officer  
 Apr. 2016: President and Chief Executive Officer (current post)



**Hirofumi Tanaka**

**Managing Executive Officer  
 Senior General Manager of Healthcare  
 Business Headquarters**

Apr. 1985: Joined the Company  
 Oct. 2008: General Manager of Kanazawa Sales Dept.  
 Jul. 2010: General Manager of Area Logistics Dept.  
 Mar. 2012: Representative Director and President of S.D. Next Co., Ltd. (current S.D. Collabo Co., Ltd.)  
 Apr. 2014: Executive Officer (non-director)  
 Apr. 2015: Senior General Manager of SCM Headquarters  
 Apr. 2017: Deputy Senior General Manager of Sales Headquarters  
 General Manager of Sales Planning Dept.  
 Apr. 2018: Managing Executive Officer (non-director)  
 Apr. 2020: Senior General Manager of Healthcare Business Headquarters (current post)  
 Jun. 2020: Director, Managing Executive Officer (current post)



**Shigeru Asano**

**Executive Vice President  
 Senior General Manager of the Corporate  
 Management Headquarters**

Apr. 1990: Joined the Company  
 Mar. 2005: Representative Director and President, Collabo Create Co., Ltd. (current S.D. Collabo Co., Ltd.)  
 Jun. 2009: Executive Officer (non-director)  
 Jul. 2010: Senior General Manager of the SCM Headquarters  
 Apr. 2012: Managing Executive Officer (non-director)  
 Apr. 2015: Senior Executive Officer (non-director), Senior General Manager of the Corporate Planning Headquarters  
 In charge of the Pharmaceutical Regulatory Affairs Dept., and the CSR Promotion Office  
 Jun. 2015: Senior Executive Officer (current post)  
 Apr. 2017: Senior General Manager of the Corporate Management Headquarters  
 General Manager of the Corporate Planning Dept.  
 In charge of the Risk Management Dept.  
 Apr. 2019: Executive Vice President, Senior General Manager of the Corporate Management Headquarters  
 In charge of Risk Management and Pharmaceutical Affairs  
 Apr. 2020: Senior General Manager of the Corporate Management Headquarters (current post)



**Akihiko Someya**

**Managing Executive Officer  
 Deputy Senior General Manager of Wholesale  
 Business Headquarters  
 General Manager of Product Strategy  
 Management Dept.**

Apr. 1984: Joined the Company  
 Apr. 2010: General Manager of Shonan Sales Dept.  
 Oct. 2014: General Manager of Saitama Sales Dept.  
 Apr. 2015: Executive Officer (non-director)  
 Apr. 2016: General Manager of Nagoya Sales Dept.  
 Apr. 2019: Managing Executive Officer (non-director)  
 Apr. 2020: Deputy Senior General Manager of Wholesale Business Headquarters  
 General Manager of Product Strategy Management Dept. (current post)  
 Jun. 2020: Director, Managing Executive Officer (current post)



**Chie Takahashi**

**Executive Officer  
 In charge of Pharmaceutical Affairs, Internal  
 Control, and Audit, and General Manager of  
 Pharmaceutical Affairs Supervisory Office**

Apr. 2000: Joined the Company  
 Apr. 2015: General Manager of Pharmaceutical Dept.  
 Feb. 2017: General Manager of Corporate Communications Dept.  
 Feb. 2019: General Manager of Pharmaceutical Affairs Supervisory Office  
 Apr. 2020: Executive Officer (non-director)  
 In charge of Pharmaceutical Affairs, Internal Control, and Audit, and General Manager of Pharmaceutical Affairs Supervisory Office (current post)  
 Jun. 2020: Director, Executive Officer (current post)

## Audit & Supervisory Board Members



**Keisuke Ueda**

### Outside Director

Oct. 1962: Joined Goryoda Motoo Certified Public Accountant Office  
 Apr. 1966: Licensed as a certified public accountant  
 Dec. 1968: Joined Marunouchi & Co. (current Deloitte Touche Tohmatsu LLC)  
 Apr. 1998: Auditor, The Hibi Science Foundation (current post)  
 Apr. 2000: Auditor, Koshiyama Science & Technology Foundation (current post)  
 Oct. 2001: Auditor, Sanko Museum (current post)  
 Apr. 2006: Founded Ueda Keisuke Certified Public Accountant Office  
 Jun. 2012: Outside Director, Suzuken Co., Ltd. (current post)



**Noriyuki Takeda**

### Audit & Supervisory Board Member

Apr. 1982: Joined the Company  
 Nov. 2010: Regional Sales Manager of the Tokyo-Tama Sales Dept.  
 Jun. 2012: President, Suzuken Okinawa Yakuhin Co., Ltd.  
 Oct. 2014: General Manager of the CSR Promotion Office  
 Feb. 2017: General Manager of the Risk Management Dept.  
 Jun. 2017: Audit & Supervisory Board Member (current post)



**Toshiaki Iwatani**

### Outside Director

Apr. 1992: Licensed as an attorney  
 Joined Ushida/Shirahase Law Office  
 Jun. 1994: Outside Audit & Supervisory Board Member, Suzuken Co., Ltd.  
 Oct. 2000: Founded Aska Law Offices  
 Sep. 2001: Registered as a patent attorney  
 Apr. 2009: Professor, Konan University Law School (current post)  
 Apr. 2013: Visiting Professor, Osaka University Law School (current post)  
 May 2013: Specially Appointed Professor, Intellectual Property Center (current Intellectual Property and Legal Practice Center), Osaka University (current Post)  
 Jun. 2015: Outside Director, Suzuken Co., Ltd. (current post)



**Mitsunori Tamamura**

### Audit & Supervisory Board Member

Apr. 1984: Joined the Company  
 Apr. 2013: General Manager of the Accounts Payable and Accounts Receivable Dept.  
 Jul. 2015: General Manager of the Auditing Dept.  
 May 2017: General Manager of the Risk Management Dept.  
 Jun. 2018: Audit & Supervisory Board Member (current post)



**Yasunori Usui**

### Outside Director

Apr. 1976: Joined the Ministry of Health and Welfare (now the Ministry of Health, Labour and Welfare)  
 Sep. 2006: Director-General for Policy Planning and Evaluation (for Social Security) of Ministry of Health, Labor and Welfare  
 Jul. 2008: Director-General of General Affairs Department of Social Insurance Agency, Director-General of Japan Pension Service Preparatory Office  
 Jan. 2010: Vice President of Japan Pension Service  
 Dec. 2013: Retired from Ministry of Health, Labor and Welfare  
 Dec. 2015: Retired from Vice President's post of Japan Pension Service  
 Jun. 2016: Outside Director, Suzuken Co., Ltd. (current post)



**Tatsuya Inoue**

### Outside Audit & Supervisory Board Member

Jan. 1980: Joined Inoue Akio Tax Accountant Office  
 Oct. 1982: Joined Marunouchi & Co. (current Deloitte Touche Tohmatsu LLC)  
 Apr. 1986: Licensed as a certified public accountant  
 Jul. 1989: Founded Inoue Tatsuya Certified Public Accountant Office  
 Jun. 2010: Outside Audit & Supervisory Board Member, Suzuken Co., Ltd. (current post)  
 Jun. 2014: Outside Audit & Supervisory Board Member, TECHNO HORIZON HOLDINGS CO., LTD. (current post)

### Reasons for Appointment

Our outside directors are independent executives with no personal, investment, business, or other vested interests in the Company. Mr. Ueda was appointed an outside director for his advanced and specialized knowledge and judgment as a certified public accountant that has prepared him to make objective and impartial decisions and perform audits and monitoring. Mr. Iwatani was appointed an outside director for his advanced and specialized knowledge and judgment as an attorney that has likewise prepared him to perform this role in the same manner. Mr. Usui was appointed an outside director, because of his expertise and insight of his service in administration of health, labor and welfare, his ability to reach decisions from an objective and neutral perspective, and his suitability to perform supervisory and oversight tasks.



**Toru Muranaka**

### Outside Audit & Supervisory Board Member

Apr. 1995: Licensed as an attorney  
 Joined Daiichi Law Office, P.C. (current Daiichi Legal Professional Corporation)  
 Dec. 2007: Partner, Daiichi Legal Professional Corporation (current post)  
 May 2014: Outside Corporate Auditor, FURUNO ELECTRIC CO., LTD. (current post)  
 Jun. 2015: Outside Audit & Supervisory Board Member, Suzuken Co., Ltd. (current post)  
 Jun. 2016: External Director, CAPCOM CO., LTD. (current post)

# 11 Years of Financial Highlights

Suzuken Co., Ltd. and Subsidiaries

	Millions of Yen except per share data			
	FY2009	FY2010	FY2011	FY2012
<b>For the year:</b>				
Net sales	¥ 1,735,476	¥ 1,751,928	¥ 1,859,917	¥ 1,894,594
Gross profit	169,591	165,187	169,738	175,016
Selling, general and administrative expenses	155,517	159,816	162,182	163,739
Operating income	14,074	5,371	7,556	11,277
Net income attributable to owners of the parent	13,970	9,628	8,050	14,350
Depreciation and amortization	8,213	9,657	10,975	12,239
Capital expenditures	22,783	17,877	14,521	11,665
Research and development costs	6,437	7,037	5,805	5,604
<b>Per share data: (yen)</b>				
Net income (EPS, Basic)	154.9	106.7	89.3	159.1
Equity	3,080.6	3,157.4	3,211.5	3,433.8
Cash dividends	62	62	50	50
Operating cash flow	353.9	314.3	727.0	599.1
<b>At year-end:</b>				
Total assets	858,608	912,407	972,077	1,014,243
Short-term bank loans				
+ Current portion of long-term debt				
+ Long-term debt	6,212	1,446	1,803	1,838
Total equity	277,945	284,851	289,759	309,828
<b>Ratios:</b>				
Operating margin (%)	0.8	0.3	0.4	0.6
Net income margin (%)	0.8	0.5	0.4	0.8
Return on assets (ROA) (%)	1.7	1.1	0.9	1.4
Return on equity (ROE) (%)	5.1	3.4	2.8	4.8
Interest coverage ratio	409.7	364.0	1,522.9	2,279.4
Dividend payout ratio (%)	40.0	58.1	56.0	31.4
<b>Number of employees</b>				
	14,655	15,152	15,155	14,842

## Notes:

1. U.S. dollar amounts are provided solely for the reader's convenience and use the exchange rate of ¥108 to the U.S. dollar prevailing on March 31, 2020.
2. Net income per share is calculated using the average number of shares outstanding during each fiscal year, net of the average treasury stock during each fiscal year.
3. The interest coverage ratio has been omitted due to the reporting of negative operating cash flow for prior fiscal years.
4. From the fiscal year 2016, the Company has conducted a "change in accounting policy regarding purchase discounts." Moreover, the figures for the fiscal year 2015 have been restated retrospectively to reflect this change in accounting policy.

						Millions of Yen except per share data	Thousands of U.S. Dollars except per share data
FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2019
¥ 1,988,216	¥ 1,969,690	¥ 2,228,332	¥ 2,126,993	¥ 2,123,998	¥ 2,132,362	¥ 2,213,478	\$ 20,495,167
186,056	179,632	210,591	193,225	187,512	189,294	194,124	1,797,444
168,217	166,391	174,220	174,513	167,776	162,066	161,553	1,495,861
17,839	13,241	36,371	18,712	19,736	27,228	32,571	301,583
21,447	18,921	28,961	21,308	18,820	30,205	28,213	261,231
11,933	11,718	11,931	11,720	11,042	10,776	10,719	99,250
13,939	13,231	17,472	14,279	7,234	10,856	9,553	88,454
5,967	5,700	5,705	7,643	6,671	5,873	4,648	43,037
237.9	190.8	292.1	216.9	198.2	322.7	310.2	2.873
36,113.7	3,705.1	3,969.0	4,097.8	4,284.8	4,390.9	4,618.3	42.762
54	54	69	54	64	69	72	0.68
(414.0)	476.0	206.4	279.6	1,036.0	457.0	(290.0)	(2.685)
1,027,134	1,086,685	1,178,386	1,109,013	1,177,326	1,189,239	1,112,507	10,300,991
2,195	3,797	2,186	2,861	2,814	2,540	2,569	23.795
325,997	367,799	393,948	396,496	406,426	401,625	412,708	3,821,371
0.9	0.7	1.6	0.9	0.9	1.2	1.4	2.45
1.1	1.0	1.3	1.0	0.9	1.4	1.2	
2.1	1.7	2.5	1.9	1.6	2.6	2.4	
6.6	5.1	7.4	5.4	4.6	7.5	6.9	
—	1,459.1	408.2	496.0	1,690.3	751.7	—	
25.0	28.3	23.6	24.9	32.3	21.4	23.2	
15,287	15,829	16,208	16,456	15,816	15,585	15,477	

5. The Company conducted a stock split at a ratio of 1.1 shares for every 1 share on April 1, 2015. However, net income per share, equity per share, operating cash flow per share, and dividend payout ratio have been calculated as though the stock split took place on April 1, 2014.



## Consolidated Balance Sheet

Suzuken Co., Ltd. and Subsidiaries  
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 17)	¥ 175,215	¥ 217,026	\$ 1,622,361
Time deposits (Note 17)	8,306	7,553	76,907
Marketable securities (Notes 6 and 17)	28,110	40,305	260,278
Receivables (Notes 7 and 17):			
Trade notes and accounts	486,991	500,943	4,509,176
Purchase rebate receivables	22,430	23,045	207,685
Allowance for doubtful accounts	(1,228)	(1,356)	(11,370)
Inventories (Note 8)	139,728	146,156	1,293,778
Other current assets	2,657	3,536	24,602
Total current assets	862,209	937,208	7,983,417
 <b>PROPERTY AND EQUIPMENT (Note 9):</b>			
Land (Notes 2(h) and 11)	52,367	52,610	484,880
Buildings and structures (Notes 2(f) and 11)	134,413	129,221	1,244,565
Machinery and equipment and others (Notes 2(f),2(m) and 16)	45,694	44,761	423,093
Construction in progress	505	2,466	4,676
Total	232,979	229,058	2,157,214
Accumulated depreciation	(116,039)	(112,282)	(1,074,436)
Net property and equipment	116,940	116,776	1,082,778
 <b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 11 and 17)	80,765	80,757	747,824
Investments in associated companies (Note 17)	12,075	11,840	111,806
Goodwill	421	851	3,898
Intangible assets	10,660	12,779	98,704
Deferred tax assets (Note 14)	2,479	2,323	22,954
Asset for employees' retirement benefits (Note 12)	15,953	15,279	147,713
Other assets	11,005	11,426	101,897
Total investments and other assets	133,358	135,255	1,234,796
<b>TOTAL</b>	¥ 1,112,507	¥ 1,189,239	\$ 10,300,991

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term debt (Notes 10, 11 and 17)	¥ 457	¥ 489	\$ 4,231
Payables (Notes 7 and 17):			
Trade notes and accounts	644,162	730,657	5,964,463
Purchases of property, equipment and other assets	414	2,811	3,833
Income taxes payable (Note 17)	8,518	10,441	78,870
Accrued bonuses	7,757	7,623	71,824
Other current liabilities	12,817	9,786	118,677
Total current liabilities	674,125	761,807	6,241,898
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 10, 11 and 17)	2,083	2,001	19,287
Liability for employees' retirement benefits (Note 12)	3,165	3,117	29,306
Liability for retirement benefits to directors and Audit & Supervisory Board members	246	382	2,278
Deferred tax liabilities (Note 14)	17,481	17,657	161,861
Deferred tax liabilities for land revaluation (Note 14)	1,338	1,338	12,389
Other long-term liabilities	1,361	1,312	12,601
Total long-term liabilities	25,674	25,807	237,722
<b>CONTINGENT LIABILITIES AND COMMITMENTS (Note 18)</b>			
<b>EQUITY (Note 13):</b>			
Common stock			
Authorized: 374,000,000 shares in 2020 and 2019			
Issued: 103,344,083 shares in 2020 and 2019	13,547	13,547	125,435
Capital surplus	39,131	39,083	362,324
Retained earnings	386,234	364,784	3,576,241
Treasury stock, at cost			
14,169,231 shares in 2020 and 12,071,899 shares in 2019	(57,315)	(47,566)	(530,694)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	35,745	36,097	330,972
Land revaluation difference (Note 2(h))	(5,822)	(5,822)	(53,907)
Foreign currency translation adjustments	0	80	0
Remeasurement of employees' retirement benefit plans (Note 12)	319	571	2,954
Total	411,839	400,774	3,813,325
Noncontrolling interests	869	851	8,046
Total equity	412,708	401,625	3,821,371
<b>TOTAL</b>	¥ 1,112,507	¥ 1,189,239	\$ 10,300,991

See notes to consolidated financial statements.

## Consolidated Statement of Income

Suzuken Co., Ltd. and Subsidiaries  
Year ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>NET SALES</b>	¥ 2,213,478	¥ 2,132,362	\$ 20,495,167
<b>COST OF SALES</b>	2,019,354	1,943,068	18,697,723
Gross profit	194,124	189,294	1,797,444
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)</b>	161,553	162,066	1,495,861
Operating income	32,571	27,228	301,583
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	1,715	1,822	15,880
Interest expense	(53)	(56)	(491)
Loss on sales and disposals of property and equipment—net	13	1,329	120
Gain on sales of investment securities—net (Note 6)	892	9,314	8,259
Commission for supplying sales data	5,898	5,757	54,611
Other—net (Note 9)	772	86	7,149
Other income—net	9,237	18,252	85,528
<b>INCOME BEFORE INCOME TAXES</b>	41,808	45,480	387,111
<b>INCOME TAXES (Note 14):</b>			
Current	13,607	13,710	125,991
Deferred	(78)	1,393	(722)
Total income taxes	13,529	15,103	125,269
<b>NET INCOME</b>	28,279	30,377	261,843
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	66	172	611
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥ 28,213	¥ 30,205	\$ 261,231
	Yen		U.S. Dollars
	2020	2019	2020
<b>PER SHARE OF COMMON STOCK (Note 2(q)):</b>			
Basic net income	¥ 310.26	¥ 322.73	\$ 2.873
Cash dividends applicable to the year	72.00	69.00	0.667

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Suzuken Co., Ltd. and Subsidiaries  
Year ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>NET INCOME</b>	<b>¥ 28,279</b>	<b>¥ 30,377</b>	<b>\$ 261,843</b>
<b>OTHER COMPREHENSIVE LOSS (Note 19):</b>			
Net unrealized loss on available-for-sale securities	(353)	(7,525)	(3,270)
Foreign currency translation adjustments	33	(7)	307
Remeasurement of employees' retirement benefit plans	(252)	(838)	(2,333)
Share of other comprehensive income in an associated company	(110)	(237)	(1,019)
Total other comprehensive loss	(682)	(8,607)	(6,315)
<b>COMPREHENSIVE INCOME</b>	<b>¥ 27,597</b>	<b>¥ 21,770</b>	<b>\$ 255,528</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the parent	¥ 27,529	¥ 21,598	\$ 254,898
Noncontrolling interests	68	172	630

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Suzuken Co., Ltd. and Subsidiaries  
Year ended March 31, 2020

	Thousands	Millions of Yen							
								Accumulated Other Comprehensive Income	
	Outstanding Number of Shares of Common Stock	Common Stock		Capital Surplus		Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	
BALANCE AT APRIL 1, 2018	94,696	¥	13,547	¥	39,073	¥	340,640	¥ (27,041)	¥ 43,622
Net income attributable to owners of the parent	-		-		-		30,205	-	-
Cash dividends, ¥64 per share	-		-		-		(6,061)	-	-
Purchase of treasury stock	(3,430)		-		-		-	(20,545)	-
Disposal of treasury stock	6		-		10		-	20	-
Net changes in the year	-		-		-		-	-	(7,525)
BALANCE AT APRIL 1, 2019	91,272		13,547		39,083		364,784	(47,566)	36,097
Net income attributable to owners of the parent	-		-		-		28,213	-	-
Cash dividends, ¥72 per share	-		-		-		(6,755)	-	-
Change in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests	-		-		1		-	-	-
Change in scope of consolidation	-		-		(4)		(8)	-	-
Purchase of treasury stock	(2,117)		-		-		-	(9,828)	-
Disposal of treasury stock	20		-		51		-	79	-
Net changes in the year	-		-		-		-	-	(352)
BALANCE AT MARCH 31, 2020	89,175	¥	13,547	¥	39,131	¥	386,234	(57,315)	¥ 35,745

	Millions of Yen											
	Accumulated Other Comprehensive Income								Noncontrolling Interests		Total Equity	
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurement of Employees' Retirement Benefit Plans	Total								
BALANCE AT APRIL 1, 2018	¥	(5,822)	¥	324	¥	1,409	¥	405,752	¥	674	¥	406,426
Net income attributable to owners of the parent		-		-		-		30,205		-		30,205
Cash dividends, ¥ 64 per share		-		-		-		(6,061)		-		(6,061)
Purchase of treasury stock		-		-		-		(20,545)		-		(20,545)
Disposal of treasury stock		-		-		-		30		-		30
Net changes in the year		-		(244)		(838)		(8,607)		177		(8,430)
BALANCE AT APRIL 1, 2019		(5,822)		80		571		400,774		851		401,625
Net income attributable to owners of the parent		-		-		-		28,213		-		28,213
Cash dividends, ¥ 72 per share		-		-		-		(6,755)		-		(6,755)
Change in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests		-		-		-		1		-		1
Change in scope of consolidation		-		-		-		(12)		-		(12)
Purchase of treasury stock		-		-		-		(9,828)		-		(9,828)
Disposal of treasury stock		-		-		-		130		-		130
Net changes in the year		-		(80)		(252)		(684)		18		(666)
BALANCE AT MARCH 31, 2020	¥	(5,822)	¥	0	¥	319	¥	411,839	¥	869	¥	412,708

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
					Net Unrealized Gain on Available-for-Sale Securities					
	Common Stock		Capital Surplus		Retained Earnings		Treasury Stock			
BALANCE AT APRIL 1, 2019	\$	125,435	\$	361,880	\$	3,377,630	\$	(440,426)	\$	334,231
Net income attributable to owners of the parent		-		-		261,231		-		-
Cash dividends, \$0.68 per share		-		-		(62,546)		-		-
Change in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests		-		9		-		-		-
Change in scope of consolidation		-		(37)		(74)		-		-
Purchase of treasury stock		-		-		-		(91,000)		-
Disposal of treasury stock		-		472		-		732		-
Net changes in the year		-		-		-		-		(3,259)
BALANCE AT MARCH 31, 2020	\$	125,435	\$	362,324	\$	3,576,241	\$	(530,694)	\$	330,972

	Thousands of U.S. Dollars (Note 1)											
	Accumulated Other Comprehensive Income											
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurement of Employees' Retirement Benefit Plans	Total			Noncontrolling Interests	Total Equity				
BALANCE AT APRIL 1, 2019	\$	(53,907)	\$	741	\$	5,287	\$	3,710,871	\$	7,880	\$	3,718,751
Net income attributable to owners of the parent		-		-		-		261,231		-		261,231
Cash dividends, \$0.68 per share		-		-		-		(62,546)		-		(62,546)
Change in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests		-		-		-		9		-		9
Change in scope of consolidation		-		-		-		(111)		-		(111)
Purchase of treasury stock		-		-		-		(91,000)		-		(91,000)
Disposal of treasury stock		-		-		-		1,204		-		1,204
Net changes in the year		-		(741)		(2,333)		(6,333)		166		(6,167)
BALANCE AT MARCH 31, 2020	\$	(53,907)	¥	0	\$	2,954	\$	3,813,325	\$	8,046	\$	3,821,371

See notes to consolidated financial statements.



## Consolidated Statement of Cash Flows

Suzuken Co., Ltd. and Subsidiaries  
Year ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 41,808	¥ 45,480	\$ 387,111
Adjustments for:			
Income taxes—paid	(15,408)	(13,092)	(142,667)
Depreciation and amortization	10,719	10,773	99,250
Gain on sales and disposals of property and equipment—net	(13)	(1,329)	(120)
Gain on sales of investment securities—net	(892)	(9,314)	(8,259)
Loss on impairment of long-lived assets	370	1,502	3,426
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivables	13,898	(7,529)	128,685
Decrease (increase) in inventories	6,385	(5,231)	59,120
Decrease in purchase rebate receivables	615	806	5,694
(Decrease) increase in trade notes and accounts payables	(86,371)	24,231	(799,731)
(Decrease) increase in allowance for doubtful accounts	(92)	(138)	(852)
Decrease in liability for employees' retirement benefits	(988)	(1,345)	(9,148)
Other—net	4,152	(3,062)	38,445
Total adjustments	(67,625)	(3,728)	(626,157)
Net cash (used in) provided by operating activities	(25,817)	41,752	(239,046)
<b>INVESTING ACTIVITIES:</b>			
Increase in time deposits—net	(752)	(793)	(6,963)
Proceeds from sales of property and equipment	510	3,003	4,722
Purchases of property and equipment	(8,271)	(5,804)	(76,583)
Proceeds from sales and redemptions of marketable securities	46,300	33,300	428,704
Purchases of marketable securities	(34,089)	(35,000)	(315,639)
Proceeds from sales and redemptions of investment securities	1,473	11,026	13,639
Purchases of investment securities	(1,079)	(1,110)	(9,991)
Purchases of intangible assets	(3,429)	(3,016)	(31,750)
Decrease in other assets—net	536	333	4,963
Net cash provided by investing activities	1,199	1,939	11,102
<b>FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans—net	(20)	(10)	(185)
Repayments of long-term debt	(564)	(645)	(5,222)
Purchases of treasury stock—net	(9,828)	(20,545)	(91,000)
Dividends paid	(6,755)	(6,061)	(62,546)
Net cash used in financing activities	(17,167)	(27,261)	(158,953)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(26)	(13)	(242)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(41,811)	16,417	(387,139)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	217,026	200,609	2,009,500
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 175,215	¥ 217,026	\$ 1,622,361

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Suzuken Co., Ltd. and Subsidiaries  
Year ended March 31, 2020

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by SUZUKEN CO., LTD. (the “Company”) and its subsidiaries (together with the Company, hereinafter referred to as the “Group”) in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## (a) Consolidation

The Company had 46 subsidiaries and 9 associated companies at March 31, 2020 (53 subsidiaries and 7 associated companies at March 31, 2019). The consolidated financial statements as of March 31, 2020 include the accounts of the Company and its 46 subsidiaries (53 subsidiaries in 2019). Details of the significant subsidiaries included in each segment at March 31, 2020, are as follows:

Business Segment	Significant Subsidiaries	Voting Right Percentage	Common Stock (Millions of Yen)
Pharmaceutical Distribution	Sanki Corporation	100.0	¥ 1,081
	ASTIS Co., Ltd.	100.0	946
	Shoyaku Co., Ltd.	100.0	880
	Suzuken Okinawa Yakuhin Co., Ltd.	100.0	12
	Nakano Yakuhin Co., Ltd.	100.0	94
	Suzuken Iwate Co., Ltd.	100.0	97
	S.D.Logi Co., Ltd.	100.0	10
Pharmaceutical Manufacturing	Sanwa Kagaku Kenkyusho Co., Ltd.	100.0	2,101
Pharmacies	Pfercos Co., Ltd.	100.0	382
		(100.0)	
Other Healthcare-Related Services:			
Supporting service for pharmaceutical manufacturers	S.D. Collabo Co., Ltd.	70.9	51
		(1.3)	
	Chuounyu Co., Ltd.	100.0	99
Nursing service	Sanki Wellbe Co., Ltd.	100.0	50
		(100.0)	
	S-Care Mate Co., Ltd.	100.0	50
Medical equipment manufacturing	Kenzmedico Co., Ltd.	100.0	10
Other services	Life Medicom Co., Ltd.	100.0	10

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. Figures in the parentheses in the column for the voting rights percentage represents percentage of indirectly holding votes.

Investments in an associated company are accounted for by the equity method at March 31, 2020 and 2019.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are included in investments and other assets. Goodwill is amortized over a period of five years, unless deemed immaterial and charged to income as incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The fiscal year end of two consolidated subsidiaries (three consolidated subsidiaries at March 31, 2019) differs from that of the Company at March 31, 2020. The accounts of the subsidiaries that have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions at March 31, 2020 and 2019, and the results of operations for the years ended March 31, 2020 and 2019.

(b) Business Combinations

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of non-controlling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(c) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, commercial papers, and bond investment trusts which mature within three months of the date of acquisition.

(d) Inventories

Inventories are stated at the lower of cost, mainly determined by the moving-average method for merchandise and raw materials, by the annual-average method for finished goods and work in process, and by the last purchase price method for supplies, or net selling value.

## (e) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for depending on management's intent as follows: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined by the moving-average method. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

## (f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed mainly by the declining-balance method at rates based on the estimated useful lives of assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016.

The range of useful lives is from 2 to 50 years for buildings and structures and from 2 to 17 years for machinery and equipment.

Depreciation of leased assets under finance leases is computed by the straight-line method over the lease period.

Due to acceptance of government grants, the following amounts were deducted from the acquisition cost of relevant assets.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings and structures	¥ 1,148	¥ 1,153	\$ 10,630
Machinery and equipment and others	884	879	8,185
Total	¥ 2,032	¥ 2,032	\$ 18,815

## (g) Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

## (h) Land Revaluation

Under the "Law of Land Revaluation," the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents unrealized devaluation of land and is stated, net of income taxes, as a component of equity. There is no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax assets/liabilities.

The carrying amount of land after the one-time revaluation noted above exceeded market value by ¥1,413 million (\$13,083 thousand) at March 31, 2020.

## (i) Intangible Assets

Software for internal use is amortized by the straight-line method over 5 to 10 years. Depreciation of leased assets under finance leases is computed by the straight-line method over the lease period.

## (j) Retirement and Pension Plans

The Group accounted for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on the benefit formula basis.

Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects. Past service costs are amortized on the straight-line basis over 5 to 10 years within the average remaining service period. Actuarial gains and losses are amortized from the following fiscal year of occurrence, on the straight-line basis over certain years within the average remaining service period (up to 15 years).

Certain consolidated subsidiaries apply the simplified method to state the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

Directors and Audit & Supervisory Board members are not covered by the above plan. Liability for retirement benefits to directors and Audit & Supervisory Board members is recorded as a liability at the amount that would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

## (k) Research and development costs

Research and development costs are charged to income as incurred.

## (l) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

## (m) Leases

In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

In addition, the accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.



## (n) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

## (o) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income as a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

## (p) Asset Retirement Obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

## (q) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share for the years ended March 31, 2020 and 2019, is not disclosed because the Company had no dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

## (r) Accounting Changes and Error Corrections

Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections,” accounting treatments are required as follows:

- (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions.
- (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
- (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
- (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

(s) Consumption Tax

Unless otherwise stated, all figures are presented net of tax.

### 3. CHANGES IN PRESENTATION

#### Notes Regarding Consolidated Balance Sheet

In the consolidated financial statements for the previous fiscal year, “Short-term bank loans” of ¥50 million was separately presented under “Current liabilities.” However, since the amount of short-term bank loans decreased significantly, it is included in “Other current liabilities” for the fiscal year ended March 31, 2020. Due to this change in presentation, the consolidated balance sheet as of March 31, 2019 has been restated. As a result, “Other current liabilities” under “Current liabilities” in the consolidated balance sheet as of March 31, 2019, which was previously reported at ¥9,736 million, has been restated to ¥9,786 million.

#### Notes Regarding Consolidated Statement of Income

In the consolidated financial statements for the previous fiscal year, “Loss on impairment of long-lived assets” of ¥(1,502) million and “Special retirement payments” of ¥(4) million was separately presented under “Other income (expenses).” However, since the amount decreased significantly, it is included in “Other—net” for the fiscal year ended March 31, 2020. Due to this change in presentation, the consolidated statement of income for the previous fiscal year has been restated. As a result, in the consolidated statement of income for the previous fiscal year, “Other—net” under “Other income (expenses),” which was previously reported at ¥1,592 million, has been restated to ¥86 million.

### 4. NEW ACCOUNTING PRONONCEMENTS

“Accounting Standard for Revenue Recognition (ASBJ Statement No.29 (revised on March 31, 2020))”

“Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 (revised on March 31, 2020))”

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19 (revised on March 31, 2020))”

(1) Outline of the new standard and guidance

On March 31, 2020, the ASBJ issued “Accounting Standard for Revenue Recognition,” and “Implementation Guidance on Accounting Standard for Revenue Recognition.” The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following five steps:

- Step 1: Identify the contract(s) with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

- (2) Scheduled date of applying the new accounting standard and guidance  
The Company will apply the accounting standard and guidance from the beginning of the fiscal year ending March 31, 2022.
- (3) Effects of applying the new accounting standard and guidance  
The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

“Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 (revised on July 4, 2019))”  
 “Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 (revised on July 4, 2019))”  
 “Accounting Standard for Financial Instruments (ASBJ Statement No. 10 (revised on July 4, 2019))”  
 “Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 (revised on July 4, 2019))”  
 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 (revised on March 31, 2020))”

- (1) Outline of the new standards and guidance  
The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) developed detailed guidance with almost same contents for fair value measurement and issued ‘Fair value measurement’ (IFRS No.13 in IASB, Topic 820 in FASB). Given these circumstances, the ASBJ issued the “Accounting Standard for Fair Value Measurement,” etc. in order to ensure the consistency with international accounting standards with regards to guidance and disclosures of fair value of financial instruments. The fundamental policy for developing these accounting standards by the ASBJ was that these accounting standards would basically incorporate all provisions of IFRS 13 from the perspective of improving the international comparability of financial statements. On the other hand, by taking into consideration the Japanese accounting practice, the ASBJ determined that separate accounting treatment for specific items would be adopted within a range that would not impair the comparability of financial statements.
- (2) Scheduled date of applying the new standards and guidance  
The Company plans to adopt the accounting standards and guidance from the beginning of the fiscal year ending March 31, 2022.
- (3) Effects of applying the new standards and guidance  
The Company is in the process of measuring the effects of applying the new standards and guidance.

“Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 (revised on March 31, 2020))”

- (1) Outline of this standard  
The Paragraph 125 of IAS 1 “Presentation of Financial Statements” (issued by IASB in 2003; hereinafter “IAS1.125”) requires disclosure of information about the “assumptions that the entity makes for the future and other major sources of estimation uncertainty”. In this regard, there has been a request that the major sources of estimation uncertainty should be disclosed as the notes to financial statements under Japan GAAP in terms of providing useful information to users of financial statements. By responding to this request, ASBJ developed and issued “Accounting Standard for Disclosure of Accounting Estimates.” The fundamental policy for developing this accounting standard by the ASBJ was that an entity would first identify the purpose for disclosure and decide specific details of the notes in light of its purpose of the disclosure, rather than expansion of disclosure of each notes. ASBJ used IAS1.125 as a reference in developing this standard.

## (2) Scheduled date of applying the new standard

The Company plans to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24 (revised on March 31, 2020))"

## (1) Outline of this standard

Standards Advisory Council of ASBJ recommended that ASBJ would consider improvement of disclosure for the notes to "The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear". To respond to the recommendation, ASBJ issued the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections." In addition, this standard requires that when the entity improves the disclosure of notes for "The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear" it should refer to "No.1-2 of annotations on the corporate accounting principles" in order not to affect accounting practices where the relevant accounting standards are clear.

## (2) Scheduled date of applying the new standard

The Company plans to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

## 5. ADDITIONAL INFORMATION

In reviewing its long-lived assets for impairment, etc., the Group assumed that the impact of spread of new coronavirus infection would be minimal.

Note that the actual results in the future may differ from our current estimates.

## 6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Debt securities	¥ 28,110	¥ 40,305	\$ 260,278
Total	¥ 28,110	¥ 40,305	\$ 260,278
Noncurrent:			
Equity securities	¥ 74,341	¥ 74,599	\$ 688,343
Debt securities	5,212	5,448	48,259
Other	1,212	710	11,222
Total	¥ 80,765	¥ 80,757	\$ 747,824

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, were as follows:

March 31, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 19,097	¥ 54,301	¥ (534)	¥ 72,864
Debt securities	19,838	32	(241)	19,629
Other	725	-	(13)	712
Held-to-maturity	13,693	7	(13)	13,687
Total	¥ 53,353	¥ 54,340	¥ (801)	¥ 106,892
March 31, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 19,391	¥ 54,074	¥ (43)	¥ 73,422
Debt securities	30,811	189	(153)	30,847
Other	725	-	(16)	709
Held-to-maturity	5,405	14	(0)	5,419
Total	¥ 56,332	¥ 54,277	¥ (212)	¥ 110,397
March 31, 2020	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 176,824	\$ 502,787	\$ (4,944)	\$ 674,667
Debt securities	183,685	296	(2,231)	181,750
Other	6,713	-	(120)	6,593
Held-to-maturity	126,787	65	(120)	126,732
Total	\$ 494,009	\$ 503,148	\$ (7,415)	\$ 989,742



Information on available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

Millions of Yen			
	Proceeds	Realized Gains	Realized Losses
March 31, 2020			
Available-for-sale:			
Equity securities	¥ 1,473	¥ 892	-
Total	¥ 1,473	¥ 892	-
Millions of Yen			
	Proceeds	Realized Gains	Realized Losses
March 31, 2019			
Available-for-sale:			
Equity securities	¥ 11,026	¥ 9,314	-
Total	¥ 11,026	¥ 9,314	-
Thousands of U.S. Dollars			
	Proceeds	Realized Gains	Realized Losses
March 31, 2020			
Available-for-sale:			
Equity securities	\$ 13,639	\$ 8,259	-
Total	\$ 13,639	\$ 8,259	-

There was no significant write-down of investment securities for the years ended March 31, 2020 and 2019.

## 7. NOTES MATURING ON MARCH 31

Because March 31, 2019 was the account closing date, which was a nonbusiness day for financial institutions, notes receivable and payable maturing on that date were settled on the following business day. However, the Company recognized notes receivable and payable that matured on that date as being settled. Information on notes receivable and payable treated as settled is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Notes receivable	-	¥ 474	-
Notes payable	-	421	-

## 8. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Merchandise	¥ 129,990	¥ 136,355	\$ 1,203,611
Finished products	4,177	4,336	38,676
Raw materials	2,865	2,753	26,528
Work in process	2,299	2,250	21,287
Supplies	397	462	3,676
Total	¥ 139,728	¥ 146,156	\$ 1,293,778

## 9. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2020 and 2019, and as a result, recognized loss on impairment of long-lived assets of ¥370 million (\$3,426 thousand) and ¥1,502 million for the years ended March 31, 2020 and 2019, respectively, for real estate, such as land and buildings. The Group classifies assets or groups of assets into business assets, idle assets, and real estate for rent. The carrying amounts of impaired assets were written down to recoverable amounts measured primarily at the net selling price mainly based on the valuation amounts of property taxes, etc.

The breakdown of the loss on impairment of long-lived assets for the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Business assets	¥ 287	¥ 1,314	\$ 2,657
Idle assets	81	188	750
Assets for rent	2	0	19
Total	¥ 370	¥ 1,502	\$ 3,426

## 10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2020 and 2019, consisted of notes to banks and bank overdrafts.

The weighted-average interest rate on short-term bank loans at March 31, 2020 and 2019, was 0.43% and 0.35%, respectively.

The weighted-average interest rate on the current portion of long-term bank loans at March 31, 2019, was 1.42%.

Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks	-	¥ 6	-
Lease obligations	¥ 2,540	2,484	\$ 23,518
Total	2,540	2,490	23,518
Less current portion	(457)	(489)	(4,231)
Long-term debt, less current portion	¥ 2,083	¥ 2,001	\$ 19,287

Annual maturities of long-term debt at March 31, 2020, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 457	\$ 4,231
2022	347	3,213
2023	257	2,380
2024	176	1,630
2025	78	722
2026 and thereafter	1,225	11,342
Total	¥ 2,540	\$ 23,518

## 11. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for short-term bank loans and long-term debt (including the current portion of long-term debt) at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land	-	¥ 59	-
Buildings and structures—net of accumulated depreciation	-	-	-
Total	-	¥ 59	-

The carrying amounts of assets pledged to certain suppliers as collateral at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land	¥ 2,448	¥ 2,226	\$ 22,667
Buildings and structures—net of accumulated depreciation	321	429	2,972
Investment securities	1,379	1,456	12,768
Total	¥ 4,148	¥ 4,111	\$ 38,407

## 12. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees. In addition, certain subsidiaries have severance payment plans for directors and Audit & Supervisory Board members.

The Group has corporate funded pension plans, unfunded lump-sum retirement benefit plans, and defined contribution plans for employees. Furthermore, additional retirement benefits are paid in some cases.

The Company and certain consolidated subsidiaries which have funded pension plans pay lump-sums or annuities, determined by reference to the employee's basic salary rate and length of service. Certain consolidated subsidiaries fund employee retirement benefit trusts for a corporate funded pension plan.

Certain consolidated subsidiaries which have unfunded lump-sum retirement benefit plans pay lump-sums, determined by reference to the employee's basic salary rate and length of service.

Certain consolidated subsidiaries apply the simplified method to calculate the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

## (a) Defined Benefit Pension Plans

- (1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 43,415	¥ 42,082	\$ 401,991
Current service cost	1,500	1,527	13,889
Interest cost	413	408	3,824
Actuarial (gains) losses	(317)	323	(2,935)
Benefits paid	(2,765)	(2,136)	(25,602)
Past service cost	-	159	-
Increase due to change in retirement benefit plan	-	1,052	-
Balance at end of year	¥ 42,246	¥ 43,415	\$ 391,167

- (2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 57,100	¥ 55,609	\$ 528,704
Expected return on plan assets	1,382	1,348	12,796
Actuarial (losses) gains	(867)	(829)	(8,028)
Contributions from the employer	1,463	1,588	13,546
Benefits paid	(2,519)	(1,899)	(23,324)
Increase due to change in retirement benefit plan	-	1,283	-
Balance at end of year	¥ 56,599	¥ 57,100	\$ 523,694

- (3) The changes in liability for retirement benefits, to which the simplified method was applied to record the liability for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 1,522	¥ 1,507	\$ 14,093
Pension costs	275	266	2,546
Benefits paid	(158)	(161)	(1,463)
Contributions to pension funds	(72)	(77)	(667)
Others	(41)	(13)	(379)
Balance at end of year	¥ 1,526	¥ 1,522	\$ 14,130

- (4) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 41,878	¥ 43,141	\$ 387,759
Plan assets	(57,831)	(58,420)	(535,472)
Total	(15,953)	(15,279)	(147,713)
Unfunded defined benefit obligation	3,165	3,117	29,306
Net assets arising from defined benefit obligation	¥ (12,788)	¥ (12,162)	\$ (118,407)

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for employees' retirement benefits	¥ 3,165	¥ 3,117	\$ 29,306
Asset for employees' retirement benefits	(15,953)	(15,279)	(147,713)
Net assets arising from defined benefit obligation	¥ (12,788)	¥ (12,162)	\$ (118,407)

- (5) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 1,500	¥ 1,527	\$ 13,889
Interest cost	413	408	3,824
Expected return on plan assets	(1,382)	(1,348)	(12,796)
Recognized actuarial losses	160	107	1,481
Amortization of prior service cost	28	40	259
Pension costs to which the simplified method was applied to record the liability	276	266	2,556
Additional benefits for employee retirement	30	-	278
Decrease due to change in corporate pension plan	-	(233)	-
Net periodic benefit costs	¥ 1,025	¥ 767	\$ 9,491



- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥ 28	¥ (120)	\$ 259
Actuarial losses	(388)	(1,083)	(3,592)
Total	¥ (360)	¥ (1,203)	\$ (3,333)

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 129	¥ 157	\$ 1,194
Unrecognized losses	(590)	(978)	(5,463)
Total	¥ (461)	¥ (821)	\$ (4,269)

- (8) Plan assets

① Components of plan assets

Plan assets consisted of the following:

	2020	2019
Alternative	34%	37%
Debt investments	7	7
Equity investments	7	7
Short-term investments	9	8
Others	43	41
Total	100%	100%

② Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of plan assets, such as the asset portfolio retained by the corporate pension funds, actual returns from past investments, investment policy, and market trends.

- (9) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	0.3% ~ 1.1%	0.3% ~ 1.1%
Expected rate of return on plan assets	2.5%	2.5%

(b) Defined Contribution Pension Plans

The Group's contributions to defined contribution pension plan funds for the years ended March 31, 2020 and 2019, were 1,000 million (\$9,259 thousand) and ¥ 1,021 million, respectively.

### 13. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

#### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of equity after dividends must be maintained at no less than ¥3 million.

#### (b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

#### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate for the Company of approximately 30.5% and 30.5% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 2,472	¥ 2,357	\$ 22,889
Accrued bonuses	2,422	2,385	22,426
Liability for employees' retirement benefits	473	602	4,380
Liability for retirement benefits to directors and Audit & Supervisory Board members	168	195	1,556
Accumulated impairment loss	1,565	1,638	14,491
Enterprise tax	533	614	4,935
Investment securities	489	429	4,528
Accrued expenses	501	469	4,639
Tax loss carryforwards	3,191	3,362	29,546
Unrealized (loss) gain on intercompany transactions	261	(242)	2,417
Others	4,229	4,022	39,156
Total of tax loss carryforwards and temporary differences	16,304	15,831	150,963
Less valuation allowance for tax loss carryforwards	(2,826)	(2,934)	(26,167)
Less valuation allowance for temporary differences	(6,151)	(6,111)	(56,953)
Less valuation allowance	(8,977)	(9,045)	(83,120)
Total	¥ 7,327	¥ 6,786	\$ 67,843
Deferred tax liabilities:			
Investment securities	¥ (480)	¥ (480)	\$ (4,444)
Asset for employees' retirement benefits	(3,915)	(3,769)	(36,250)
Deferred gain on property and equipment	(437)	(440)	(4,046)
Unrealized gain on available-for-sale securities	(16,219)	(16,319)	(150,176)
Others	(1,278)	(1,112)	(11,834)
Total	¥ (22,329)	¥ (22,120)	\$ (206,750)
Net deferred tax liabilities	¥ (15,002)	¥ (15,334)	\$ (138,907)

The breakdown of net deferred tax liabilities for land revaluation at March 31, 2020 and 2019, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets	¥ 2,705	¥ 2,705	\$ 25,046
Valuation allowance	(2,705)	(2,705)	(25,046)
Deferred tax liabilities	(1,338)	(1,338)	(12,389)
Total	¥ (1,338)	¥ (1,338)	\$ (12,389)

Valuation allowance at March 31, 2020 decreased by 68 million (\$630 thousand). The decrease was mainly due to additional valuation allowances in the amount of ¥108 million (\$1,000 thousand) for tax loss carryforward. The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020, were as follows:

March 31, 2020	Millions of Yen						Total
	one Year or Less	After one Year through two Years	After two Years through three Years	After three Years through four Years	After four Years through five Years	After five Years	
Deferred tax assets relating to tax loss carryforwards	¥ 69	¥ 102	¥ 312	¥ 432	¥ 490	¥ 1,786	¥ 3,191
Less valuation allowances for tax loss carryforwards	(69)	(102)	(312)	(432)	(490)	(1,421)	(2,826)
Net deferred tax assets relating to tax loss carryforwards	-	-	-	-	-	365	365

Thousands of U.S. Dollars							
March 31, 2020	one Year or Less	After one Year through two Years	After two Years through three Years	After three Years through four Years	After four Years through five Years	After five Years	Total
Deferred tax assets relating to tax loss carryforwards	\$ 639	\$ 944	\$ 2,889	\$ 4,000	\$ 4,537	\$ 16,537	\$ 29,546
Less valuation allowances for tax loss carryforwards	(639)	(944)	(2,889)	(4,000)	(4,537)	(13,158)	(26,167)
Net deferred tax assets relating to tax loss carryforwards	-	-	-	-	-	3,379	3,379

Note1: Figures for tax loss carryforward were multiplied by the effective statutory tax rate.

Note2: For the tax loss carryforward of ¥3,191 million (\$29,546 thousand) (amount multiplied by the effective statutory tax rate), deferred tax assets of ¥365 million (\$3,379 thousand) have been recorded. The deferred tax assets was determined to be recoverable as future taxable income is anticipated, and therefore valuation allowance has not been recognized.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2020 and 2019, is as follows:

	2020		2019	
Normal effective statutory tax rate	30.5	%	30.5	%
Expenses not deductible for income tax purposes	0.4		0.4	
Revenues not taxable for income tax purposes	(1.9)		(2.9)	
Per capita tax	1.1		1.0	
Amortization of goodwill	0.4		0.4	
Valuation allowance	0.0		1.5	
Effect of elimination for consolidation purposes	1.6		2.5	
Other – net	0.3		(0.2)	
Actual effective tax rate	32.4	%	33.2	%

## 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,648 million (\$43,037 thousand) and ¥5,873 million for the years ended March 31, 2020 and 2019, respectively.



## 16. LEASES

The Group leases certain machinery, fixtures, and other assets.

The minimum rental commitments under operating leases at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 1,921	¥ 2,223	\$ 17,787
Due after one year	6,325	6,735	58,565
Total	¥ 8,246	¥ 8,958	\$ 76,352

## 17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (a) Group policy for financial instruments

The Group invests in financial instruments based on its investment plan approved by the Board of Directors annually. Investments by consolidated subsidiaries are limited to low-risk financial assets such as short-term bank deposits.

The Group self-funds its operations primarily through cash flows from operating activities. Some domestic subsidiaries use financial instruments, mainly long-term debt, including bank loans.

### (b) Nature and extent of risks arising from financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Marketable and investment securities, mainly held-to-maturity securities and equity instruments, are exposed to the risk of market price fluctuations and the credit risks of issuers.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Short-term debt is mainly used for operations. Long-term debt is mainly used for capital investments. Payables and debt are exposed to liquidity risk.

### (c) Risk management for financial instruments

#### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers to identify the default risk of customers in an early stage. Also, the Group monitors the customers' credit standing annually. With respect to held-to-maturity and available-for-sale financial investments, the Company manages its exposure to credit risk by monitoring credit ratings and market values on a timely basis and by limiting its funding to high credit rated bonds in accordance with its internal guidelines.

#### *Market risk management*

Marketable and investment securities are managed by monitoring market values and financial positions of issuers on a regular basis based on the capital finance plan, as described in the preceding paragraph.

Shares held for the purpose of business development, including business and capital alliances, are monitored regularly through a review of the issuers' financial positions.

*Liquidity risk management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by monitoring monthly cash flow projections.

(d) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead.

(1) Fair value of financial instruments

Millions of yen			
March 31, 2020	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 175,215	¥ 175,215	-
Time deposits	8,306	8,306	-
Receivables—net	508,257	508,257	-
Marketable and investment securities	106,898	106,891	¥ (7)
Total	¥ 798,676	¥ 798,676	¥ (7)
Payables including income taxes payable	¥ 653,094	¥ 653,094	-
Long-term debt including current portion	2,540	2,540	-
Total	¥ 655,634	¥ 655,634	-
Millions of yen			
March 31, 2019	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 217,026	¥ 217,026	-
Time deposits	7,553	7,553	-
Receivables—net	522,694	522,694	-
Marketable and investment securities	119,884	119,897	¥ 13
Total	¥ 867,157	¥ 867,170	¥ 13
Payables including income taxes payable	¥ 743,909	¥ 743,909	-
Long-term debt including current portion	2,490	2,490	¥ 0
Total	¥ 746,399	¥ 746,399	¥ 0

Thousands of U.S. Dollars			
March 31, 2020	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 1,622,361	\$ 1,622,361	-
Time deposits	76,907	76,907	-
Receivables—net	4,706,083	4,706,083	-
Marketable and investment securities	989,796	989,731	\$ (65)
Total	\$ 7,395,147	7,395,082	\$ (65)
Payables including income taxes payable	\$ 6,047,167	\$ 6,047,167	-
Long-term debt including current portion	23,519	23,519	-
Total	\$ 6,070,686	\$ 6,070,686	-

*Cash and cash equivalents and time deposits*

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

*Marketable and investment securities*

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 5.

*Receivables and payables*

Since receivables and payables are generally settled in a short time period, the fair values of receivables and payables are equivalent to book value. Doubtful accounts are estimated based on collectability and the fair values of receivables represent book values of receivables minus allowances for doubtful accounts.

*Long-term debt*

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

(2) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investment securities	¥ 1,977	¥ 1,177	\$ 18,306
Investments in associated companies	12,075	11,840	111,806
Total	¥ 14,052	¥ 13,017	\$ 130,112

## (e) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2020	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 175,215	-	-	-
Time deposits	8,306	-	-	-
Receivables	509,420	-	-	-
Marketable and investment securities				
Held-to-maturity securities	29,089	¥ 109	¥ 500	-
Available-for-sale securities with contractual maturities	15,000	3,175	1,500	¥ 1,000
Total	¥ 737,030	¥ 3,284	¥ 2,000	¥ 1,000

March 31, 2020	Thousands of U.S. Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 1,622,361	-	-	-
Time deposits	76,907	-	-	-
Receivables	4,716,852	-	-	-
Marketable and investment securities				
Held-to-maturity securities	269,343	\$ 1,009	\$ 4,630	-
Available-for-sale securities with contractual maturities	138,889	29,398	13,889	\$ 9,259
Total	\$ 6,824,352	\$ 30,407	\$ 18,519	\$ 9,259

Please see Note 10 for annual maturities of long-term debt.

## 18. CONTINGENT LIABILITIES AND COMMITMENTS

The Group has bank overdraft agreements with 20 banks to obtain working capital efficiently. Under these contracts, the Group would be able to overdraw a maximum of ¥32,660 million (\$302,407 thousand). The credit lines amounted to ¥30 million (\$278 thousand) at March 31, 2020.

At March 31, 2020, the Group had the following contingent liabilities :

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans of suppliers	¥ 4	\$ 37

## 19. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 365	¥ (1,505)	\$ 3,380
Reclassification adjustments to profit or loss-net	(883)	(9,311)	(8,177)
Amount before income tax effect	(518)	(10,816)	(4,797)
Income tax effect	165	3,291	1,527
Total	¥ (353)	¥ (7,525)	\$ (3,270)
Foreign currency translation adjustments:			
Amount arising during the year	¥ 26	¥ (7)	\$ 242
Reclassification adjustments to profit or loss-net	7	-	65
Amount before income tax effect	33	(7)	307
Total	¥ 33	¥ (7)	\$ 307
Remeasurement of employees' retirement benefit plans:			
Adjustments arising during the year	¥ (532)	¥ (1,311)	\$ (4,926)
Reclassification adjustments to profit or loss—net	172	109	1,593
Amount before income tax effect	(360)	(1,202)	(3,333)
Income tax effect	108	364	1,000
Total	¥ (252)	¥ (838)	\$ (2,333)
Share of other comprehensive income in an associated company			
Amount arising during the year	¥ (110)	¥ (237)	\$ (1,019)
Total	¥ (110)	¥ (237)	\$ (1,019)
Total other comprehensive income	¥ (682)	¥ (8,607)	\$ (6,315)

## 20. SUBSEQUENT EVENTS

## Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020 was approved at the Company's Board of Directors' meeting held on May 11, 2020.

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 (\$0.37) per share	¥ 3,567	\$ 33,028



## 21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, “Accounting Standard for Disclosures about Segments of an Enterprise and Related information” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) Description of Reportable Segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Group’s management is performed in order to decide how resources are allocated among the Group. Therefore, the Group’s reportable segments consist of “Pharmaceutical Distribution,”

“Pharmaceutical Manufacturing,” “Pharmacies,” and “Other Healthcare-Related Services.”

“Pharmaceutical Distribution” activities consist of distributing pharmaceuticals, diagnostic reagents, medical equipment, and medical supplies.

“Pharmaceutical Manufacturing” activities consist of manufacturing pharmaceuticals and diagnostic reagents.

“Pharmacies” activities consist of dispensing prescribed pharmaceuticals.

“Other Healthcare-Related Services” activities consist of transporting pharmaceuticals, supplying care services, manufacturing medical equipment such as electrocardiographs, and providing comprehensive support related to the distribution of orphan drugs.

### (2) Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

## (3) Information about Sales, Profit, Assets, and Other Items

Millions of Yen			
2020			
Reportable Segment			
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies
Sales			
Sales to customers	¥ 2,072,641	¥ 14,149	¥ 96,418
Intersegment sales	52,733	30,544	21
Total	¥ 2,125,374	¥ 44,693	¥ 96,439
Segment profit	¥ 28,085	¥ 1,181	¥ 1,736
Segment assets	975,530	58,036	40,284
Other:			
Depreciation and amortization	8,110	1,149	932
Investments accounted for by the equity method	3,826	-	-
Increase in property and equipment and intangible assets	7,935	352	941

Millions of Yen				
2020				
Reportable Segment				
	Other Healthcare- Related Services	Total	Reconciliations	Consolidated
Sales				
Sales to customers	¥ 30,270	¥ 2,213,478	-	¥ 2,213,478
Intersegment sales	70,403	153,701	¥ (153,701)	-
Total	¥ 100,673	¥ 2,367,179	¥ (153,701)	¥ 2,213,478
Segment profit	¥ 1,364	¥ 32,366	¥ 205	¥ 32,571
Segment assets	42,576	1,116,426	(3,919)	1,112,507
Other:				
Depreciation and amortization	531	10,722	(3)	10,719
Investments accounted for by the equity method	-	3,826	-	-
Increase in property and equipment and intangible assets	325	9,553	-	-

Millions of Yen				
2019				
Reportable Segment				
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	
Sales				
Sales to customers	¥ 1,993,213	¥ 15,825	¥	94,639
Intersegment sales	50,888	31,205		19
Total	¥ 2,044,101	¥ 47,030	¥	94,658
Segment profit	¥ 22,858	¥ 869	¥	1,903
Segment assets	1,050,750	57,201		42,435
Other:				
Depreciation and amortization	7,972	1,320		989
Investments accounted for by the equity method	3,622	-		-
Increase in property and equipment and intangible assets	7,219	342		678

Millions of Yen				
2019				
Reportable Segment				
	Other Healthcare- Related Services	Total	Reconciliations	Consolidated
Sales				
Sales to customers	¥ 28,685	¥ 2,132,362	-	¥ 2,132,362
Intersegment sales	33,403	115,515	¥ (115,515)	-
Total	¥ 62,088	¥ 2,247,877	¥ (115,515)	¥ 2,132,362
Segment profit	¥ 1,386	¥ 27,016	¥ 212	¥ 27,228
Segment assets	32,884	1,183,270	5,969	1,189,239
Other:				
Depreciation and amortization	498	10,779	(3)	10,776
Investments accounted for by the equity method	-	3,622	-	3,622
Increase in property and equipment and intangible assets	2,617	10,856	-	10,856

## Thousands of U.S. Dollars

2020

## Reportable Segment

	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies
Sales			
Sales to customers	\$ 19,191,121	\$ 131,009	\$ 892,760
Intersegment sales	488,268	282,815	194
Total	\$ 19,679,389	\$ 413,824	\$ 892,954
Segment profit	\$ 260,046	\$ 10,935	\$ 16,074
Segment assets	9,032,686	537,370	373,000
Other:			
Depreciation and amortization	75,092	10,639	8,630
Investments accounted for by the equity method	35,426	-	-
Increase in property and equipment and intangible assets	73,473	3,259	8,713

## Thousands of U.S. Dollars

2020

## Reportable Segment

	Other Healthcare- Related Services	Total	Reconciliations	Consolidated
Sales				
Sales to customers	\$ 280,277	\$ 20,495,167	-	\$ 20,495,167
Intersegment sales	651,880	1,423,157	\$ (1,423,157)	-
Total	\$ 932,157	\$ 21,918,324	\$ (1,423,157)	\$ 20,495,167
Segment profit	\$ 12,630	\$ 299,685	\$ 1,898	\$ 301,583
Segment assets	394,222	10,337,278	(36,287)	10,300,991
Other:				
Depreciation and amortization	4,917	99,278	(28)	99,250
Investments accounted for by the equity method	-	35,426	-	-
Increase in property and equipment and intangible assets	3,009	88,454	-	-

## Notes:

1. The reconciliation amounts are as follows.
  - (1) The reconciliation amounts of ¥205 million (\$1,898 thousand) and ¥212 million for segment profit as of March 31, 2020 and 2019, respectively, represent eliminations of intercompany transactions.
  - (2) The reconciliation amounts of ¥(3,919) million (\$(36,287) thousand) and ¥5,969 million for segment assets as of March 31, 2020 and 2019, respectively, include corporate assets of ¥49,205 million (\$455,602 thousand) and ¥57,632 million, respectively, elimination of intercompany balances of ¥(53,123) million (\$(491,880) thousand) and ¥(52,192) million, respectively.  
Corporate assets, which are not allocated to the segments, principally consist of investment securities.
2. Segment profit is reconciled with operating income on the consolidated statement of income.

**Associated Information**

1. Information about products and services

	Millions of Yen		
	2020		
	Pharmaceuticals	Others	Total
Sales to external customers	¥ 1,885,141	¥ 328,337	¥ 2,213,478

	Millions of Yen		
	2019		
	Pharmaceuticals	Others	Total
Sales to external customers	¥ 1,808,272	¥ 324,090	¥ 2,132,362

	Thousands of U.S. Dollars		
	2020		
	Pharmaceuticals	Others	Total
Sales to external customers	\$ 17,455,009	\$ 3,040,158	\$ 20,495,167



## 2. Information about impairment loss by reportable segment

Millions of Yen

	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
2020						
Impairment loss	¥ 80	-	¥ 290	-	-	¥ 370

Millions of Yen

	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
2019						
Impairment loss	¥ 190	-	¥ 385	¥ 927	-	¥ 1,502

Thousands of U.S. Dollars

	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
2020						
Impairment loss	\$ 741	-	\$ 2,685	-	-	\$ 3,426

## 3. Information about goodwill and negative goodwill by reportable segment

2020	Millions of Yen					
	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
Amortization of goodwill	-	-	¥ 707	-	-	¥ 707
Amount of goodwill at March 31, 2020	-	-	421	-	-	421
2019	Millions of Yen					
	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
Amortization of goodwill	-	-	¥ 787	-	-	¥ 787
Amount of goodwill at March 31, 2019	-	-	851	-	-	851
2020	Thousands of U.S. Dollars					
	Reportable Segments				Corporate/ Elimination	Consolidated
	Pharmaceutical Distribution	Pharmaceutical Manufacturing	Pharmacies	Other Healthcare- Related Services		
Amortization of goodwill	-	-	\$ 6,546	-	-	\$ 6,546
Amount of goodwill at March 31, 2020	-	-	3,898	-	-	3,898

There is no material profit from negative goodwill for the years ended March 31, 2020 and 2019.

## Independent Auditor's Report



To the Board of Directors and Shareholders of  
SUZUKEN CO., LTD.:

Deloitte Touche Tohmatsu LLC  
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Nagoya, Aichi 450-8530  
Japan

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### Opinion

We have audited the consolidated financial statements of SUZUKEN CO., LTD. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of  
**Deloitte Touche Tohmatsu Limited**

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



June 25, 2020

## Stock Data

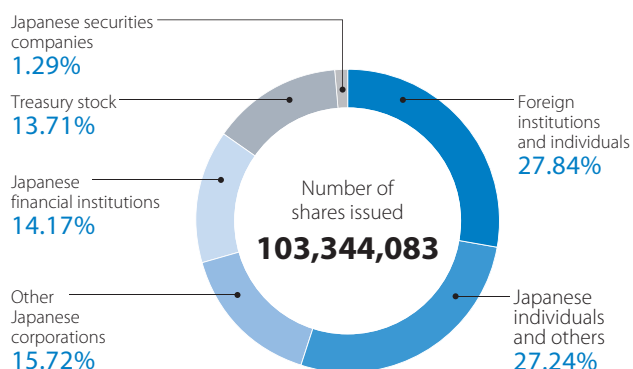
(As of March 31, 2020)

### Stock Price

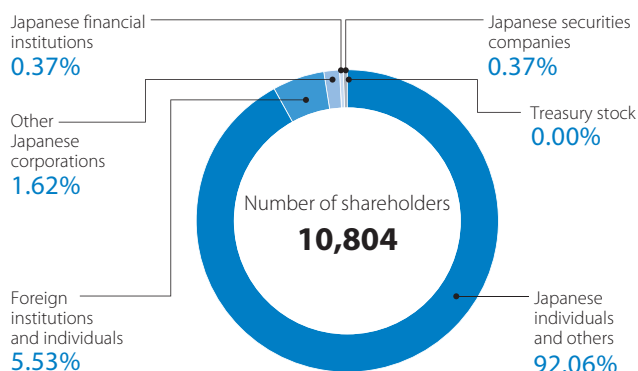
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
At year-end (Yen)	3,665	3,825	3,650	4,395	6,410	<b>3,935</b>
High (Yen)	4,155	5,000	4,020	4,845	6,490	<b>7,040</b>
Low (Yen)	2,766	3,450	2,871	3,435	4,270	<b>3,175</b>
Number of shares issued at year-end (Thousands of shares)	93,949	103,344	103,344	103,344	103,344	<b>103,344</b>
Market capitalization at year-end (Millions of yen)	344,323	395,290	377,205	454,197	662,435	<b>406,658</b>

### Breakdown of Shareholders

#### Ratio of Shares Held



#### Ratio of Shareholders



### Major Shareholders

	Number of Shares Held	Percentage of Shares Issued
	Thousands	%
<b>Major Shareholders</b>		
The Master Trust Bank of Japan, Ltd. (Trust account)	<b>5,059</b>	<b>5.67</b>
Shionogi & Co., Ltd.	<b>3,256</b>	<b>3.65</b>
Japan Trustee Services Bank, Ltd. (Trust account)	<b>3,141</b>	<b>3.52</b>
Hiroko Bessho	<b>3,099</b>	<b>3.47</b>
Hisayo Izawa	<b>2,394</b>	<b>2.68</b>
Suzuken Group Employee Stock Ownership Association	<b>2,172</b>	<b>2.43</b>
Yoshiki Bessho	<b>1,870</b>	<b>2.09</b>
Kyoko Suzuki	<b>1,837</b>	<b>2.06</b>
Suzuken Memorial Foundation	<b>1,796</b>	<b>2.01</b>
Masaki Bessho	<b>1,747</b>	<b>1.95</b>
Total	<b>26,374</b>	<b>29.57</b>

Notes:

- Besides the shares described above, Suzuken Co., Ltd. holds 14,169 thousand shares.
- Trading unit (tangen): 100 shares.



## Corporate Data

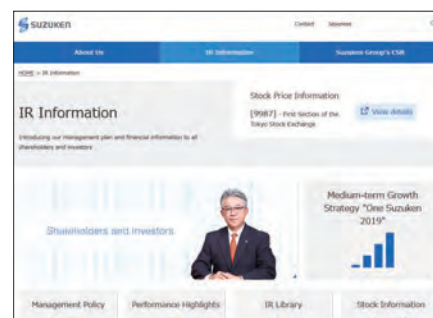
(As of March 31, 2020)

### Corporate Data

Corporate Name	SUZUKEN CO., LTD. 8 Higashikataha-machi Higashi-ku, Nagoya, Aichi 461-8701, Japan Phone: +81-52-961-2331 URL: <a href="https://www.suzuken.co.jp/en/">https://www.suzuken.co.jp/en/</a>
Establishment	November 1932
Capital	¥13,547 million
Number of Employees	15,477 (consolidated)
Ordinary General Meeting of Shareholders	The ordinary general meeting of shareholders is held annually in June in Nagoya, Japan
Independent Auditor	Deloitte Touche Tohmatsu LLC (the Japanese member firm of Deloitte Touche Tohmatsu Limited)
Shareholders' Register Administrator and specified account management institution	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
Stock Exchange Listings	Tokyo Stock Exchange, First Section Nagoya Stock Exchange, First Section Sapporo Securities Exchange

### IR Site

Please visit our website for the most current corporate news and financial results.



<https://www.suzuken.co.jp/en/ir/>

IR information is also accessible from a smartphone.



If you have a smartphone that can read a QR code, the code on the left will provide easy access to our IR information.

### List of Subsidiaries

	Common Stock	Voting Right Percentage <sup>*1</sup>	Main Areas of Business	
Consolidated Subsidiaries	Millions of Yen	%		
Sanki Corporation	1,081	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in the Chugoku region
ASTIS Co., Ltd.	946	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in the Shikoku region
Shoyaku Co., Ltd.	880	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in the Kyushu region
Suzuken Okinawa Yakuhin Co., Ltd.	12	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in Okinawa Prefecture
Nakano Yakuhin Co., Ltd.	94	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in Tochigi Prefecture
Suzuken Iwate Co., Ltd.	97	100.0	Pharmaceutical distribution	Sales of pharmaceuticals in Iwate Prefecture
S.D.Logi CO., LTD.	10	100.0	Pharmaceutical distribution	Distribution services within the Suzuken Group
Sanwa Kagaku Kenkyusho Co., Ltd. <sup>*2</sup>	2,101	100.0	Pharmaceutical manufacturing	Manufacturing of ethical drugs
Pfercos Co., Ltd.	382	100.0 (100.0)	Pharmacy	Dispensing of ethical drugs
S.D. Collabo Co., Ltd.	51	70.9 (1.3)	Manufacturer support service	Distribution of orphan drugs
Chuo Unyu Co., Ltd.	99	100.0	Manufacturer support service	Distribution services for pharmaceutical companies
Sanki Wellbe Co., Ltd.	50	100.0 (100.0)	Nursing services	Provision of nursing services, etc.
S-Care Mate Co., Ltd.	50	100.0	Nursing services	Provision of nursing services, etc.
Kenzmedico Co., Ltd.	10	100.0	Manufacturing	Manufacturing of medical equipment
Life Medicom Co., Ltd.	10	100.0	Other	Publishing of medical magazines for medical institutions
31 other affiliated companies	—	—	—	—

#### Subsidiaries and Affiliates Accounted for by the Equity Method

SPH Suzuken Huzhong (Shanghai) Pharmaceutical Co., Ltd.	CNY 84 million	49.9	Pharmaceutical distribution	Sales of pharmaceuticals in Shanghai, China
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<sup>\*1</sup> Figures given in parentheses ( ) for percentage of voting rights held refer to percentage of indirect voting rights <sup>\*2</sup> Special subsidiary



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