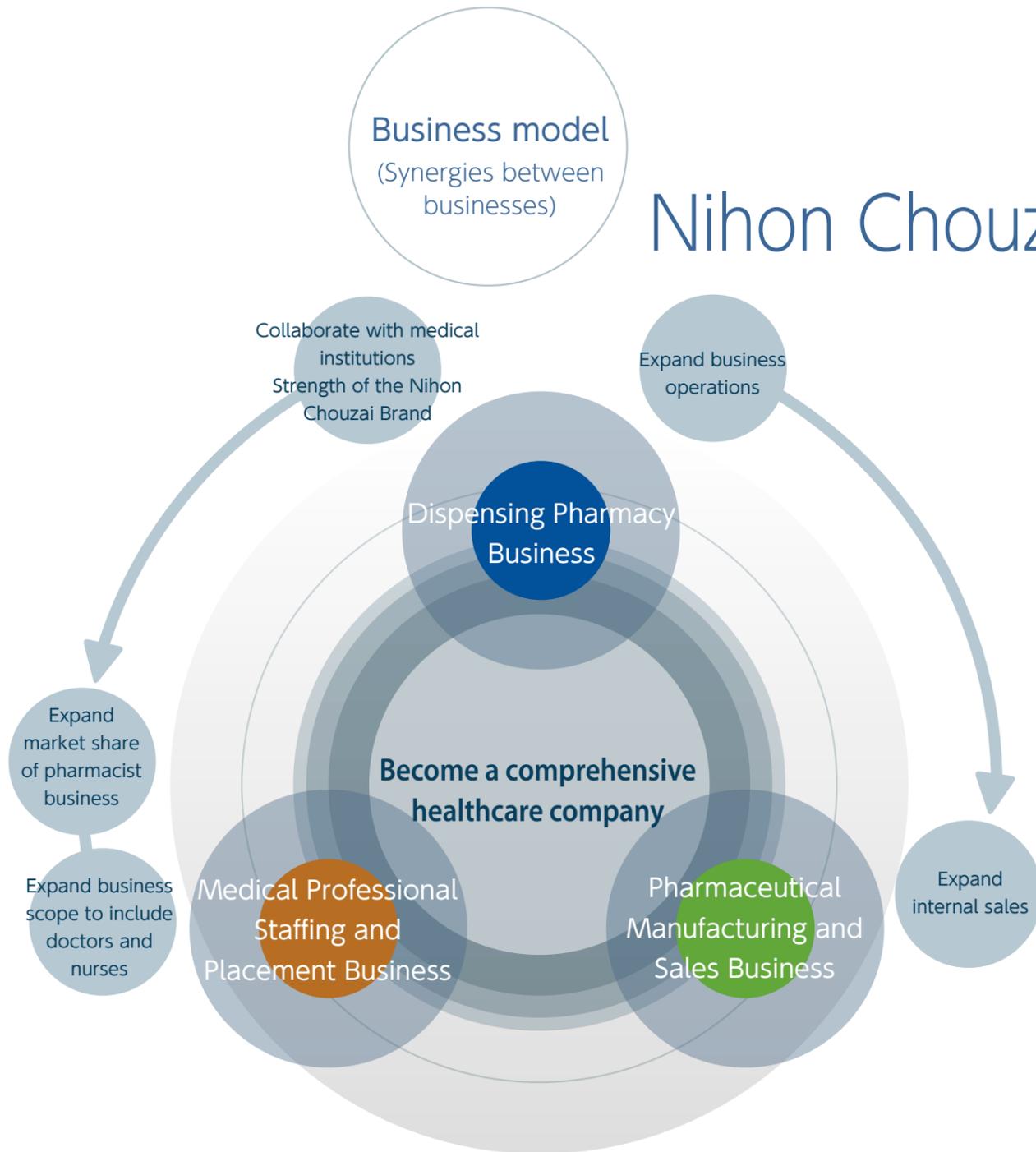




# Nihon Chouzai Group



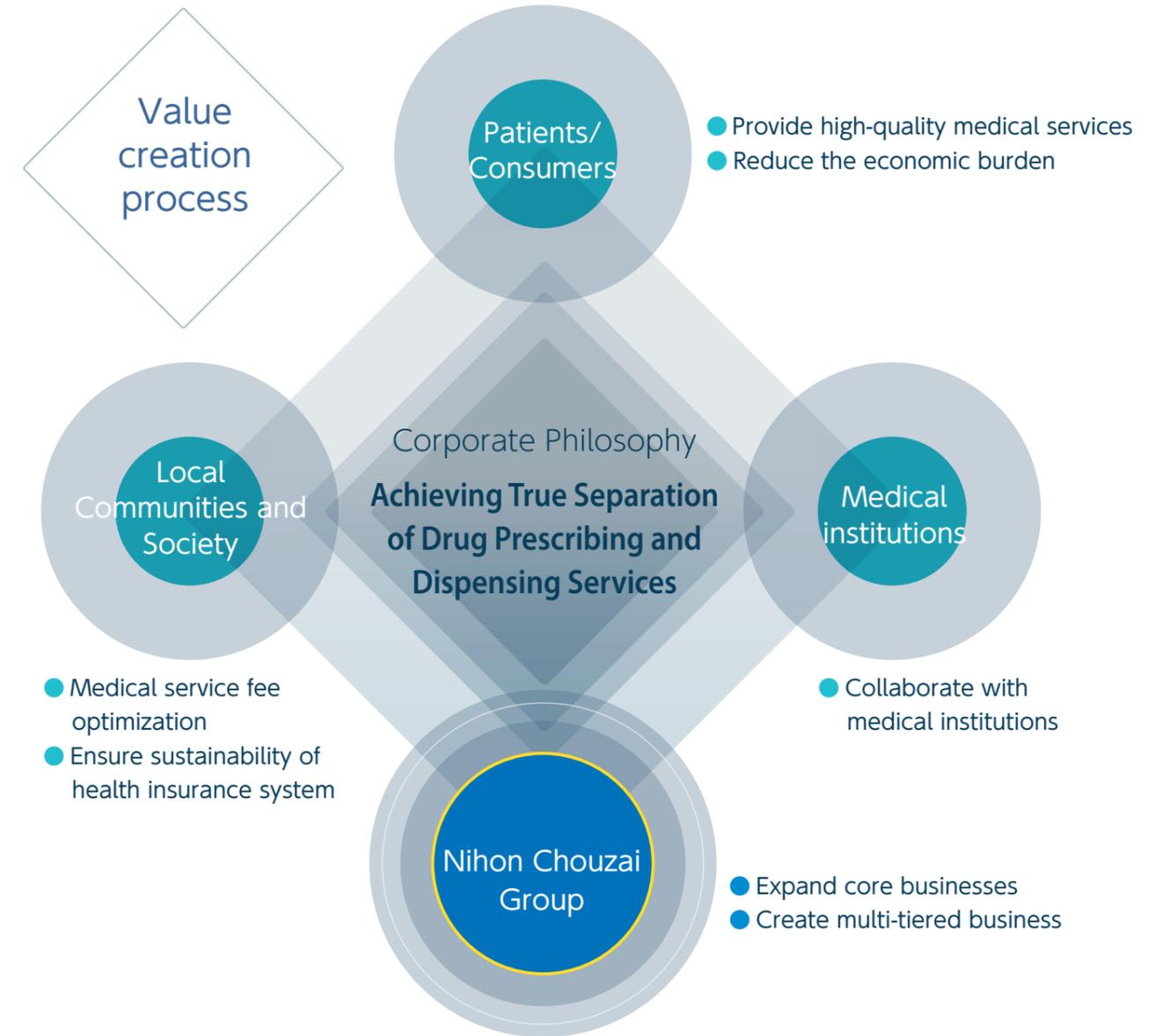
## Business model

### (synergies between businesses)

We will move to a new management phase as a comprehensive healthcare company by expanding businesses that take advantage of the synergies between each business. For example, we will increase internal sales of the pharmaceutical manufacturing and sales business through the steady expansion of business operations of the dispensing pharmacy business, and expansion of the the pharmacist staffing and placement business, in collaboration with medical institutions, by the Medical Professional Staffing and Placement Business in a manner that makes full use of the Nihon Chouzai brand, and development of our business scope to include doctors, nurses and other healthcare workers.

## Value creation process

Since its founding, Nihon Chouzai has consistently worked to achieve its corporate philosophy of creating a true separation of drug prescribing and dispensing services. In the integrated community care system, we collaborate more closely with medical institutions, provide quality medical services, and optimize medical expenses. We will continue to raise corporate value in the process of upholding our corporate philosophy, which is directly linked to improving social value for Nihon Chouzai stakeholders, including patients, consumers, local communities, and medical institutions.

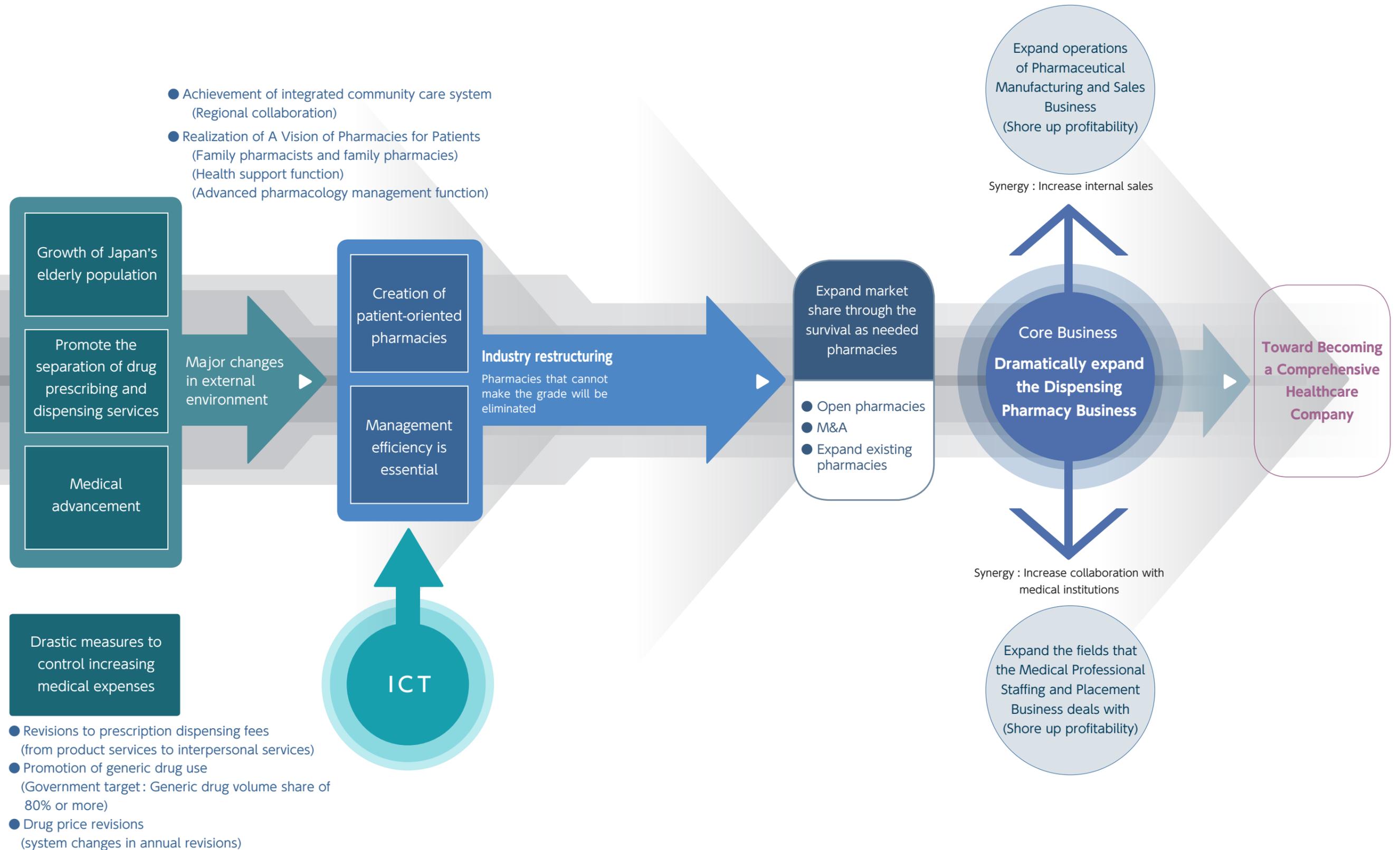


Raise corporate value

Raise social value

# Long-Term Vision – On the Road to 2030 –

View of business environment changes and corporate growth by 2030



# Long-Term Vision – On the Road to 2030 –

View of business environment changes and corporate growth by 2030

		FY2004 (results)		FY2017 (results)		FY2030 (forecast)	
Dispensing Pharmacy Business	Net sales	51.8 billion yen	→	205.2 billion yen	→	900.0 billion yen	Expansion of core business = Industry restructuring → Refer to page 19
	Per-pharmacy annual sales	294 million yen	→	349 million yen	→	700 million yen	
	Number of pharmacies	174 pharmacies	→	585 pharmacies	→	1,000 pharmacies	
	Share of Nihon Chouzai generic drug use	—	→	83.6%	→	90 ~ 100%	
Pharmaceutical Manufacturing and Sales Business	Net sales	— <sup>*1</sup>	→	38.1 billion yen	→	300.0 billion yen	Synergies with core business = growth potential → Refer to page 29
	Maximum production capacity	—	→	6.2 billion tablets	9.5 billion tablets (FY2018)	16.2 billion tablets	
Medical Professional Staffing and Placement Business	Net sales	0.7 billion yen	→	12.0 billion yen	→	25.0 billion yen	Synergies with core business = profitability → Refer to page 37
Consolidated	Create multi-tiered consolidated business (composition of operating profit)		→		→		Business stability
External environment	Separation ratio <sup>*2</sup> (outside of hospital prescription ratio)	53.8%	→	73.2%	→	90 ~ 100% <sup>*5</sup>	
	Share of generic drug use, volume-based	4.6% <sup>*3</sup>	→	72.5% <sup>*4</sup>	→	85 ~ 95% <sup>*5</sup>	

Figures are rounded up.

- \* 1 : The Nihon Chouzai Pharmaceutical Manufacturing and Sales Business launched in fiscal 2005.
- \* 2 : Prepared by Nihon Chouzai based on progress of separation of drug prescribing and dispensing (trend of health insurance dispensing) according to the Japan Pharmaceutical Association
- \* 3 : Share of generic drug use, volume-based as of end of FY 2005 (previous standard)  
FY2005 data posted because FY2004 data was not publicly disclosed.
- \* 4 : Share of generic drug use, volume-based as of end of February 2018.
- \* 5 : Nihon Chouzai estimates

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# 4

#### Determining Degree of Importance

Corporate Report 2018 presents topics with a high degree of importance to the Nihon Chouzai Group and to society. This document is published on an annual basis as reference material for readers to gain an understanding of the Company's business status and its corporate policies. This year, Nihon Chouzai discusses two important themes on which the Company is focused: further growth as a comprehensive healthcare company and growth achieved by seeing the significant changes involved in industry reorganization as a positive opportunity.

#### Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and nonfinancial information in detail so that all stakeholders, and first and foremost, shareholders and investors, will have an understanding of the Company's medium- to long-term creation of corporate value. The period covered in this report is fiscal 2017 (April 1, 2017 to March 31, 2018). However, as necessary, the contents may also cover some aspects of fiscal 2018.

#### Notes Concerning Forward-Looking Statements

The Corporate Report 2018 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual business performance and other information may be impacted by various risks and uncertainties and may differ significantly from these projections. Your understanding is therefore requested. Factors that may have an impact on business performance and future outlook include, but are not limited to, the economic situation in which the Company's business domains operate, the reform status of relevant laws and regulations, conditions with regard to revisions of medical service fees, and the progress of product development.



#### About the Cover

Since its founding, Nihon Chouzai has endeavored to contribute to the reform of Japan's social security system. With the advent of a "super-aged" society, now is a time of major changes with various measures to curb the increase in social security expenses and address other issues that are emerging. Nihon Chouzai sees these changes as opportunities to create synergy between its Dispensing Pharmacy Business and other businesses and achieve significant growth as a comprehensive healthcare company.

# Growth towards achieving true separation of drug prescribing and dispensing services

# 1

- 09 Message from the President
- 15 The Year in Brief
- 17 Financial Highlights



Hiroshi Mitsuhashi, President & CEO

三津原 博

## Nihon Chouzai will “achieve a true separation of drug prescribing and dispensing services” as a comprehensive healthcare company with the dispensing pharmacy business as its core business

Q Regarding the drug price revisions of April 2018, first, what are your thoughts about their impact on the core dispensing pharmacy business?

**Nihon Chouzai pharmacies have already established a business model that does not rely the drug-price margin.**

In December of last year, the Japanese Government presented “Basic policy on medical service fee revisions in fiscal 2018” and “Basic policy for drastic revision of the drug price system.” In April 2018, revisions of medical service fees, dispensing fees, and drug price revisions, which are based on the those policies, including the further shift from product services to interpersonal services, were carried out (For details of the revisions, please see pages 61 through 63).

In the current drug price revision, drug prices of long-listed drugs decreased substantially. On this point, Nihon Chouzai pharmacies’ average generic drug use rate already exceeds 83% and we can now operate the generic drug dispensing system incentive as a pillar of our

business. In other words, our pharmacies recognize that the fee for promoting generic drug use is in fact much greater than the drug-price margin, and therefore see this as having little impact on drug price reductions. We will continue to manage our pharmacies without depending on the drug-price margin.

The current dispensing fee revision is very strict on the whole, and frankly, I think we may have entered a period of restructuring of low-quality pharmacies that don’t contribute to Japan’s separation of drug prescribing and dispensing services. If this kind of strict dispensing fee revision continues two to three times, I predict that about 30,000 pharmacies will be culled over the next five to six years within Japan.

Q What are your thoughts about the “regional support system incentive” that has now been established?

**Our plan is to pursue only initiatives from among those that can be started by leveraging the business foundation we have built up over the last three years.**

The current revision established new “regional support system incentives.” Aside from the requirements for the former standard dispensing incentives, eight items were added to increase the annual performance of each full-time pharmacist.

While the eight added items are high hurdles, since figured out the direction of the government’s policies early on, we reinforced the varied functions of our pharmacies and pharmacists and expanded pharmacy size during the last three years of the fourth medium-term management plan. As a result, we now think we can easily achieve

“7.12 at-home drug management fees recoded,” one of the eight items. We will proactively pursue initiatives so that all pharmacists can deliver at-home medical care 12 times a year in as short of time as possible.

To address all eight items, it is important that we expand the size of each pharmacy. Considering the height of each hurdle we face, we may not be able to clear all them at this time, but I hope to move steadily forward with those items that we can start on while further expanding pharmacy size through the elimination and consolidation of small pharmacies.

Q What about the impact of drug price revisions on the pharmaceutical manufacturing and sales business?

**Our policy is to maintain prices at a certain level without getting caught up in price competition within the industry.**

Even in the current medical service fee revisions, the government’s policy guidance for promoting the use of generic drugs has further progressed and every medical institution including dispensing pharmacies is caught in a scenario where they can no longer manage without using generic drugs. While taking this situation as a positive, on the other hand, they are also in a scenario where intense price competition between generic drug manufacturers is advancing amid drug price reductions.

Although I also said this in last year’s corporate report, I expect that generic drug price reductions will converge at a certain level and stabilize. Moreover, we see that current generic drug prices have nearly reached their limit and Nihon Chouzai raised prices in April 2018. Responding to further price competition could lead to getting pulled down to a lower group within the three generic drug price ranges. Our stance on prices is that we must sell while maintaining the price to a certain extent.



**Outlook for Fiscal 2018**

In the fiscal year ending March 31, 2019, the plan is to increase sales in all business segments by absorbing the impact of drug price reductions and increase sales 5.2% on a consolidated basis. On the other hand, operating profit is expected to decline 40.3% on a consolidated basis due to the impact of drug price and dispensing fee revisions in the Dispensing Pharmacy Business, and increased expenses due to the operation of a new plant in the Pharmaceutical Manufacturing and Sales Business. By business segment, the Medical Professional Staffing and Placement Business expects to increase sales and profits due to continued high demand for the dispatching and introducing pharmacists. However, the Dispensing Pharmacy Business and Pharmaceutical Manufacturing and Sales Business expects sales to increase and profits to decline due to the impact of price revisions and other factors.

**>Dispensing Pharmacy Business**

Sales are expected to rise 3.9% on the impact of drastic drug price system reforms and drug price revisions on new pharmacy openings including those opened through

mergers and acquisitions, the contribution to sales of the 36 pharmacies opened last year, and the increased number of prescriptions of existing pharmacies. In contrast, operating profit is expected to decline 24.0% due to the significant impact of dispensing fee revisions, including an evaluation review of so-called hospital-front pharmacies. We plan to open about 50 new pharmacies including those opened through mergers and acquisitions.

**>Pharmaceutical Manufacturing and Sales Business**

Sales are expected to increase 10.7%, reflecting the impact of drug price revisions due to an increase in internal sales following the expansion of the Dispensing Pharmacy Business, an increase in contract production, and the expansion of new sales channels. On the other hand, operating profit is expected to decline sharply by 95.7%, as increased expenses from new Tsukuba Plant No. 2 operation are expected to greatly exceed the effects of higher profit from rising sales. However, the construction of a new factory to expand the generic drug market is viewed as an essential upfront investment to support the drastic expansion of that business and to ensure a stable supply of generic drugs to the market.

**Q** Considering future annual drug price revisions, don't you think that it's becoming increasingly important to expand sales in the pharmaceutical manufacturing and sales business?

**We are expanding the contract manufacturing business and the sales alliance business by leveraging the new factory's facilities as a new driver for sales growth.**

In the pharmaceutical manufacturing and sales business, one of the distinctive characteristics that separates it from other generic drug manufacturers is that not only can it secure external sales, but also internal sales to the dispensing pharmacy business within the Group. Also, while generic drug manufacturers are producing many products in small quantities, it has state-of-the-art manufacturing facilities that can mass-produce many products. These are two advantages it possesses.

Fortunately, internal sales have grown steadily due to the dispensing pharmacy business's expansion of operations within the Group. External sales are also steadily growing thanks to a number of factors including strong relationships with wholesalers that the dispensing pharmacy business built, its name recognition within the industry, and manufacturing technology improvements.

Supporting these long-term stable sales expansion

from the standpoint of stable product supply is the Nihon Chouzai Group's "Generic Town" within the Tsukuba Northern Industrial Park in Tsukuba City, Ibaraki Prefecture. Tsukuba Plant No. 2, which installed a state-of-the-art drug manufacturing facility that can produce up to 10 billion tablets per year, started operation in March 2018 within the vast 330,000 square meter site.

The completion of Tsukuba Plant No. 2 has not merely improved our production capacity, but more importantly, it has given us a production system capable of accommodating everything from small lots to mass-production. With this system, we can develop our business to grow new sales, such as by expanding the contract manufacturing business, starting the sales alliance business, and further expanding our infrastructure in an integrated manner.

**Q** With the increasing restructuring and oligopoly forming in the dispensing pharmacy business, what is your analysis of the current state of the Medical Professional Staffing and Placement Business?

**We have created a system that can deal with the nationwide shortage of pharmacists.**

At present, about 70% of pharmacists nationwide are women, who may have to temporarily leave the workplace due to circumstances such as pregnancy. As the pharmacist shortage continues, it is essential that we have a nationwide business presence for the stable supply of

human resources. On this point, the Nihon Chouzai Group's Medical Professional Staffing and Placement Business has already established a network of sales facilities that cover the entire country and it has prepared for even more aggressive business expansion.

**>Medical Professional Staffing and Placement Business**

Demand for the dispatching and introducing pharmacists remains high, reflecting the fact that greater efforts are being directed at family pharmacists and family pharmacies than ever before in the Dispensing Pharmacy Business. As a result, sales are expected to increase 12.8%. At the same time, operating profit is expected to increase 5.9%. The increased profit from higher sales will offset rising expenses such as (1) an increase in advertising costs to strengthen the business of introducing doctors to hospitals, (2) an expansion of sales bases, and (3) an increase in sales staff.

**Long-Term Vision for 2030**

In the Dispensing Pharmacy Industry, "A Vision of Pharmacies for Patients" was announced by the Ministry of Health, Labour and Welfare in October 2015, concretely and clearly showing that the vision held for pharmacists and pharmacies of the future corresponds to the image required of pharmacists and pharmacies. In the subsequent dispensing fee revision, revisions of dispensing fee standards for the realization of that vision

(enhanced evaluation of interpersonal services) have been progressing steadily. In addition, institutional reforms are being rapidly worked out, including the drastic reform of the NHI drug price system, promotion of divided dispensing, and the implementation of remote medication instruction in special zones. It is not hard to imagine that more reforms will be carried out than before over an even shorter timeframe.

As I just described, with external conditions undergoing major changes due to institutional reforms, there are huge uncertainties in presenting the plan in the same three-year period as before, so I decided to present the "long-term vision for 2030" to address what the Group's vision is of the company's future size after surviving the expected major medical system revision.

The Nihon Chouzai Group has overcome major changes in the operating environment and seeks to be "a company that customers choose" in each of its business segments in order to maximize the synergy between business segments and to take another leap forward for the Group.

## Message from the President

Q Could you explain the background of the “Long-Term Vision for 2030” that was announced in April 2018?

**Through consolidation over the last three years, we have finished streamlining our businesses and the organization in preparation for the next major growth**

With 2025 as the demarcation line when baby boomers become latter-stage elderly aged 75 or older, the operating environment of the medical and pharmaceutical industries is facing major, unprecedented changes. It's not difficult to imagine that more reforms will be pursued over an even shorter timeframe. Given these circumstances, the Group announced the “Long-Term Vision for 2030” (refer to pages 3 through 6 for details).

In the first third year of the fourth medium-term business plan (Fiscal 2015 to Fiscal 2017), we took steps to consolidate the coming major reforms for our future survival. Because we intentionally limited significant growth and prioritized consolidation, we did not achieve

the final year's target, but we did achieve record sales and operating profit for the fiscal year ended March 31, 2018.

Also, we have built business foundations in each segment for achieving our major sales plans based on initiatives taken over the last three years in preparation for any and all possibilities. To become a company that does one trillion yen in business in 2030, we would need as many as 24,000 employees to support it. That said, we have nearly completed preparations for the control of an organization of that scale and we are proud to have established a system that has virtually no business or organizational blind spots.

Q In the process of becoming a company that does one trillion yen in business, what measures will be key in each business?

**With the dispensing pharmacy business as our core business, we will raise the value of each business.**

In the Dispensing Pharmacy Business, the amount of work it takes for the pharmacy to calculate the dispensing fee has become enormous due to the greater value given to customer service, and bars to this work are rising. In other words, we are now in age where dispensing pharmacy operations are no longer viable unless the mechanism for checking all work is systemized. On this score, Nihon Chouzai pharmacies can control an enormous amount of work by systemizing not only requests for medical prescriptions, but all dispensing pharmacy management, giving them the ability to survive as viable businesses from a fairly early stage. Also, since this system can be sold and transplanted to external dispensing pharmacies, our system will never be a reason for the failure of a merger or acquisition. Further, leveraging our overwhelming organizational capability, we may consider the possibility of business regenerative-type mergers and acquisitions.

Although we currently sell about 650 items in the Pharmaceutical Manufacturing and Sales Business, we plan to reach 800 items fairly soon and ultimately develop and expand so that we sell up to 1,200 items. When we reach the 1,200-item level, the operation ratio of the factories that we have invested in will increase, and profitability will dramatically improve. We have secured a production capacity that's valued at about 300 billion yen on a drug price basis, we are not currently planning to make a large capital investment in the Tsukuba Generic Town Concept.

In the Medical Professional Staffing and Placement Business, the business of introducing doctors to medical institutions that are making serious efforts to find them, is strong. As the need for recruiting doctors, nurses, and other medical professionals remains high, we will see further expansion of this business field.

In the Information Provision and Consulting Business, one of our main initiatives is to expand the consulting business into organizations, such as those in the social insurance, national health insurance, and union health insurance fields. Many of these organizations suffer from deficit financing and, considering that the administration of the national health insurance system was transferred from the municipalities to the prefectures in April 2018, we will work in markets that are business targets of the information provision and consulting business, as they are expected to show increasing growth in the future.

As I just described, with the Dispensing Pharmacy Business as our core business, we are attempting to make a leap forward as a “comprehensive healthcare company” while each business works to raise its added value. The arena in which we actively participate is the world of healthcare. We will not search for revenue opportunities in fields other than healthcare such as various health product sales. The insurance agency business, a new business that we have been recently working on, is progressing in an era of mixed medical care in which both public and private insurance are used. A new development, the external sales of the dispensing pharmacy management system explained earlier, we see as having great potential.

We have only just started on the long-term vision for 2030, but by emphasizing the domestic market while looking at regional medical care plans including pre-symptomatic and disease prevention, steadily expanding business more than before, and combining our current four major businesses with new businesses, we firmly believe that we can become a company that does one trillion yen in business for 2030.



Q Finally, what message do you have for your shareholders and stakeholders?

**We aim to enhance shareholder returns through productivity improvements.**

In the process leading up the Group's present growth, there was a stage where investment in the pharmaceutical manufacturing and sales business affected business performance. However, the sizable upfront investment required to drastically expand business operations has almost been realized. With the promotion of generic drug use advancing, we expect to achieve a V-shaped recovery of the pharmaceutical manufacturing and sales

business by raising the operation ratio of the factory for a period of time in order to recover from a series of large investments. This will be one of the ways we will increase shareholder returns, which we seek to enhance so that we can convince shareholders and investors that they can look forward to a higher payout ratio based on improved productivity through greater management efficiency. We thank you for your continuous support and cooperation.

# The Year in Brief Nihon Chouzai Group

2017

2018

April ▶ May ▶ June ▶ July ▶ August ▶ September ▶ October ▶ November ▶ December ▶ January ▶ February ▶ March ▶

## April 2017

Fujisawa Pharmacy becomes the first health support pharmacy



## Health support pharmacy\*

\*Health support pharmacies are pharmacies that actively provide services to help local residents and patients maintain and improve their health. In addition to providing health consultations and appropriate advice on over-the-counter medicines and health food products, these pharmacies actively cooperate with local medical institutions and local governments. To become a health support pharmacy, a pharmacy must be in compliance with standards set by the Ministry of Health, Labour and Welfare.

## August 2017

Otemachi Pharmacy becomes health support pharmacy



## April 2017

Exhibited for First Time at Maternity and Baby Festa 2017, Japan's Largest Child Rearing-related Event



## April 2017

Exhibited Jointly with Japan Medical Research Institute Co., Ltd. at the HealthCare IT 2017  
Introduced ICT case studies and receipt data analysis system at dispensing pharmacies



## May 2017

Presented joint research with Graduate School of Medicine, The University of Tokyo at the 60th Annual Meeting of the Japan Diabetes Society



## May 2017

First Project Partnership with Dai-Ichi Life Group! Opened Nihon Chouzai Hoken Shop, a venue for handling insurance products



## June 2017

Released 17 Generic Drugs with 6 Different Active Ingredients  
Number of products offered: 628 items



## June 2017

Began pharmacist internships, in which over 1,000 people participated last year



## July 2017

Japan Medical Research Institute held symposium entitled Prescription Data Applications—Possibilities and Next-Generation Strategies



## August 2017

Exhibited at Nikkei IR/Investment Fair 2017, the largest IR event in Japan



## August 2017

Held the second Nihon Chouzai Group Academic Conference & first Role Play Awards. Reported outcomes of daily efforts at pharmacies and held competitive role-play presentations with the goal of improving pharmacy staff skills



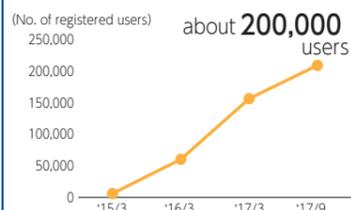
## August 2017

Selected again for JPX-Nikkei Mid and Small Cap Index



## September 2017

Okusuri Techo Plus, an electronic medication notebook app



## October 2017

Takatori Pharmacy becomes a health support pharmacy



## November 2017

Kushiro Pharmacy becomes a health support pharmacy



## December 2017

Azabu Juban Pharmacy becomes a health support pharmacy



## January 2018

Asahi Byoin-mae Pharmacy becomes a health support pharmacy



## March 2018

Fukuoka Chuo Pharmacy and Fukuoka Tenjin Pharmacy become health support pharmacies



## September - October 2017

Participated for first time in RUN TOMO 2017, a relay race across Japan to support urban planning that is comfortable for those with dementia



## October 2017

Second Project Partnership with Dai-Ichi Life Group!  
Launched Kenko Daiichi (Health First), a Dai-Ichi Life Group app to boost health for the Okusuri Techo Plus electronic medication notebook



## October 2017

Exhibited at ME-BYO Japan 2017 & Digital Health Days 2017. Introduction of health check stations and pharmacist-ICT-cooperation initiatives in pharmacies to help promote good health



## December 2017

Released 18 new drugs with 7 different active ingredients  
Number of products offered: 637 items



## January 2018

Started the JP-STAR Stage System for Pharmacists  
Focused on fostering highly specialized pharmacists able to handle advanced drug management and health support

## January 2018

Renewed Doctor Vision website, which provides support for doctors looking for new job opportunities; bolstered focus on doctor introductions



## March 2018

Industry-academia Collaboration Project with Kyushu Kyoritsu University  
Developed original Chokotore (quick training) program, locomotive syndrome preventative training that can be done in 3 minutes



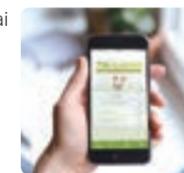
## February 2018

Redesigned the Sagashikkusu website, which aims to help users find nursing care homes



## February 2018

Released Yakutore Hoken Chouzai (training for health-insurance dispensing), a smartphone app for pharmacists



## March 2018

Tsukuba No.2 Plant, one of the most advanced, state-of-the-art plants in Japan, completed and production started



## March 2018

Renewal of Excellent Job Placement Agency certification



Health support pharmacy

Dispensing Pharmacy Business

Pharmaceutical Manufacturing and Sales Business

Medical Professional Staffing and Placement Business

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

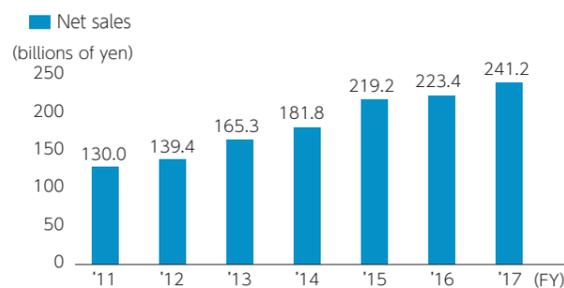
Base that supports Nihon Chouzai

Data section

# Financial Highlights

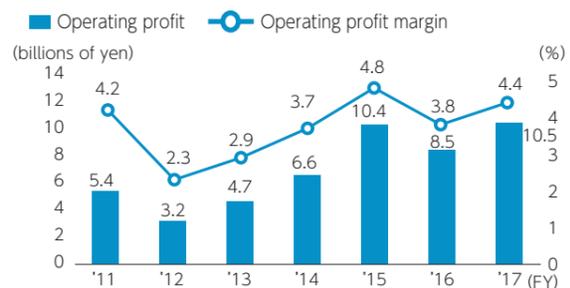
## Net sales

**241.2** billions of yen



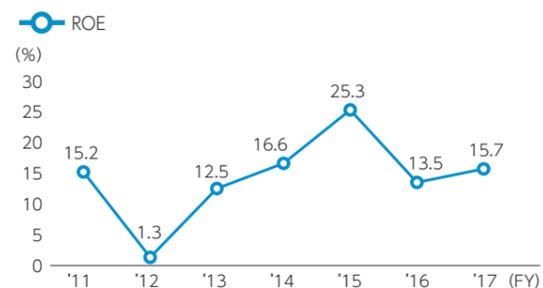
## Operating profit/Operating profit margin

**10.5** billions of yen **4.4** %



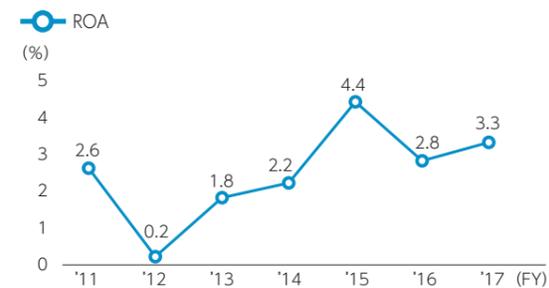
## ROE

**15.7** %



## ROA

**3.3** %



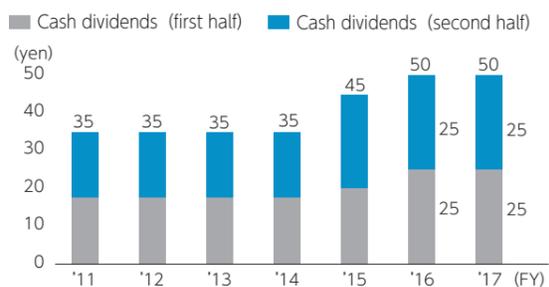
## EPS (Profit per share)

**381.69** yen



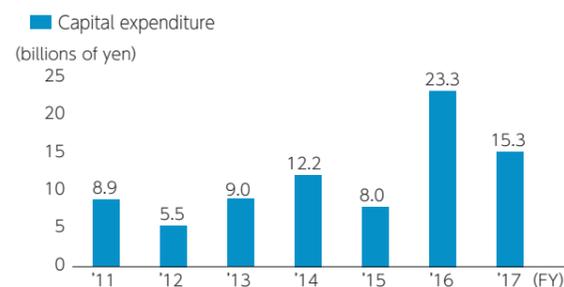
## Cash dividends

Annual dividend **50** yen (after split)



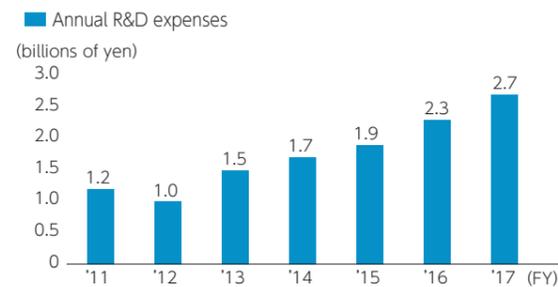
## Capital expenditure

Annual capital expenditure **15.3** billions of yen



## R & D

Annual R&D expenses **2.7** billions of yen



# Business performance

2

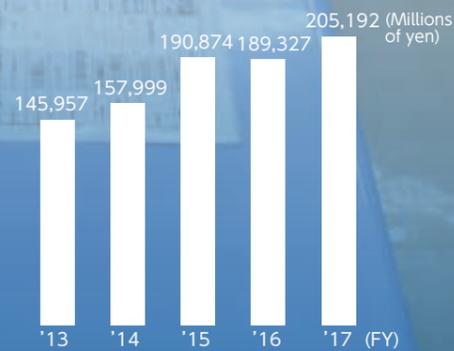
- 19 Dispensing Pharmacy Business
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- 29 Pharmaceutical Manufacturing and Sales Business
- 37 Medical Professional Staffing and Placement Business

# Dispensing Pharmacy Business

## Operation and Opening of Dispensing Pharmacies

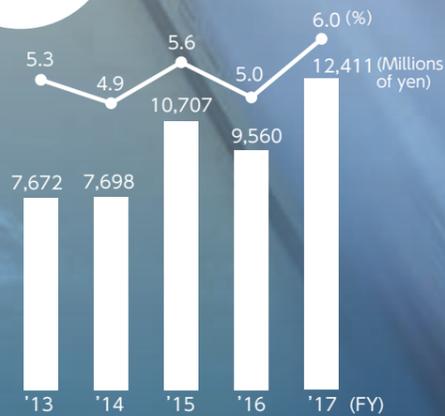


Sales Composition



Net sales

Composition of Operating Profit



Operating profit to net sales

### Long-Term Strategy for 2030

Expand business by operating and opening pharmacies efficiently and providing high-quality medical services.

Aim to be a pharmacy and a company that patients and society need.



#### Pharmacy opening strategy

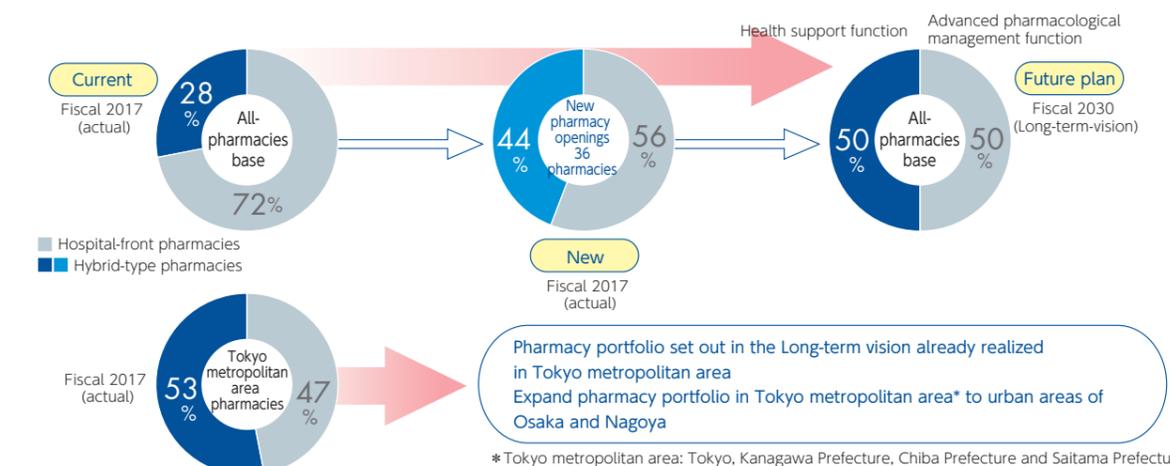
① Optimize our pharmacy portfolio with well-balanced composition of pharmacy type

#### Functional differentiation of pharmacies and medical service system

Pharmacy portfolio	Functional differentiation	Medical service system
Hospital-front pharmacies	Advanced pharmacological management function + family pharmacists and pharmacy function (mid- and wide-range area)	<ul style="list-style-type: none"> <li>Support for advanced medicine</li> <li>Training of disease expert pharmacists</li> </ul>
Hybrid-type pharmacies	Health support function + family pharmacists and pharmacy function (narrow-range area)	<ul style="list-style-type: none"> <li>Health support for local residents</li> <li>Pre-symptomatic state/prevention initiatives</li> </ul>

At Nihon Chouzai, we are advancing a pharmacy opening strategy that is aimed at realizing Vision of Pharmacies for Patients. Specifically, we will make a broad functional differentiation between pharmacies that mainly provide a health support function, an additional function for family pharmacists and pharmacies, which will be the basic function of dispensing pharmacies of the future, and pharmacies that mainly provide an advanced pharmacology management function.

We anticipate a 1:1 ratio for these functionally differentiated pharmacies. Hospital-front pharmacies which primarily serve the advanced pharmacology management function accounted for 72% as of the end of fiscal 2017, the year ended March 31, 2018. Meanwhile, 44% of our new pharmacy openings in the fiscal 2017 were hybrid-type pharmacies, which primarily provide health support functions, and we are steadily building toward the realization of the 1:1 ratio set out in our Long-term Strategy.



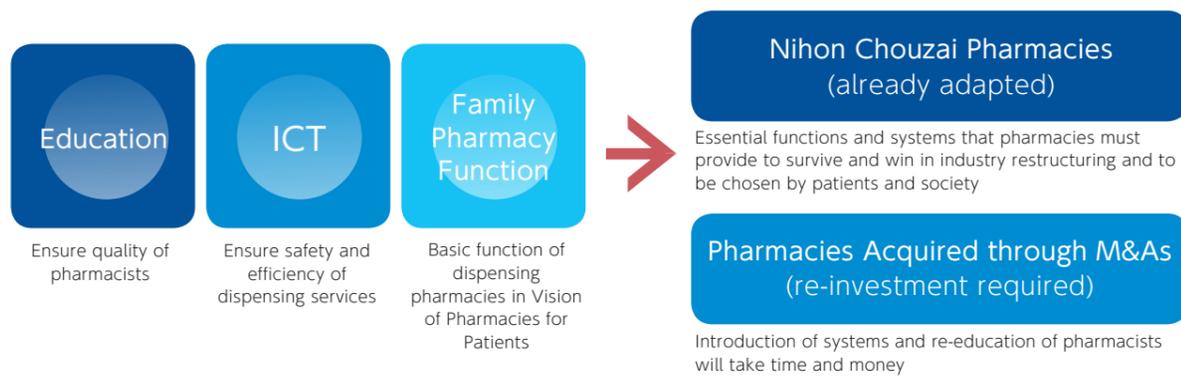
## Pharmacy opening strategy

### ② Open Nihon Chouzai Pharmacies and Utilize M&As

Trend in Opening of Pharmacies	(No. of pharmacies)				
	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Opening of pharmacies	37	29	27	42	36
Nihon Chouzai pharmacies	33	28	22	21	23
M&As	4	1	5	21	13
Closure of pharmacies	9	12	11	12	8
No. of pharmacies at fiscal year end	494	511	527	557	585

\*Total number of stores including retail stores (2 retail stores as of end of fiscal 2017)

### 1 Basic Strategy Basic Strategy : Nihon Chouzai Pharmacies in the Past and in the Future



### 2 M&A Strategy Complement Nihon Chouzai Pharmacies with Active Initiatives Focused on Large-Scale Hospital-Front Pharmacies

Perception of M&A Environment	Fiscal 2017 (before revision)	Fiscal 2018 (estimate after revision)
	No. of projects	→
Corporate value rating for project	→	↓↓
Rehabilitation project	Increase	Further increase
Balance of demand and supply	Demand > supply	Demand < supply

We perceive that the market environment is right for us with our ability to handle large-scale reconstruction-type M&As thanks to the decline in corporate value ratings for target pharmacies because of the revisions to NHI drug prices and prescription dispensing fees as well as the increase in reconstruction-type projects.

We are monitoring market trends and actively utilizing M&As to complement our pharmacy opening strategy. The standards for M&As at Nihon Chouzai remain unchanged from the past. Specifically, we place an emphasis on strong net sales and ensuring quality to facilitate adjustment to prescription dispensing fee revisions. We plan to promote the acquisition of hospital-front pharmacies at major hospitals responsible for advanced medical care such as university hospitals for an appropriate price without reducing net sales per pharmacy. With regards to future trends, we expect M&A projects to increase given the April 2018 prescription dispensing fee revision.

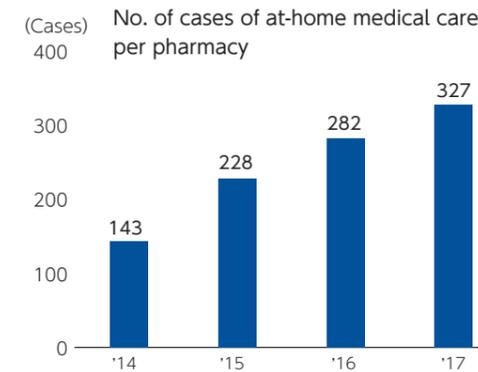
	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Net Sales per Pharmacy (¥million)	304	314	367	349	359

\*Net sales per pharmacy: Dispensing Pharmacy Business net sales ÷ Average number of stores during period

## Providing high-quality medical services

### ① Results of current initiatives

#### 1 At-Home Medical Care Promoting High-Quality At-Home Medical Care



Ratio of pharmacies that provide at-home medical care (as of March 31, 2018)

**89.3%**

Pharmacies that provide at least 12 cases of at-home medical care per year

**96.2%**

Pharmacies that provide at least 1 case per year

\*At-home medical care recording at least 12 cases per year is included in community support system incentives

\*No. of cases of at-home medical care provided per pharmacy = No. of cases / average no. of pharmacies during the fiscal year

\*Percentage of pharmacies that provide at-home medical care is the record as of the end of the fiscal year (pharmacies with record in most recent 12 months)

A Vision of Pharmacies for Patients (Ministry of Health, Labour and Welfare, October 2015) explicitly states that patients treated at home can also receive meticulous pharmacological management as part of being able to achieve a patient-oriented separation of drug prescribing and dispensing. Pharmacological management and medication guidance for at-home patients is also positioned as one of the basic functions of family pharmacists and pharmacies.

Nihon Chouzai regards the strengthening of at-home medical care initiatives as one of the most important issues for surviving and winning in the industry reorganization expected in the future as well as becoming the pharmacists and pharmacies that patients and society need. We established the new At-home Medical Care Department in

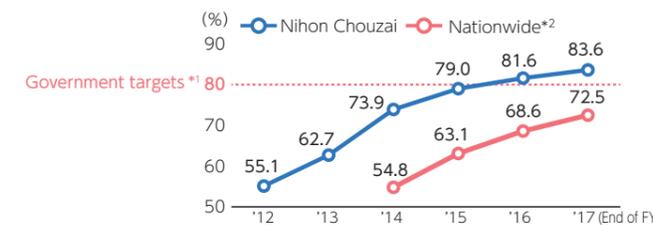
2016 with the objective of strengthening our support for at-home medical care needs. In addition to establishing structures that can meet needs for at-home medical care nationwide, we are working to share our sterile preparation techniques and know-how for providing at-home medical care and to create educational opportunities as we strive to raise the quality of pharmacists for at-home medical care.

As a result of these active initiatives for at-home medical care, although their records vary, 96.2% of Nihon Chouzai pharmacies (practically equivalent to all pharmacies if new pharmacies are excluded) have a record in at-home medical care, and 89.3% of pharmacies have a record of at least 12 cases per year, which is a high percentage.

#### Main Initiatives to Promote At-Home Medical Care

- Support structure based on At-home Medical Care Department: **33 people** (As of March 31, 2018)
- Establishment of sterile dispensing rooms: **28 locations** (As of March 31, 2018 (includes clean rooms))
- Streamlining through collaboration between at-home medical care management system and dispensing system

#### 2 Generic Drugs Promoting Use of Generic Drugs



\*1 Basic Policy on Economic and Fiscal Management and Reform 2017, Cabinet Office

\*2 Trend of Dispensing and Medical Care Expenses (National fiscal 2017 as of February 28, 2018, Ministry of Health, Labour and Welfare)

Nihon Chouzai has been pioneering the use of generic drugs since before their general proliferation. As of March 31, 2018, our generic drug volume share reached 83.6%, maintaining a high level that is about 10% above the national average. The government announced its volume share target of 80% for September 30, 2020, but we achieved this target two years early. Under the fiscal 2018 prescription dispensing fee revision, the numerical targets of the premium for generics dispensing systems were increased as shown at left. While it has been difficult for our competitors to respond, it was possible for Nihon Chouzai to respond promptly because we have pioneered the promotion of generic drugs.

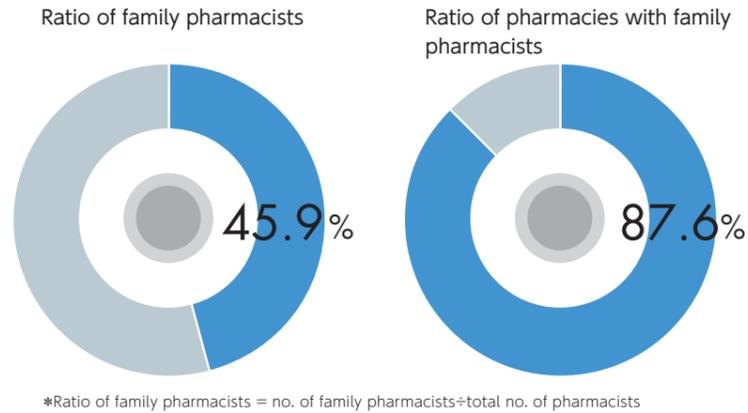
#### Premium for generics dispensing systems (previous indicators)

Premium 2	(at least 75%) 22 points
Premium 1	(at least 65%) 18 points
No premium	(less than 65%)

#### Premium for generics dispensing systems (new indicators)

Premium 3	(at least 85%) 26 points
Premium 2	(at least 80%) 22 points
Premium 1	(at least 75%) 18 points
No premium	(less than 65%)

**3 Family Pharmacists and Pharmacies** Status of Initiatives for Family Pharmacists and Pharmacies (As of April 1, 2018)



initiatives aimed at raising recognition of family pharmacists and pharmacies

Carefully and repeatedly providing patients with individual service

Through media such as TV commercials and in-store posters, etc.

The family pharmacist and pharmacy is a basic function that must be performed by pharmacists and pharmacies from now on. We will be forced to withdraw from the market unless we can perform a function as family pharmacists and pharmacies. We must regard this as an extremely key challenge that will affect the future restructuring of the industry.

Nihon Chouzai is creating an industry-leading system as a result of the company-wide strengthening of our initiatives, and we will continue making concerted efforts to further increase the ratio of family pharmacists and the ratio of pharmacies with family pharmacists.

**3 Health Check Stations** Disease Prevention and Pre-symptomatic State Initiatives for Local Residents



- (1) Advice on diet and exercise from registered dietitians
- (2) Promoting use by local residents through the holding of health fairs
- (3) Specialist booths on health maintenance and promotion
- (4) Health management using various measurement devices, including sphygmomanometers and body composition measurement equipment
- (5) Support for self-medication with a range of more than 500 items, including OTC drugs and health food
- (6) Recommendations to receive a medical examination and referrals to medical institutions depending on symptoms

A Vision of Pharmacies for Patients explicitly stated the health support function as an additional function to the basic function of family pharmacists and pharmacies. This role is expected to help with disease prevention and health support for local residents.

Nihon Chouzai aims to strengthen health support functions and has been promoting the establishment of

in-pharmacy Health Check Stations at a rapid pace. Health Check Stations support self-medication for local residents serving as bases for community health support where local residents can receive health advice and health measurements even when they do not currently have any specific physical problems and without having a prescription.

\*The Health Check Station is a registered trademark of Nihon Chouzai Co., Ltd.



**Providing High Quality Medical Services** **2 Invest in Human Resources to Support Provision of High-Quality Medical Services**

**1 Recruitment**

Jump to top of employer popularity ranking in dispensing pharmacy and drugstore industry  
**Becoming the company of choice!**

Sciences overall		Sciences female		Chemistry and pharmacology	
Rank	Company name	Rank	Company name	Rank	Company name
<b>41</b>	<b>Nihon Chouzai</b>	<b>11</b>	<b>Nihon Chouzai</b>	1	Pharmaceutical company A
...	...	...	...	2	Cosmetics company S
52	Dispensing pharmacy company S	15	Dispensing pharmacy company S	<b>3</b>	<b>Nihon Chouzai</b>
...	...	...	...	...	...
55	Dispensing pharmacy company A	23	Dispensing pharmacy company A	...	...
...	...	...	...	...	...
66	Drugstore company S	27	Drugstore company S	...	...

Prepared by Nihon Chouzai based on 2019 Graduate Employer Popularity Rankings (article on April 24, 2018), My Navi and Nikkei

Results show up in the numbers

**Achieved all-time high recruitment of new graduate pharmacists in April 2018**

Nihon Chouzai continually implements steady and courteous recruitment activities for pharmacy faculty students with a targeted approach from the student perspective based on a system of recruiters for each university. These recruiters repeatedly inform pharmacology students and those associated with pharmacology that Nihon Chouzai is a company that will treat their desire to fully demonstrate and further increase their knowledge of pharmacology, which they studied for six years at university, without ever disappointing them.

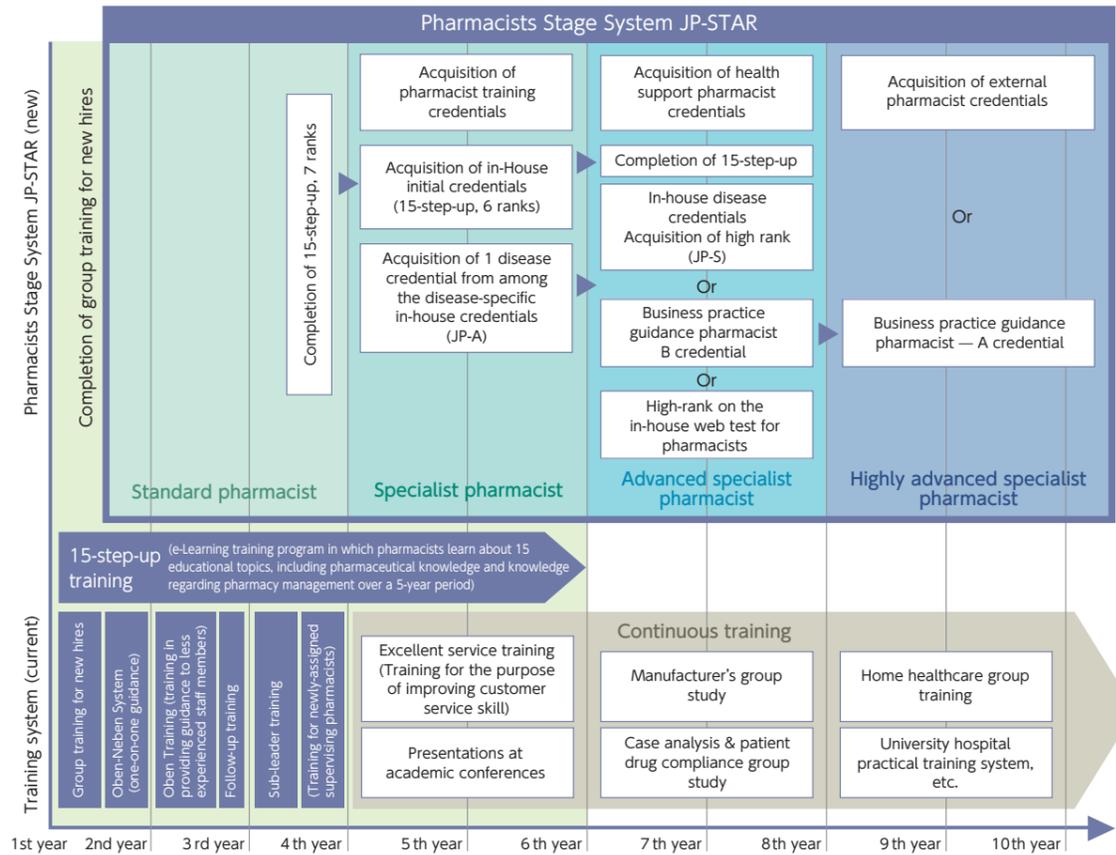
As a result, we have jumped to the top of the dispensing pharmacy and drugstore industry in the science-related employer popularity ratings, and we achieved an all-time high in the number of new graduate pharmacists we recruited in April 2018.

We have already initiated a positive cycle under which we recruit many outstanding pharmacists who are strongly

motivated to learn more about dispensing and provide a high-level education system, as well as the acquisition of advanced skills for expert pharmacists; thereby enhancing the quality of the medical service we provide to patients; promoting positive assessment of pharmacists who interact seriously with patients (as reflected in rankings); and accelerating the recruiting of outstanding pharmacists who are strongly motivated to learn more about dispensing. In order to make this positive cycle even more powerful, we will continue to invest in human resources, including grade-specific training and the in-house Stage System with an eye to the acquisition of qualifications for pharmacists working in pharmacies, certified dietitians, and medical administrators in particular, but also including the head office staff who provide support, thus promoting initiatives aimed at making us the company of choice.

## 2 Human Resource Development

Launch of new personnel system JP-STAR, the Pharmacist Stage System, to satisfy employee aspirations



For more information, please see "Human" pages in ESG Management section (p.48).

## 3 Strengthening Advanced Pharmacology Management Functions

Promoting acquisition of expert pharmacist accreditation based on external evaluations

	Target	Content of qualification
Accredited Pharmacist of Outpatient Cancer Chemotherapy JASPO*	At least 30 pharmacists over 3 years	<ul style="list-style-type: none"> <li>Pharmacists who have acquired the knowledge and skills to safely administer outpatient chemotherapy</li> <li>Pharmacists who can provide total support for patients and their families in community cancer care</li> </ul>
Board Certified Pharmacist in Palliative Pharmacy Japanese Society for Pharmaceutical Palliative Care and Sciences	At least 20 pharmacists over 3 years	<ul style="list-style-type: none"> <li>Pharmacists who have acquired the expert knowledge and skills regarding the appropriate use of cancer pain relief and medical narcotics</li> </ul>

\*Japanese Society of Pharmaceutical Oncology

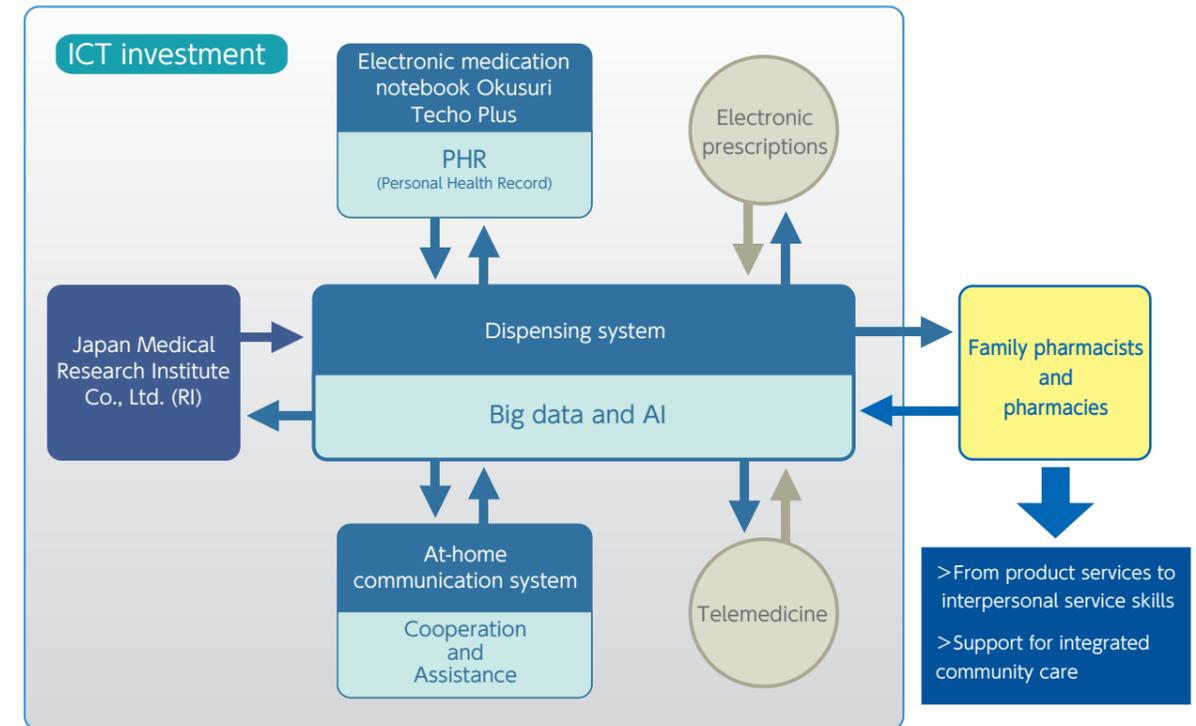
▶ Providing training aimed at acquisition of Accredited Pharmacist of Outpatient Cancer Chemotherapy certification by 26 pharmacists (as of March 31, 2018)

## Providing High Quality Medical Services

### ③ Invest in ICT to facilitate high-quality medical services

ICT utilization is essential for high-quality medical services and rationalization and streamlining of medical care

Aggressive ICT investment required at pharmacies that will survive and win in the industry reorganization



The Japanese government has been implementing studies spanning multiple ministries and agencies into the utilization of ICT in medical settings.

Nihon Chouzai has been aggressively promoting ICT investment for some time ahead of other companies, including the in-sourcing of dispensing systems, in-house development of electronic medication notebook, the construction of an at-home communication system, and the establishment of Japan Medical Research Institute Co., Ltd., which is responsible for processing and analyzing big data. Going forward, we will continue contributing to the provision of high-quality medical services and the realization of rationalized medical expenses by combining the accumulation of ongoing ICT investment with face-to-face

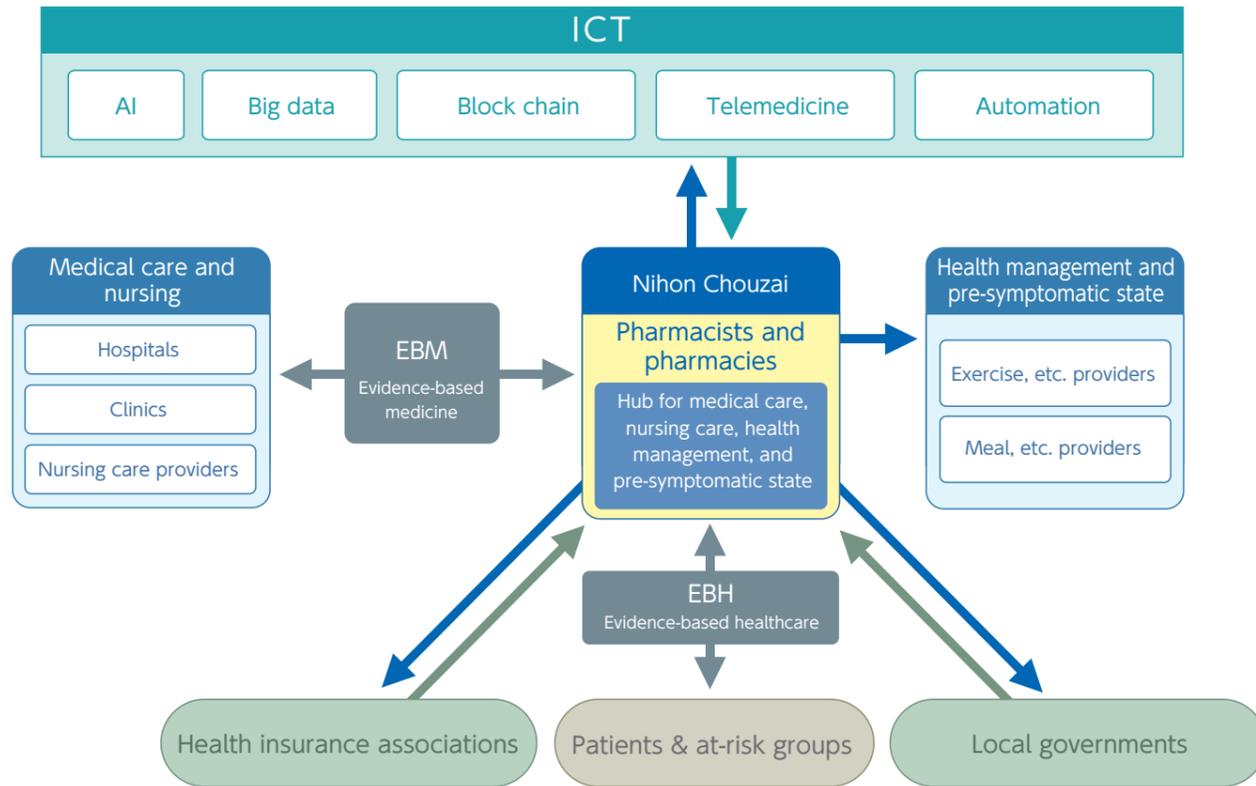
communication with family pharmacists.

The ban on electronic prescriptions was lifted in April 2016, and consideration of a common format, including specific operation, has been underway since April 2018. The format is expected to spread in conjunction with the future development of ICT. At the same time, telemedicine trials have been conducted in national strategic special zones, and telemedicine is now being provided by physicians. Telemedicine provided by pharmacists is being tried in special zones, as well. Studies are expected to proceed, including those involving more extensive implementation of telemedicine by pharmacists and the establishment of new laws.



## Pharmacies in hub-like position

Through utilization of ICT to streamline medical care and rationalize medical expenses, pharmacies could be in a position as hubs in the integrated community care system.



Next-generation pharmacies will be in a unique position to be responsible for rationalizing and streamlining medical care with aim of curbing increases in medical expenses through the utilization of ICT and are expected to have a hub-like position in medical care, nursing care, health management, and preventive healthcare. At Nihon Chouzai, we aim to be the pharmacists and pharmacies that the public needs by continuously investing in ICT and human resources and playing a major role within the integrated community care system. In particular, we have been implementing ICT investment since shortly after our establishment, facilitating extensive business expansion going forward using management resources that our competitors do not have.

One example of a specific initiative is our participation in the Kanagawa Prefecture Pre-symptomatic State Market

Creation Promotion Project.\* In addition to providing support as a pharmacy for promoting health for the people of Kanagawa Prefecture through the provision of products and services that include Okusuri Techo Plus, the electronic medication notebook developed in-house, Nihon Chouzai is playing a new social role as a pharmacy by communicating the "Pre-symptomatic state (ME-BYO)" concept being promoted by Kanagawa Prefecture to the people of Kanagawa Prefecture and making efforts to utilize ICT.

Going forward, we will actively promote such initiatives to maintain health and prevent disease with evidence-based healthcare and medical care with evidence-based medicine to build an unprecedented position in society, thus providing efficient and high-quality medical services and simultaneously realizing the creation of business opportunities.

\*Kanagawa Prefecture Pre-symptomatic State Market Creation Promotion Project

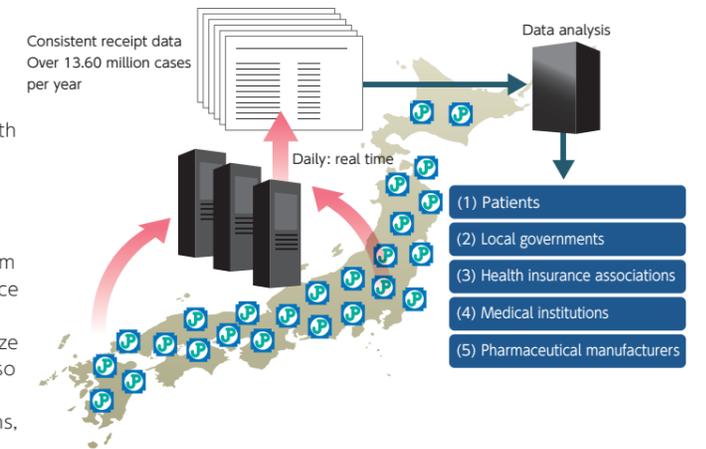
A project being implemented by Kanagawa Prefecture with the objectives of stimulating consumption through the revitalization of the regional economy and activating a pre-symptomatic state industry by spreading the pre-symptomatic disease prevention (ME-BYO) concept and treating preventable diseases. The project has promoted sales and other businesses, including sales of products related to the pre-symptomatic state from the perspectives of stimulating new consumption, bringing out the health needs of people in the prefecture, creating a new pre-symptomatic state industry and promoting market expansion. Sales and other businesses report on sales of products and services related to the pre-symptomatic state, and the effects of monitor surveys and sales on stimulating and encouraging consumption.

## Information Provision and Consulting Business

### Analyzing and utilizing data

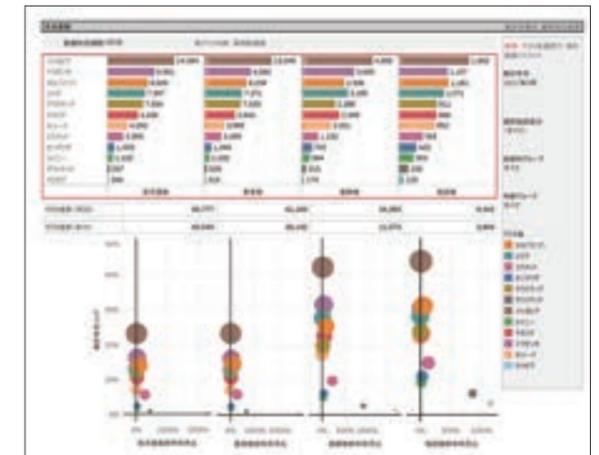
Japan Medical Research Institute Co., Ltd. operates a business that contributes to the healthy progress and growth of the medical industry based on the information resources cultivated through Nihon Chouzai Group companies by providing a valuable information service that helps to improve the lives of the public.

By analyzing the mass of prescription data obtained from dispensing pharmacies, it helps to improve patient adherence (medication management) and by analyzing the actual conditions of pharmaceutical treatment, it helps to rationalize medical expenses. The Japan Medical Research Institute also provides surveys, research, information, and consulting services for local governments, health insurance associations, medical institutions, pharmaceutical manufacturers and others based on its medical information resources.



### Information Provision Service

With RI-CORE, which commenced services in fiscal 2017, it is possible to analyze the usage status of pharmaceuticals based on prescriptions rather than based on shipments from wholesalers to provide high-value-added analysis data customized for individual users. It is also possible to check changes in the trends for products that users want to know about and track in the following month for generic prescribing which is on the increase due to the revision of medical fees in April 2018. While promoting initiatives aimed at utilization of real world data, the Japan Medical Research Institute operates businesses that take maximum advantage of synergies with the Dispensing Pharmacy Business.



Screenshot of RI-CORE service demonstration

### Executive Study Groups

Since August 2017, seminars on formulary efficacy have been held at eight venues nationwide with the general manager of the Hospital Consultant Group at the Japan Medical Research Institute serving as the instructor. The seminars were attended by diverse participants from medical institutions, health insurance associations, pharmaceutical manufacturers and others, and lively Q&A sessions were held. At present, efforts are being made to curb the increase in medical expenses by increasing the volume share of generic drugs, and it is hoped that the introduction of formularies for regional units will serve as one measure for the rationalization of medical expenses on a monetary base.



Executive Study Groups held in February 2018

### Data Health Initiatives and Formulary Collaboration

A variety of measures are being implemented to construct an integrated community care system which provides seamless medical care, nursing care, disease prevention, and daily living support by 2025. However, many challenges are mounting up for initiatives aimed at rationalization of regional medical expenses. At Nihon Chouzai, we believe that we can contribute to the rationalization of medical expenses through our current data health initiatives and formulary collaboration.

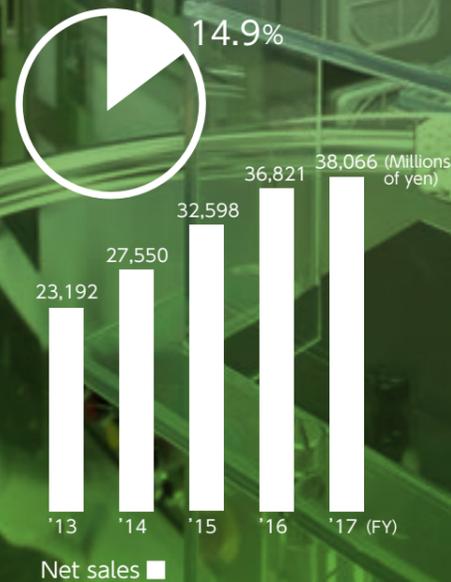
Specifically, we utilize Nihon Chouzai's proprietary formulary operation know-how after performing analysis and simulation based on anonymized information from health insurance associations and local governments. We will continue to provide high-value-added information services by comprehensively supporting data health planning, including drafting business plans, determining the effectiveness of various activities through ongoing progress analysis, and drafting business plans for the subsequent fiscal year.

# Pharmaceutical Manufacturing and Sales Business

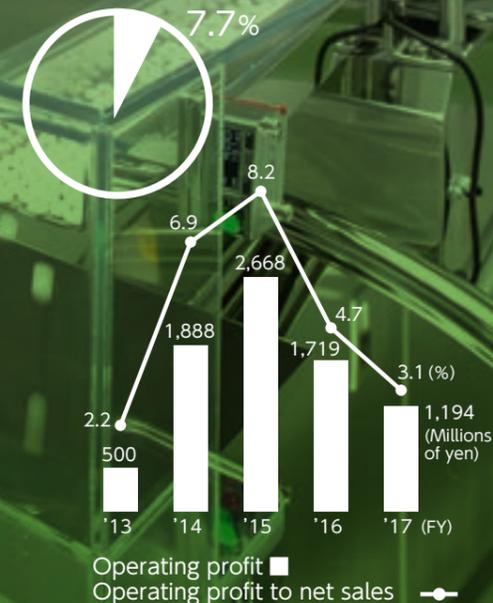
Manufacture and Sales of Generic Drugs



Sales Composition



Composition of Operating Profit



## Long-Term Strategy for 2030

Through the expansion of the manufacture and sales of the generic drugs business, we help to control the increasing costs of medical care in Japan's super-aging society

Aiming to be one of the top 5 generic drug manufacturers

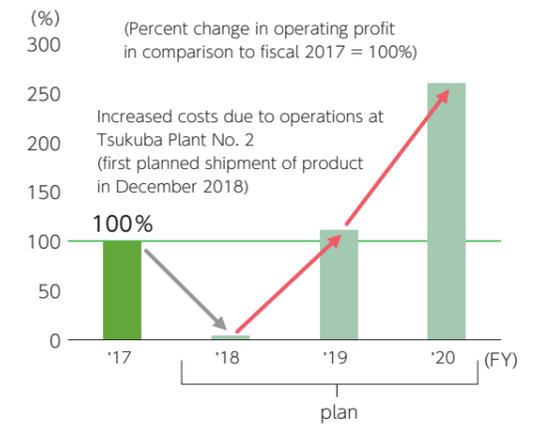


## Medium-Term Business Plan

Net sales



Operating profit



Based on the fact that we have announced an intensive sales promotion plan designed to meet the 80% volume-based market share target for generic drugs set by the national government, we expect that the generic drug market will continue to steadily expand. There are two main causes of the increased sales in the Pharmaceutical Manufacturing and Sales Business. One is increased internal sales, which refers to sales to prescription dispensing pharmacies that are part of our Group. The second is increased external sales, which refers to sales to prescription dispensing pharmacies, hospitals, and clinics that are not within the Group. Planned expansion of the Dispensing Pharmacy Business is expected to lead to major increases in sales.

In fiscal 2018, we expect a temporary drop in operating profit due to previous costs, including start-up costs associated with the start of operations at the Tsukuba Plant No. 2, which is equipped with large-scale, state-of-the-art equipment. These costs include increased depreciation costs, utilities, and personnel costs. However, we plan to recover operating profit starting in fiscal 2019 through increased revenue, increased efficiency and functional differentiation of our manufacturing plants, and the expansion of our contract manufacturing business.

Our unique business model creates synergy with our Dispensing Pharmacy Business

Sales composition ratio (internal and external)



The Pharmaceuticals Manufacturing and Sales Business has a unique business model that combines internal sales, which refers to sales to prescription dispensing pharmacies within our Group, and external sales, which refers to sales to hospitals, clinics, and other companies' prescription dispensing pharmacies. Total sales for fiscal 2017 were composed of internal sales totaling 35% and external sales totaling 65%. Currently, we have achieved a level of growth that puts us among the top 10 generic pharmaceutical manufacturers.

Since Nihon Chouzai has the advantage of internal sales, which other generic drug manufacturers do not have, they account for constant sales amount. This allows for increased ease of stock control, and it has allowed us to create manufacturing plans that have little waste. Research and development efforts are being focused on off-patent pharmaceuticals, and particularly on those pharmaceuticals that are used in large quantities in the internal Dispensing Pharmacy Business. External sales are focused on vendors such as medical institutions, dispensing pharmacy chains, and privately run pharmacies and are currently experiencing an upward trend.

Revising our sales strategy prevents excessive discounts

Toward the stabilization of generic drug prices driven by revised distribution guidelines

The listing of generic drugs on the National Health Insurance drug price list in June 2016 led to an escalation in the price competitions among generic drug manufacturers. The resulting downturn in income throughout the entire generic drug industry continues to this day. Nihon Chouzai was one of the companies that was at least partially involved in these price competitions, and as a result, increased sales still have not yet led to increased operating profit.

Under these circumstances, Nihon Chouzai began making adjustments to its terms of sales through discussions with wholesalers in order to remove itself from these price competitions as quickly as possible. As a result, we became able to engage in sales under more stable conditions as of the latter half of the period ending in fiscal 2017, which in turn allowed us to recover a large portion of profit as compared to the first half of fiscal 2017. The Revised Distribution Guidelines,

which were released by the Ministry of Health, Labour and Welfare in January 2018 and put into operation in April 2018, outlined efforts to control excessive price discounting, which we hope will lead to the stabilization of generic drug prices.

Revised Distribution Guidelines (implemented in April 2018)

- (1) Establish appropriate market prices in order to do away with negative primary margin on sales
- (2) Promote early settlement and unit price-based/individual product transactions
- (3) Revise excessive discount negotiations

\* Created by Nihon Chouzai based on the "Guidelines for Distributors for the Improvement of Medicinal Pharmaceuticals Distribution," which was published by the Ministry of Health, Labour and Welfare in January 2018

Expanding internal sales which are not affected by market trends, expanding the contract manufacturing business which is a new growth driver, starting in the sales alliance business

	Sales structure	Fiscal 2017	Fiscal 2018 onwards
Internal sales	In-Group ● Pharmacies	good <small>Reorganization of the dispensing pharmacy industry</small>	very good
	Out-Group ● Hospitals ● Pharmacies ● Drug stores	good <small>Volume-based government target 80%</small>	good
External sales	Contract manufacturing business	good	very good
	Sales alliance business	fair	good

Synergy with the Dispensing Pharmacy Business

Increased sales due to expansion of the Dispensing Pharmacy Business

Relationships with wholesalers

Increased sales due to expansion of the size of the market

New growth driver

Expansion of the contract manufacturing business

Entrance into the sales alliance business

There are three main drivers behind expansion in the Pharmaceutical Manufacturing and Sales business. The first is the fact that we can greatly increase internal sales by ensuring that the Dispensing Pharmacy Business remains an industry leader after the industry is reorganized. The second is the fact that we can utilize the powerful relationships we have built with wholesalers over the last 40 years to insure that the Dispensing Pharmacy Business will continue to experience increased external sales as we move into the future. The third consists of both the contract manufacturing and sales alliance businesses, which have been identified as new growth drivers.

Although the market of generic drug is expanding, it is difficult for the small- to medium-sized generic drug manufacturers to actively engage in new capital investment. Due to the tendency for increased demand caused by the expanding market to be met by contract manufacturing, it is expected that the contract manufacturing business will show growth in the future. Our productivity will increase once the Tsukuba Plant No. 2 is completed, which will give us the ability to take on more contract manufacturing and sales alliance businesses. Thus, we plan to actively develop these business sectors and increase their operations.

Completion of Tsukuba Plant No. 2, which will enable to increase our domestic productivity to 10 billion units.

We will increase efficiency and differentiate functions in addition to expanding our plant size in order to handle growing demand

The completion of Tsukuba Plant No. 2 will allow us to establish a more flexible production system

- > Future increases in demand will be met by improving productivity via increased efficiency and functional differentiation by, for example, assigning products to manufacturing plants that have suitable production lots.
- > The latest equipment will be used to expand our contract manufacturing business and move into the sales alliance business. We are also setting up production systems that will allow us to examine and enter new business sectors in the future.



Outside view of Tsukuba Plant No. 2



Granulator

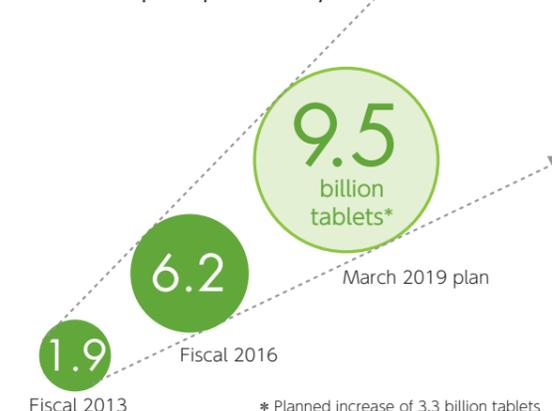


PTP/Packaging line

Tsukuba Plant No. 2 has the latest equipment, which allows it to accommodate a wide range of production needs, from small-quantity production to mass production. The plant has manufacturing equipment that allows all steps of production to be controlled through automation, from weighing and sifting to mixing, granulation, drying, and sizing. Efficiency has been further improved by creating a direct line that allows subsequent operations such as PTP packaging and boxing to take place seamlessly. We have also introduced a production control system that regulates the entire process from bulk drug delivery to shipment of finished product. These and other efforts ensure that our newly established system will be able to handle licensing contracts for any and all products.

The completion of Tsukuba Plant No. 2 will expand our productivity to 9.5 billion tablets. Construction of Tsukuba Plant No. 2 has now advanced to the point that the first phase of construction is now complete. Once the third phase of construction is complete, the overall Group productivity will reach 16.2 billion tablets. By shifting the production of large-lot items to Tsukuba Plant No. 2, we will be freeing up our other plants' production capability. The use of the newly freed production capability will in turn allow us to manufacture new items. By taking advantage of the unique characteristics of each plant and using manufacturing equipment that is suited to individual production lots, we will achieve a production efficiency that surpasses any level we reached in the past.

Maximum plant productivity

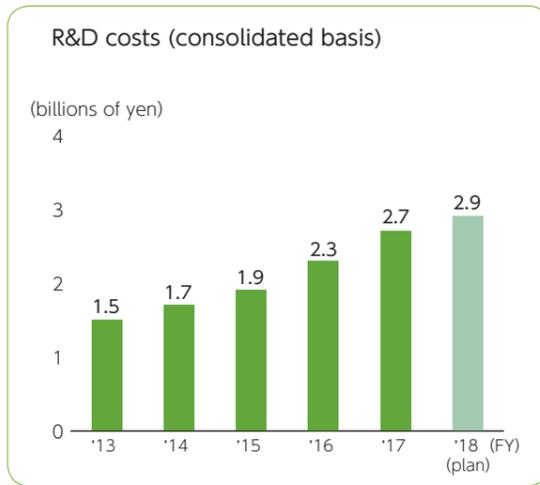
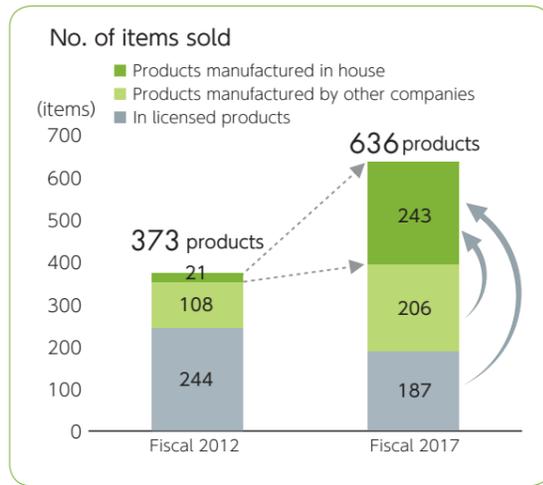


\* Planned increase of 3.3 billion tablets once phase-one capabilities at Tsukuba Plant No. 2 go into operation

Increased income

④ Optimization of the product portfolio

Increase in the ratio of products manufactured in house and promotion of increased profitability through active R&D



In-house products	>Increased number of products	Sales through wholesalers
	>Shift to in-house products	
	>Complement existing products through the addition of in licensed products	
Sales alliance products	>Sales alliance of in-house products to other companies	Sales to generic drug manufacturers
Contract manufacturing products	>Contract development that assumes contracted manufacturing (CDMO)* >Promotion of new contract manufacturing business activities	

R&D	>R&D unrelated to any particular disease
	>Efficient R&D that is focused mainly on products that are used in large quantities by our own pharmacies
	>Utilization of the specific technical strengths and know-how possessed by the research facilities Nihon Generic Co., Ltd. and Choseido Pharmaceutical Co., Ltd.
	>Efficient pharmaceutical production that is matched to the characteristics of the factory equipment utilized at each company

\*The Contract Development Manufacturing Organization is contracted by companies not only to manufacture pharmaceuticals but also to carry out all processes including product development.

Working to establish appropriate sales prices and shifting the sales focus to high-profit items

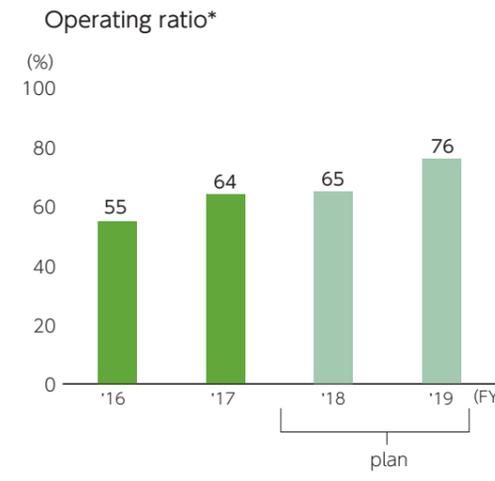
Through strict control of costs when purchasing bulk drugs, designing the drugs, and developing the manufacturing process, we gain an objective view of the cost of the finished product. By assessing costs at every step and setting appropriate wholesale prices, we can establish appropriate sales prices. Through the use of methods that allow flexibility when setting sales prices, we can avoid involvement in price competitions that arise when manufacturers cooperate with specially contracted pharmacies to provide low prices. We will continue

ensuring that our sales prices are optimized. We have begun initiatives designed to improve profit by shifting our sales strategy to high-profit items and focusing our resources on standard drugs that may still be available in the formulary medicine. These efforts are being undertaken in anticipation of future revisions that will be made to drug prices and changes in the generic pharmaceutical industry in the future.

Improving profitability

⑤ Improving operating ratio

Improving the operating ratio leads to lower cost ratios and higher gross margin ratios



\* Operating ratio refers to production during 1 shift (excluding Tsukuba Plant No. 2)

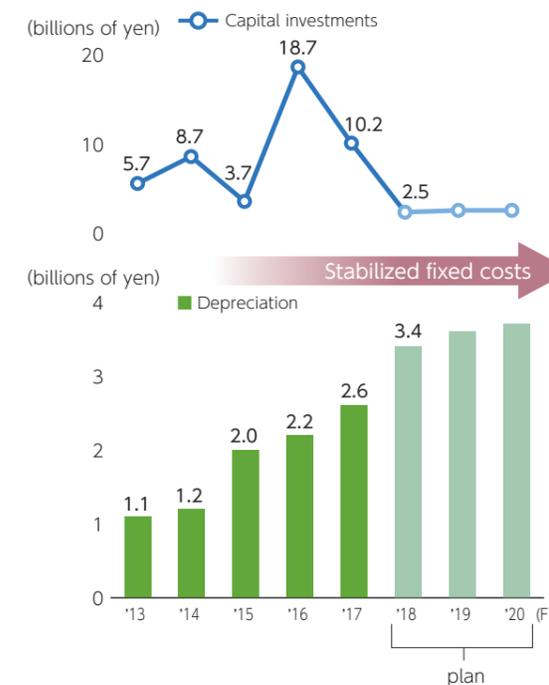
The following are the three main initiatives that lead to improved operating ratio at plants and higher gross margin ratios. First is accepting increased demand and in turn increasing our production volume by ensuring that we are equipped to provide a stable supply of product. This is being done in anticipation of government targets related to the share occupied by generic drugs (80% by the end of September 2020). Second is promoting the in-house production of products whose manufacturing was contracted to outside companies and switching to products manufactured in-house. Third is increasing the number and volume of items produced by increasing the number of contract manufacturing and sales alliance products, both of which were difficult to do in the past. Since Nihon Chouzai is late in entering the market as a generic drug manufacturer, it had few initiatives in the contract manufacturing business and sales alliance business until some years ago. With the completion of Tsukuba Plant No. 2, however, we now have the means to develop these business opportunities, and therefore we plan on expanding the contract manufacturing business and sales alliance business, which we have identified as the new growth drivers of the future.

Improving profitability

⑥ Controlling fixed costs

Fixed costs stabilize as a result of a peak-out in capital investment  
Increased sales and higher gross margin ratios are expected to lead to a V-shaped recovery of operating profit

Cost of capital investments and depreciation costs



Although capital investment costs have remained high over the past five years, this was due to capital investments designed to allow us to meet increased demand for generic drugs and increased demand created by the growing number of Group pharmacies.

Specifically, these capital investments were due to increasing the equipment at Tsukuba Plant S building (Nihon Generic), new construction of the No. 2 Plant at the Headquarters complex, equipment increases at the Kawachi Plant (Choseido Pharmaceutical), construction of and implementation of phase I construction at Tsukuba Plant No. 2 (Nihon Generic). These were all examples of prior investment for the purpose of increasing productivity to the maximum level required to maintain a stable supply of products.

Prior investment will peak-out as of fiscal 2018 onwards. As a result, fixed costs such as depreciation costs, will become stabilized. However, expansion of the generic drug market, increasing numbers of Group pharmacies, and the growing use of generic drugs is expected to lead to a major upswing in sales. In addition, higher gross margin ratios are expected to lead to increased operating profit, but as there will also be increases in costs — such as the increased depreciation associated with the start of operations at Tsukuba Plant No. 2. We anticipate that the effect of increased profit will begin to show up starting in fiscal 2019.

## Quality control initiatives

### Implemented quality objectives for the purpose of stricter quality control

#### Fiscal 2017 Quality Objectives

- 1) **Maintenance of approval documentation that is suited to the manufacturing circumstances**
  - Annual inspection of approval documentation, compliance check via GMP inspections, assessment of the appropriateness of the change of management practices
  - Appropriate implementation of the three roles of manufacturers and marketers, appropriate application of revisions to the Japanese Pharmacopoeia
- 2) **Practical application of quality risk management**
  - Product and manufacturing risk assessment, examination of validation procedures, etc. associated with the change of management, implementation of appropriate risk management practices when selecting new bulk drug and additive manufacturers
- 3) **Improvements to the system of providing information regarding quality to medical institutions and patients**
  - Improving the clarity of information that needs to be provided as well as the procedures for gathering, transmitting, releasing, and managing such information and entering into contracts related to the provision of information about newly adopted products
- 4) **Continuous improvement to keep solid quality system**
  - Increasing awareness of compliance, optimizing the quality system, adopting a GMP operations support system, planning and promotion of QA conferences with Nihon Generic and Choseido Pharmaceutical

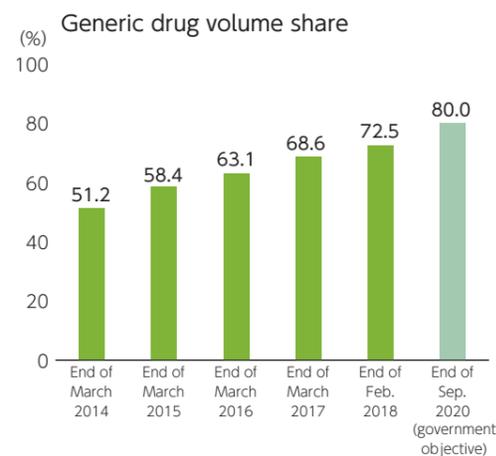
### Perception of the generic drug market environment

#### Factors related to the expansion of the generic drug market

The size of the fiscal 2017 generic drug market is expected to be approximately 1 trillion yen, and it has been calculated that it will expand to approximately 1.2 trillion yen\* in 2021. Around 2020, popular original drugs are to become off-patent drugs, and this is expected to lead to further increases in the generic drug market. It is also expected that the market will increase as a result of the launch of generic versions of other drugs that go off patent.

In addition to these developments, increased use of generic drugs at hospitals, clinics, and pharmacies is another factor that will lead to increasing numbers of generic drugs and increased expansion of the market.

The current volume share of generic drugs reached 72.5% as of the end of February 2018, and it is showing an annual increase of approximately 5% per year. Increased medical costs are expected as the number of elderly individuals in the population increases, and as a result the Ministry of Health, Labour and Welfare raised its objective for the volume share of generic drugs by the end of September 2020 to 80%. The government launched various measures when medical service fee revisions took place in an effort to help meet targets.



\*Prepared by Nihon Chouzai based on the 2018 Generic Drug and Biosimilar Data Book No. 2, Fuji Keizai Marketing Research & Consulting Group

If has been decided that drug prices will be revised annually, the resulting annual reduction in the price of drugs will have a significant impact on drug manufacturers. If drug manufacturers sell their products at greatly reduced wholesale prices as they currently do, the price of drugs will be greatly reduced as a result of government revisions. This will then lead to a situation in which it may be difficult to lower wholesale prices.

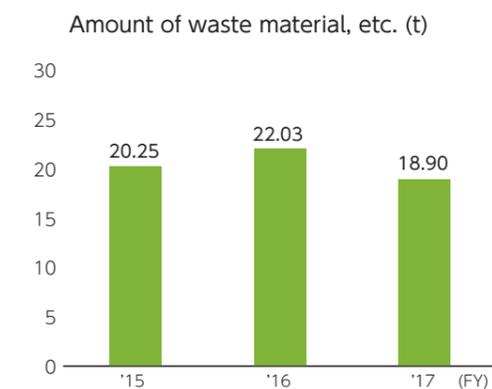
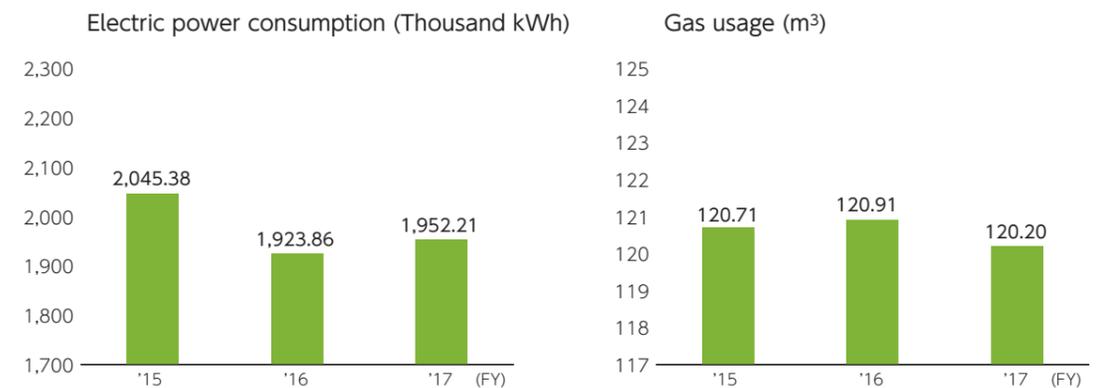
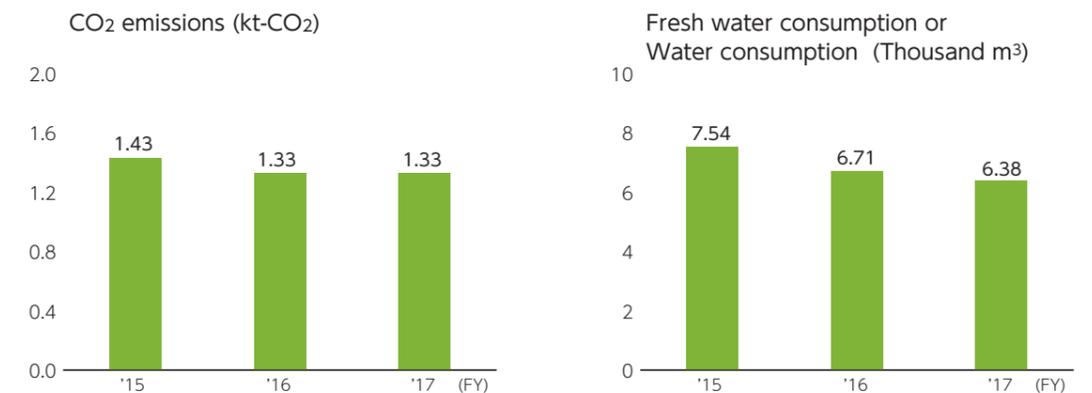
#### Effect of annual drug price revisions

Currently drug prices are revised once every two years, but the Japanese cabinet has approved annual revisions which are scheduled to start in fiscal 2020. At present, there is still debate over whether prices of all drugs will be subject to revision in 2021 or whether there will only be items that have a major gap between the drug price and the supply price. There is also debate over the issue of whether to revise drug prices to reflect the increased consumption tax in the price of drugs if the consumption tax is raised in 2019. Currently, the issue remains unclear.

## ESG initiatives

### Environment

The Pharmaceutical Manufacturing and Sales Business reforms plant buildings it obtains and installs the latest equipment to ensure that CO<sub>2</sub> emissions, fresh water usage, and electrical power usage are kept to a minimum. Newly constructed plants are designed from the planning stage to be environmentally friendly.



■ Conversion using unit consumption for producing 100 million tablets

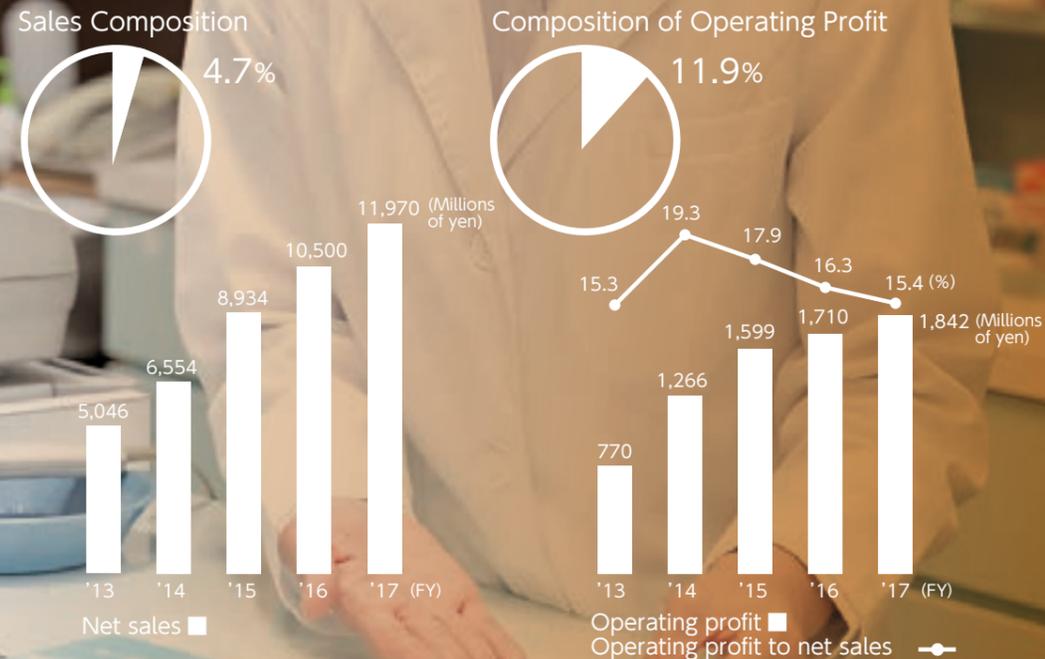
■ Amount of CO<sub>2</sub> & electricity usage  
We were unable to realize the benefits of greater efficiency through increasing production volume due to the fact that there was no production as of fiscal 2015 until new production equipment went into full operation. However, there were slight increases resulting from increased operation ratios achieved at the No. 2 Plant at Headquarters of Chouseido Pharmaceutical.

■ Amount of fresh water and gas usage  
Satisfactory reduction for increases in volume produced

■ Waste disposal  
There was a slight increase in waste during fiscal 2016 due to the fact that there were large numbers of new products manufactured in house. However, the amount of waste produced during fiscal 2017 was less than the level during fiscal 2015. We intend to reduce waste even further in the future.

# Medical Professional Staffing and Placement Business

Staffing and placement centered on pharmacists



**Growth**

Average Growth over a 7-Year Period (Fiscal 2011 - 2017) **24.4%**

The high demand for workers indicates this business will continue to experience high growth. Fields in which the Pharmacist Staffing and Placement Business is mainly involved, including fields involving physicians, nurses, registered pharmaceutical medicine sellers, and other medical professionals, are expanding.

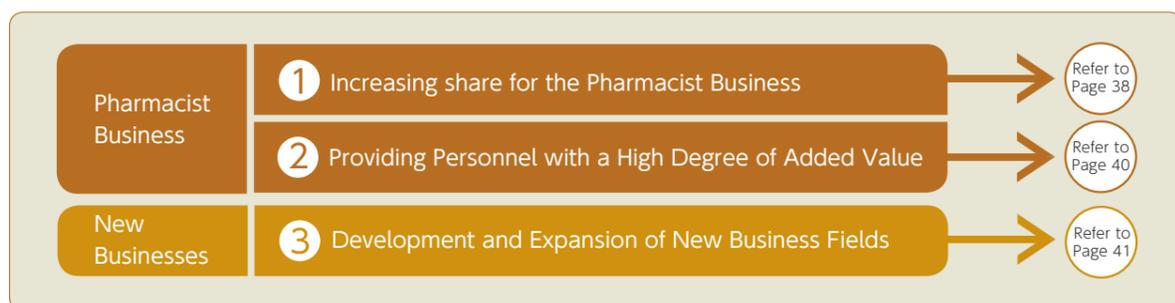
**Profitability**

Operating Margin (Fiscal 2017) **15.4%**

Based on the lack of large-scale investment and the potential for business expansion, we are realizing high profitability. Growth investment to ensure registered dispatched and placed staff members and to expand the Medical Staffing Business continues.

## Long-Term Strategy for 2030

Nihon Chouzai, which has a commanding brand presence in the medical industry, will use its Pharmacist Staffing and Placement Business as a base from which to create synergy with its core business, the Dispensing Pharmacy Business. This effort is designed to ensure expansion and entry into new business fields focused on medical professionals.



## Pharmacist Business

### ① Increasing share for the Pharmacist Business

Putting efforts into expanding the staffing and placement business not only in The Tokyo metropolitan area but also in other regions where there are severe shortages of pharmacists

fiscal 2018

Main measures for fiscal 2020

> Expansion of Business Offices and Increases in Business Staff

Establishment of new offices and increases in the number of personnel

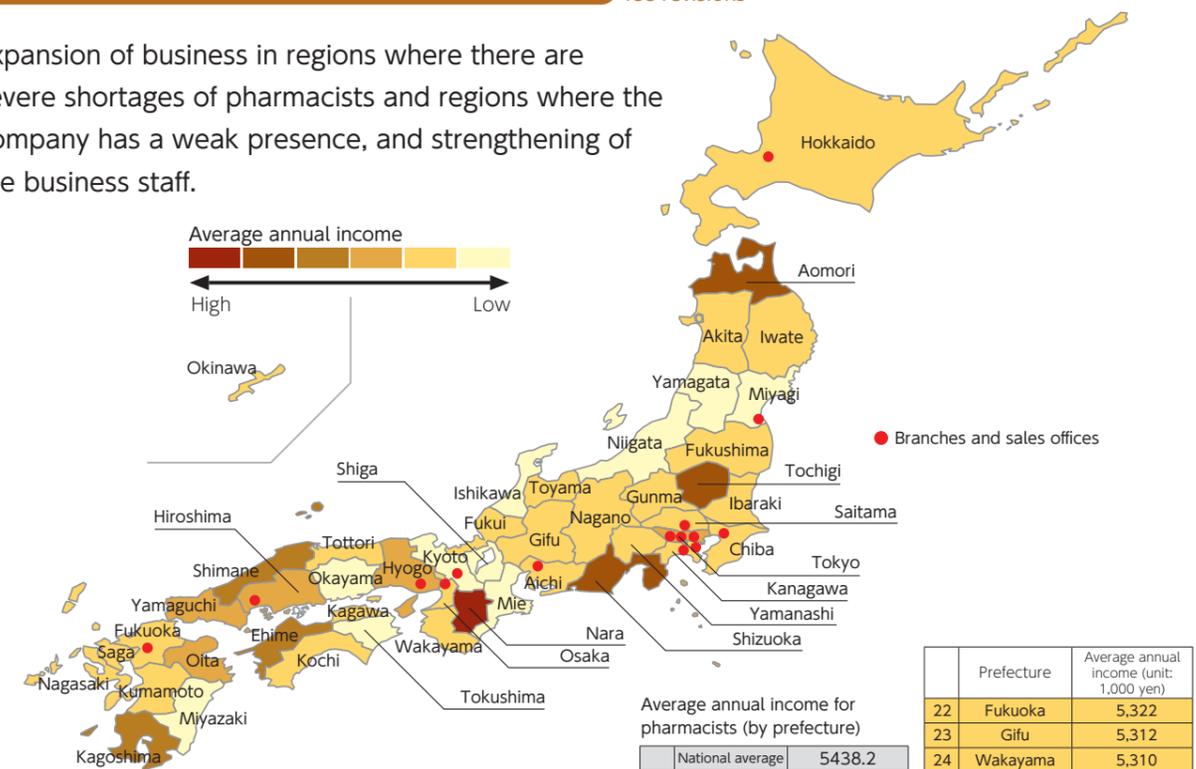
> Expansion of Business Areas (expansion in regions other than the Tokyo metropolitan area)

Expansion in areas with high-salary, high recruitment demand

> Expansion and Strengthening of the Placement Business

Demand has shifted from temporary staffing to permanent placements as a result of the dispensing fee revisions

Expansion of business in regions where there are severe shortages of pharmacists and regions where the company has a weak presence, and strengthening of the business staff.



As of December 31, 2016, there are 301,323\* registered pharmacists throughout Japan, which is a 4.6% increase over the previous survey (2014). Compared to the previous figure of 181.3 pharmacists working at pharmacies and medical facilities per 100,000 people, this is an increase of 11.3 pharmacists. However, there are significant differences from region to region, and the number of pharmacists in regions other than the Tokyo metropolitan area is far lower than the national average.

Nevertheless, the average annual income of pharmacists tends to be higher in regions other than the Tokyo metropolitan area. The top three prefectures in terms of income are Nara, Shizuoka, and Aomori prefectures. The Tokyo metropolitan area, including Tokyo and Kanagawa Prefecture, rank below 10.

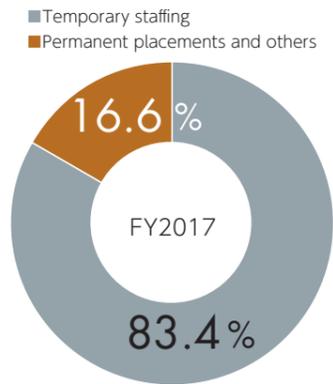
\* Compiled by Nihon Chouzai based on Survey of Physicians, Dentists and Pharmacists 2016 conducted by the Ministry of Health, Labour and Welfare

\* Compiled by Nihon Chouzai based on Basic Survey on Wage Structure 2017 conducted by the Ministry of Health, Labour and Welfare.

Demand has shifted from the temporary staffing of pharmacists to the permanent placement of pharmacists as a result of the dispensing fee revision  
Expansion and strengthening of the Placement Business in accordance with changes in demand.

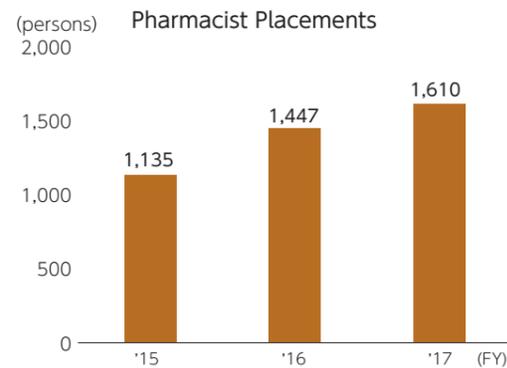
**Sales Ratio of Staffing and Placement of Pharmacists**

Since the announcement of the Vision of Pharmacies for Patients in October 2015, demand for the placement of pharmacists has undergone rapid increases. In accordance with this development, we have begun an anticipatory initiative in our Placement Business.



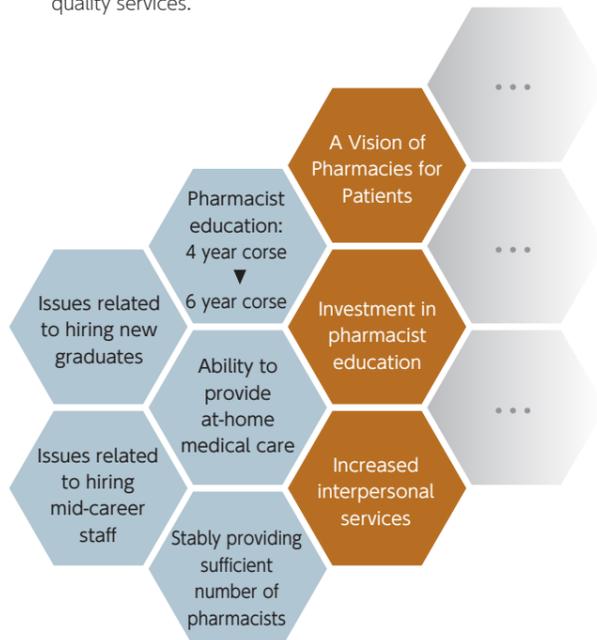
**Number of Pharmacists Placed**

The number of pharmacists placed is steadily increasing, and we are able to adjust to changes in personnel requirements. In addition to continuing stability in the Staffing Business, which is a core business, we are also expanding our pharmacist placement business, which has high profitability and growth potential.



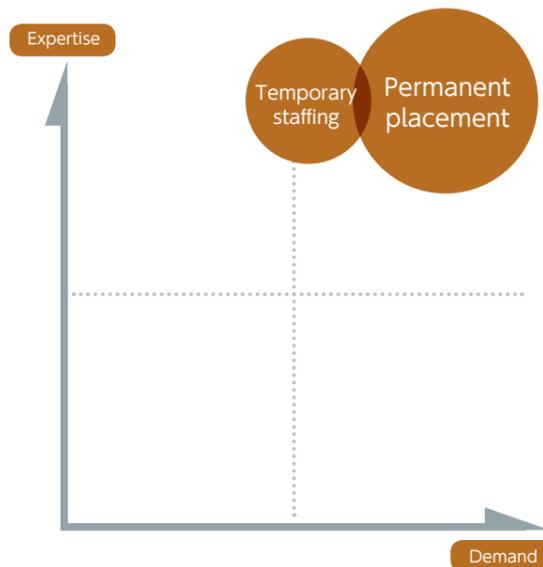
**Issues in the Pharmacy Industry**

Small- and medium-sized pharmacy chains and individual pharmacies account for approximately 90% of the prescription dispensing pharmacy industry, which currently faces the issue of hiring a sufficient number of pharmacists. As realization of the Vision of Pharmacies for Patients requires increased interpersonal relations skills of pharmacists, there is an increasing demand for pharmacists who can provide higher quality services.



**Changes in Personnel Demand**

As the requirements for family pharmacists include prior experience working at applicable pharmacies, the demand for pharmacists is shifting from temporary staffed pharmacists to permanent placed pharmacists. There is also increasing demand for professional expertise, as indicated by, for example, having undergone necessary training and having obtained the required certification as a family pharmacist.



**Pharmacist Business ② Providing Personnel with a High Degree of Added Value**

Nihon Chouzai conducts high-quality pharmacist training through its education system in order to ensure that it provides personnel with a high degree of added value.

**Synergy with the Dispensing Pharmacy Business**

**> Taking Maximum Advantage of the Popularity of Nihon Chouzai**

**The Reliability and Track Record of the Staffing and Placement Business**

Maximizing Nihon Chouzai name recognition cultivated over 40 years in the Dispensing Pharmacy Business, our Pharmacist Business has grown to become one of the leaders in the field of staffing and placing of pharmacists. We are also working to improve matching quality through the use of highly detailed face-to-face counseling.

As a result of the reliability and track record we have built up over the years, we have been awarded both the Excellent Temporary Staffing Agency and the Excellent Job Placement Agency certifications. Only about 1% of all staffing and placement businesses in Japan are able to obtain both certifications, and with both, we have been able to establish a high-quality staffing and placement business.



**> Taking Advantage of the High-Quality Education System Created by the Dispensing Pharmacy Business**

**Development of JP Learning**

As a result of the increases in the comprehensive regional medical service fees and the family pharmacists guidance fee that were part of the 2018 medical service fee revisions, demand has rapidly increased for pharmacists who are able to serve as members of an integrated community care team. The Medical Professional Staffing and Placement Business has developed JP Learning, which is a high-quality, highly efficient education program for pharmacists that was established through our Dispensing Pharmacy Business. Providing this education system to all our registered pharmacists ensures that we are able to provide the highest quality pharmacists.

JP Learning is an e-learning tool that has been designed by education specialists at Nihon Chouzai to ensure that its contents are directly related to a pharmacist's daily tasks. It allows pharmacists who are training to receive certification to obtain the credits they need to become family pharmacists.



**> App that Supports Pharmacists in their Work**

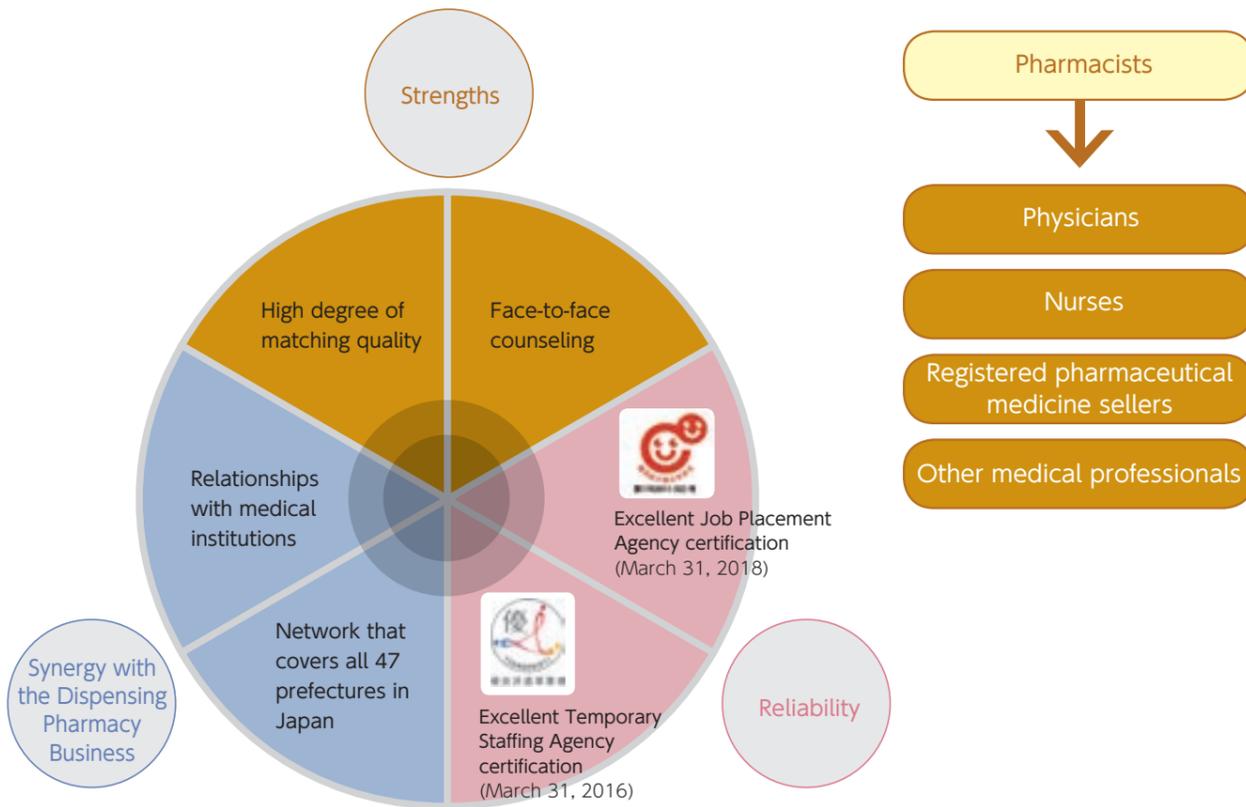
**"Yaku-Tore" – Smartphone Training Application for Health Insurance Dispensing**

Previously the Medical Professional Staffing and Placement Business created an original prescription dispensing textbook that was supervised by Nihon Chouzai and which contained easy-to-understand explanations of dispensing fees and various additional costs, administration guidance, and management of patient medication records. However, in February 2018, we released a smartphone application version of this text to make it even more convenient and easy to use. It contains an abundance of contents that are designed to help support pharmacists in their work, including dealing with dispensing fee revisions.



Expanding Business by Using Our Strengths

Expansion of Jobs



Prior Investment for the Expansion of the Physician Placement Business

Improving our Business Centers	Increasing our Business Staff
Added new business centers in Sapporo, Nagoya, Osaka, Fukuoka	Assigning business personnel who are experts in the Physician Placement Business

Moving into the Registered Pharmaceutical Medicines Sales Business

Taking Advantage of Contact with Drugstores
This business will be developed by taking advantage of contact between the top five drugstore companies and our Medical Professional Staffing and Placement Business as well as the know-how we have gained through our Pharmacist Business

Fiscal 2017: Rapid increase in year-on-year sales of over fourfold

Figures for the number of physicians per 100,000 people\*1 vary greatly from region to region, as they do for pharmacists. The shortage of physicians in regions outside Tokyo and other metropolitan areas remains a serious problem. We will be formally starting initiatives related to the Physician Placement Business in order to contribute to a solution to the problem of regional differences in the number of physicians.

In 2017 the number of Registered Pharmaceutical Medicine Sellers, a designation that was newly established by the 2006 revision to the Pharmaceutical and Medical Device Act, exceeded an aggregate total of 200,000 people\*2 who had received certification. Demand for registered pharmaceutical medicine sellers, who can sell almost all common pharmaceutical products, is likely to increase not only at drugstores but also at convenience stores and home appliance stores.

\*1 Ministry of Health, Labour and Welfare Overview of Physicians, Dentists and Pharmacists 2016  
 \*2 Ministry of Health, Labour and Welfare "On Status of Registered Pharmaceutical Medical Seller Examinations to Date"

# Base that supports Nihon Chouzai

## 3

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- 44 Human
- 49 Social — Together with Local Communities
- 51 Governance — Corporate Governance
- 57 Board of Directors
- 59 Corporate Governance of Nihon Chouzai as Seen from an Outside Director (Audit Committee member)

# ESG Management

At Nihon Chouzai, we are strengthening various initiatives directed at the Environment, Social, and Governance (ESG). In recent years, we have come to view humans who support company as essential management resources, and we are actively engaged in investment in human resources by, for example, promoting women's advancement in the workplace, implementing work-style reform, and conducting a wide variety of training activities.



	ESG Issue Initiatives	Reference Page	
<b>H</b>	Investment in human resources	Promoting women's advancement in the workplace	P 45, 46
		Work-style reform	P 47
		Training system and career plans	P 48
<b>E</b>	Environment	Environmental policy of the Pharmaceutical Manufacturing and Sales Business	P 36
<b>S</b>	Patients	Family pharmacist initiatives	P 23
		Promotion of the use of generic drugs	P 22
		Local communities	At-home medical care initiatives
<b>S</b>	Local communities	Health Check Stations	P 15, 23, 49
		Health-related events	P 49
		Governments/ Administrations	Control increasing medical expenses through generic drug use
<b>S</b>	Shareholders/ Investors	Message to shareholders and investors	P 50
		Stable and continuous dividends	P 14, 17
<b>G</b>	Governance	Strengthening corporate governance initiatives	P 51-59

# Human

## Long-Term Vision — On the Road to 2030 —

Creating a company that is indispensable to society from the **female** perspective

**An industry in which women's involvement is structurally essential**

**Nihon Chouzai**  
(as of March 31, 2018)

30.5% Women  
69.5%

Pharmacists employed at pharmacies & medical institutions throughout Japan\*

34.1% Women  
65.9%

\*Ministry of Health, Labour and Welfare Overview of the FY2016 Survey of Physicians, Dentists, and Pharmacists

**Promoting women's advancement in the workplace**

(%) **20.1**

Ratio of women in management positions

18.5 18.7 18.9 19.8 20.1

(persons) **92**

Female managers

58 63 68 80 92

April 30, 2014 April 30, 2015 April 30, 2016 April 30, 2017 April 30, 2018

Our action plan to create an environment in which women can maximize their potential was created in March 2016, and since its initiatives were put into practice, the number of female managers has steadily increased.



## Promoting women's advancement in the workplace

### Implementing measures to support work-life balance

A certain number of employees need to spend a portion of their time looking for suitable childcare facilities services for their children in preparation for their return to work from maternity leave because they live in areas where there is a shortage of such services. Nihon Chouzai has created a system akin to a social safety net through which employees can be assured that they will be able to continue working after giving birth. As our Company is engaged in the expansion and development of pharmacies throughout Japan, we have

implemented a policy that can be applied across the country. This policy includes a wide range of related support activities for employees, from on-site childcare facilities to health and welfare services for employees.

At the same time, we are promoting improvements that will ensure our corporate environment is a comfortable workplace for the approximately ten percent of our workforce that is on a working time reduction (WTR) schedule for childcare.

### Support measures we have introduced

#### 1 Cooperation with childcare facilities

Priority admission for Nihon Chouzai employees  
Admission free-of-charge, other costs subsidized

#### 2 Corporate contracts with baby sitter services

No initial fee or annual fees  
Discounted monthly fees

#### 3 Childcare facility subsidy service for employees

Childcare facility vouchers  
Monthly childcare facility subsidies

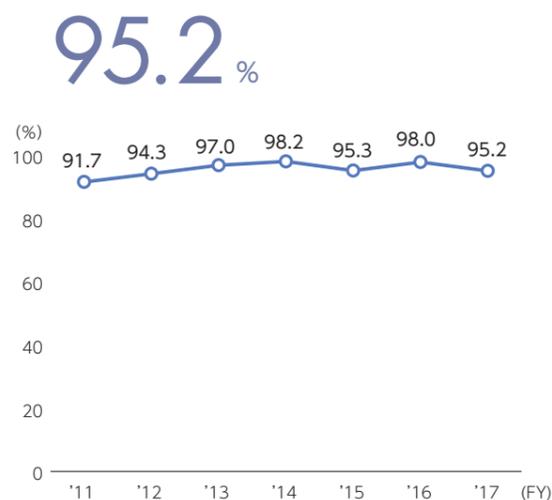
In order to avoid situations in which an employee is unable to work full time, has to delay returning to work, or is forced to quit their job because no childcare facility service is available, Nihon Chouzai has linked up with childcare facilities and has in place both a priority admission system and a subsidy system to defray the cost of childcare facilities. We have also instituted additional support measures to meet a wide range of needs, including tie-ups with babysitting service companies and adding childcare facilities service options to membership-based benefit services.

### Support System During Maternity Leave and after Return to Work

In order to ensure that employees experience a smooth transition from childcare leave to their eventual return to work, we periodically send them copies of our company newsletter and other information. This is done in order to make sure that pharmacists remain fully informed about newly listing in the NHI drug price list during their childcare leave and to ensure that they have the latest medical data that is relevant to drug administration guidance and patient

compliance. These efforts have produced significant results, such as the fact that at Nihon Chouzai the post-childcare leave return rate of employees is over 90%. In addition, since we established our WTR system for childcare in fiscal 2010, the number of people who utilize this system has been increasing. This system is just one of many that makes up our comprehensive effort to create a working environment that is friendly to women.

### Retention rate of employees returning from childcare leave



### Working Time Reduction (WTR) System — No. of Users



## Promoting women's advancement in the workplace

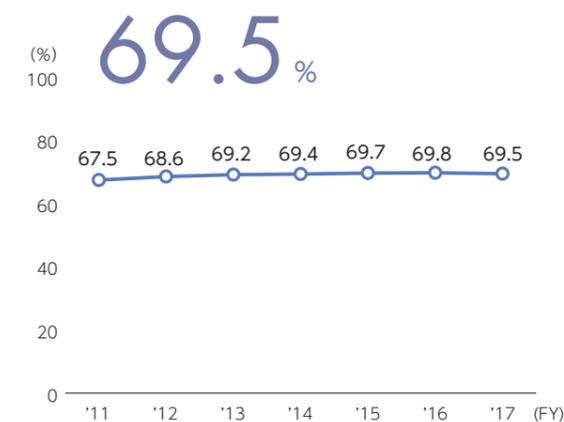
### Female Managers and Supervising Pharmacists

The ratio of pharmacists working at pharmacies and medical facilities who are women has always been high. In fiscal 2016 women accounted for 65.9%. Most of the employees in Nihon Chouzai's core Dispensing Pharmacy Business are pharmacists, and therefore, structurally, there is a high percentage of women in this business. At the end of fiscal 2017, women accounted for 69.5% of the staff in this business division.

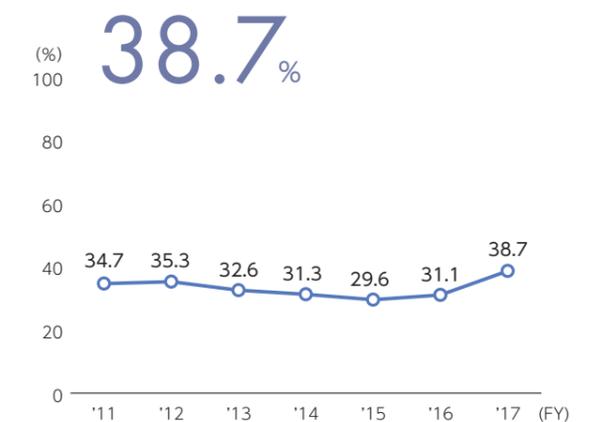
Nihon Chouzai provides educational opportunities for its staff regardless of sex, and the Company is actively promoting

the training of female supervising pharmacists. We also have a system in place that allows our staff to return to work at the same position and under the same conditions after a leave or absence due to major life event in order to ensure that they are able to continue with their career. In recent years there has been an increasing trend in the percentage of female supervising pharmacists, which we believe is due to steady advances being made in the creation of workplace environments where it is easy to work.

### Ratio of full-time female employees



### Female ratio of supervising pharmacists in supervising pharmacists



## Promoting women's advancement in the workplace

### Raising awareness within the Company

#### Lecture designed to deepen understanding of promoting women's advancement in the workplace

During a meeting of Area Managers from throughout Japan held in June 2017, a lecture entitled, "Promoting Women's Advancement in the Workplace" was held by the Human Resources Department. An outside lecturer was invited to the meeting to help the attendees deepen their understanding of this issue. The speaker used specific examples to discuss topics such as the circumstances behind the need to promote increased female involvement, the type of attitude required of management, and the various types of, causes of, and solutions to harassment. A similar lecture was also held for employees in internal divisions in headquarters. Through these and other initiatives, the Company is working toward fostering increased awareness of promoting women's advancement in the workplace.



#### Medical Office Work Leadership Workshop

In June 2017 a Medical Office Work Leadership Workshop was held for staff members who are working as medical office workers in our pharmacies of each branch. This was the second time since last fiscal year that this workshop has been held. It is designed to increase participants' understanding of leadership, group theory, and motivation through the use of learning games and discussions. At least 90% of medical office workers are women. These people play an important role as they are the first staff that customers come into contact with upon entering a pharmacy. Thus, they are expected to show leadership both in the pharmacy and in their communities.



## Work-style Reform

### Initiatives Designed to Optimize Overtime Work

#### 1 Proper Management of Overtime Work

We are developing a system that allows supervisors to properly manage overtime work, and we have adopted a system that allows us to accurately ascertain the number of hours each employee works. Vein biometric authentication is being used on pharmacists and other pharmacy staff members in order to better manage work time, and thus this technology supports our efforts to optimize work hours.



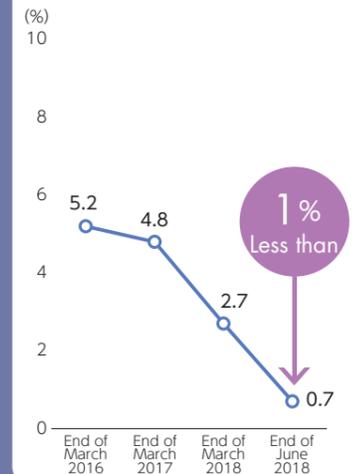
#### 2 Promotion of Business Leveling in Stores and Divisions

In order to prevent a situation from arising in which tasks become concentrated on a single individual, such as the store manager or business leader, which in turn leads to overwork, managers in all divisions of the Company take the initiative to ensure that work is optimized and any imbalances are rectified.

#### 3 Work Management Education for Managers

Store managers attend workshops in work time management and carefully manage work schedules so as to prevent staff members from being forced to work illegally or engage in unpaid overtime work. As a result of these initiatives, the number of employees whose monthly overtime exceeds 45 hours was drastically reduced to less than 1% between fiscal 2015 and the end of June 2018. We will continue to work toward making initiatives designed to reduce overtime hours that are commonplace within the Company.

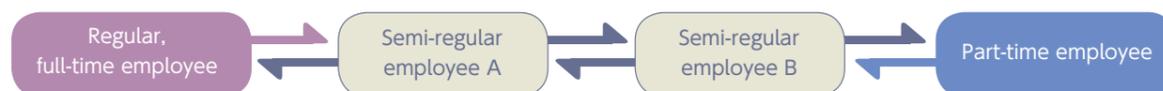
Number of employees who work 45 or more hours of overtime per month



### A Diversity of Career Plans

We have introduced a system that affords employees flexibility in changing their employment contracts so that they can easily shift from a full-time employee to a contracted or part-time employee in accordance with life events and changes in their living environments. This flexible system — which allows

employees to choose the work style that suits them — provides them with the support they need to continue working even in cases in which they experience major life events such as raising children or becoming the caregiver of an older family member.



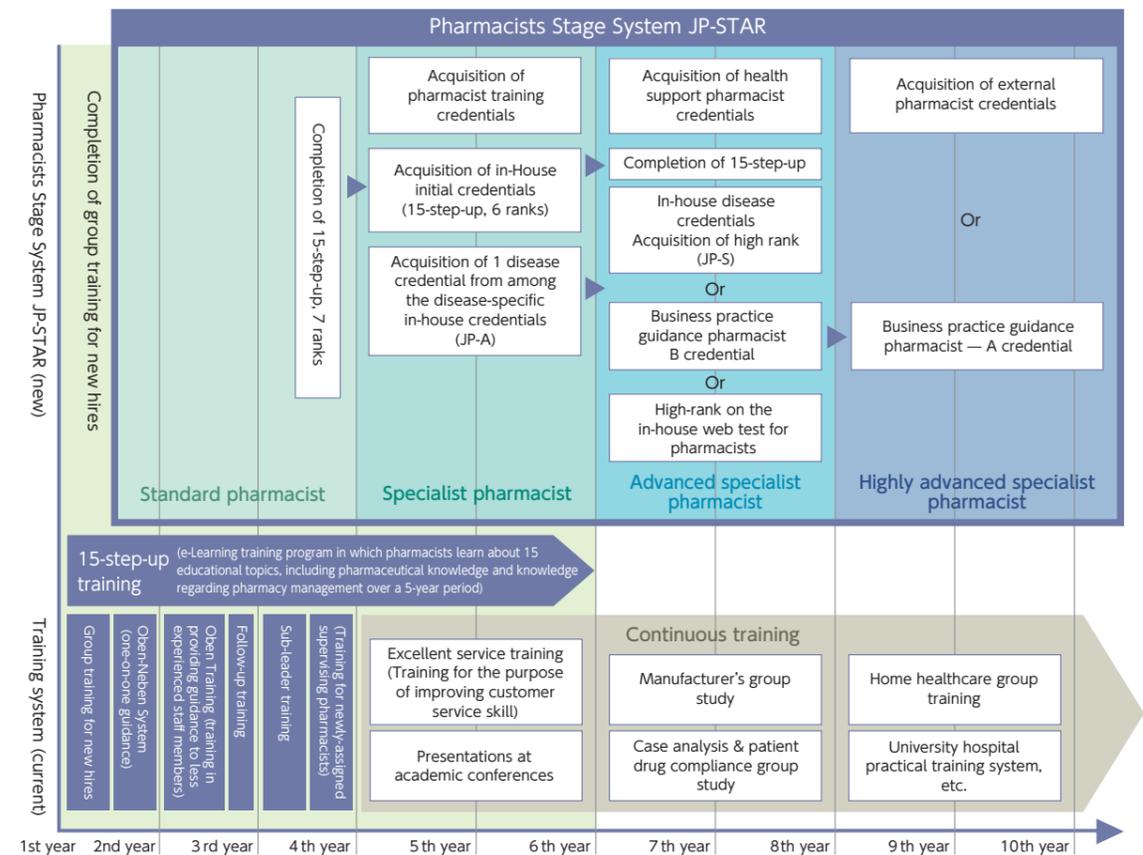
## Training System and Career Planning

### Launch of the Pharmacists Stage System JP-STAR

Nihon Chouzai created the internal pharmacist stage system JP-STAR. This system, which was launched in April 2018, grants certification to pharmacists based on their knowledge and experience as a way to promote the further education of pharmacists with a high degree of expertise. It is an in-house accreditation system that was newly developed to encourage pharmacists who are experts in cancer, diabetes, and other fields who are thinking of obtaining external accreditation.

The pharmacist education provided by Nihon Chouzai is based on a curriculum that is among the best in the industry.

While acquiring sufficient medical knowledge and skills is essential, students also learn the basic thinking and attitudes required of medical professionals. The program is also designed to provide comprehensive personnel training, which includes aspects such as the ability to communicate with patients and the management skills required to operate a pharmacy. The introduction of the new stage system is expected to improve the level of expertise of pharmacists and ensure that patients are provided with better information and drug compliance guidance than ever before.



### Practical Training in Hospital

In 2014 we began a hospital practical training program designed to train pharmacists who will work in fields such as highly advanced pharmaceutical management and at-home medical care. Participants commute to university hospitals for several months. The learning they acquire there regarding aspects of medicine such as team medical care, in-hospital treatment, and anti-cancer drug regimens facilitates stronger cooperation between hospitals and pharmacies, as issues such as swift handling of adverse drug reactions and tracing reports can be handled by pharmacies. The number of medical facilities cooperated with Nihon Chouzai in Japan is increasing, and as a result, the entire company is working to ensure that its pharmacists have the highest possible skill level.



### Training for the Next Generation of Management Staff

Nihon Chouzai holds management seminars for young managers who will take over in the future. They take courses that are focused on the examination of topics such as leadership and skills related to financial and business operation analyses in order to improve the skills they will need to become leaders. Using the knowledge they acquire from lectures, the participants come up with suggestions on solutions to the management issues they examine during the training period, and then after the training session is over, they work towards solving those problems. By actually implementing specific initiatives, they create personal networks within the Company and acquire leadership skills.



## Together with Local Communities

Health Check Stations: **37** Stores (as of the March 31, 2018)

Nihon Chouzai began actively operating Health Check Stations in its pharmacies in fiscal 2016. These stations are designed to function as centers for pre-symptomatic diseases and disease prevention activities, and the number of pharmacies that have these stations continues to grow. These stations offer consultation services on drugs that patients have been prescribed and other health matters. Our pharmacies are also staffed by national registered dietitians and others who are able to provide nutrition-related consultation services for the purpose of aiding in the improvement of the health of local residents. We plan to further develop the services offered at pharmacies that function as health support centers.



Health Events Held: **515** times



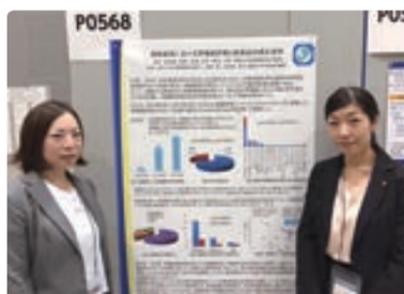
Pharmacies that function as health support centers are required to implement initiatives designed to maintain the health of and prevent illness among local residents. Study groups on drugs and on illness, consultations to aid in quitting smoking, blood pressure measurements, "blood vessel age" and stress level measurement, bone density measurement, body composition measurement, and other services that are made available via a wide variety of health events. At our main pharmacies, national registered dietitians provide nutritional consultations, including dietary guidance. These pharmacies also cooperate with local medical institutions so that they can refer patients who require medical examinations to appropriate facilities.

### Pharmacist Experience

The Children's Pharmacist Experience event that was so popular last year was held again in July 2017. This event continues to provide children with valuable information about medication, including the importance of taking medicine safely and how pharmacists contribute to maintaining the health of local residents through its "pharmacist experience" activities. In 2017, 30 children participated, which was 1.5 times more than in 2016. They put on a pharmacist's white jacket, use actual drug dispensing equipment, and dispense candies that stand in for actual drugs. The event also includes a portion during which the children provide drug compliance advice to their parents and guardians who play the role of patient. We will continue in our efforts to actively provide opportunities for the public to better understand the job that pharmacists do.



Conference Presentations: **38** presentations delivered at **9** academic conferences



At the 27th Annual Meeting of the Japanese Society of Pharmaceutical Health Care and Sciences, a Nihon Chouzai pharmacist delivered a presentation about renal function evaluation at health insurance pharmacies and appropriate use of pharmaceuticals. One major issue in which pharmacists will be increasingly involved in the future is the prevention of adverse events related to toxicity, drug-induced kidney failure, and progression to end-stage kidney failure. Thus, we have implemented analytical tests that help pharmacists determine whether a drug dose is appropriate under given kidney function levels as indicated by clinical test results and in order to analyze changes that take place in prescription details after a prescription is identified as suspicious.

## Together with Shareholders and Investors

### General Meeting of Shareholders

The 38th General Meeting of Shareholders was held on June 27, 2018. Due to the major changes taking place in the dispensing pharmacy industry such as revisions to the prescription dispensing fees, the shareholders actively asked questions at the meeting. Afterwards, all six of the proposals that were submitted for consideration were approved during the General Meeting. In addition, one outside director was appointed for the purpose of improving transparency in management practices and increasing maneuverability. The final business of the General Meeting was the address delivered to the shareholders by Hiroshi Mitsuahara, President and Representative Director of Nihon Chouzai. In his address, President Mitsuahara described the active efforts the Nihon Chouzai Group is engaged in for the purpose of further developing its business.



### Results Briefing



The Results Briefing was held on May 10, 2018. With the prescription dispensing fee revision that went into effect in April 2018, pharmacies are required to play a number of roles, including cooperating with other medical institutions within the integrated community care system and strengthening their approach as family pharmacists and pharmacies. At the financial briefing, an explanation was also provided of the status of future initiatives, new pharmacy opening strategies, and improvements being made to existing pharmacies. All of these efforts are being made with an eye on the roles pharmacies will have to fulfill in the future. The participants asked a large number of questions about the effect of the prescription dispensing fee revisions and initiatives that are being implemented in order to deal with these revisions. The Long-Term Vision for Nihon Chouzai was also announced. This vision describes the Company's understanding of the major changes taking place in the industry and it outlines how the Company plans remain on top through 2030 as the industry undergoes reorganization.

### Investor Relations

Major changes are taking place in the prescription dispensing pharmacy industry and the generic drug industry that are aimed at an industry-wide reorganization. Shareholders are increasingly concerned about these changes, and as a result, they have a large number of questions related to the medium- and long-term strategies of the Company. There has been a particular increase in questions from overseas shareholders. Nihon Chouzai is improving its investor relations efforts aimed at overseas shareholders so that it is able to provide these investors with answers to their questions. In fiscal 2017, meetings were held with shareholders in London, Edinburgh, and New York where explanations of the Group's overall management strategy and long-term vision were provided. This was followed by vigorous question and answer sessions that provided the Company opportunities to increase the shareholders' understanding of the Nihon Chouzai Group. In the future we are planning a variety of proactive IR activities, including conferences with shareholders in Japan as well as individual meetings.

#### ▼ The initiatives below are implemented as needed

- > Company briefings for individual investors
- > Small meetings
- > Individual meetings with investors (domestic and overseas)
- > Investor conferences held by securities companies

## Corporate Governance

Nihon Chouzai continually works to enhance its corporate governance to sustain growth and raise corporate value with the aim of becoming a company that society needs.

### Basic Concept of Corporate Governance



The above three points are essential to respond on-target to changes in the business environment, ensure the continued soundness of the Company and further raise corporate value. Moreover, because the Group operates its business in a field that is strictly governed by various regulations, it is fully aware that the enhancement of corporate governance and the strengthening of compliance are extremely important matters, and it has implemented a wide range of measures based on this understanding.

Given the Company's scale and its type of business operations, Nihon Chouzai has determined that a company that uses an audit and supervisory committee is most suitable for enhancing the Company's audit and oversight functions and for corporate governance.

	2005	2010	2015
Internal control system	May 2006 Established basic policy on creation of internal control system		June 2016 Revised internal control system
Internal reporting system		March 2011 Established "Nihon Chouzai Hotline" internal reporting system	
Information security committee		April 2012 Established information security committee	
Corporate conduct code		February 2014 Established corporate conduct code	
Ethical conduct guidelines		February 2014 Established ethical conduct guidelines	
Compliance promotion committee		February 2014 Established compliance promotion committee	
Medical safety committee		October 2014 Established medical safety committee	
Outside directors			June 2015 Brought in an outside director
Risk management committee			March 2016 Established risk management committee
Company with an audit and supervisory committee			June 2016 Switched from a company with a board of corporate auditors to a company with an audit and supervisory committee
Privacy Mark			November 2016 Privacy Mark certified business
Business continuity plan			May 2017 Established business continuity plan

### Corporate Governance Structure (As of June 28, 2018)

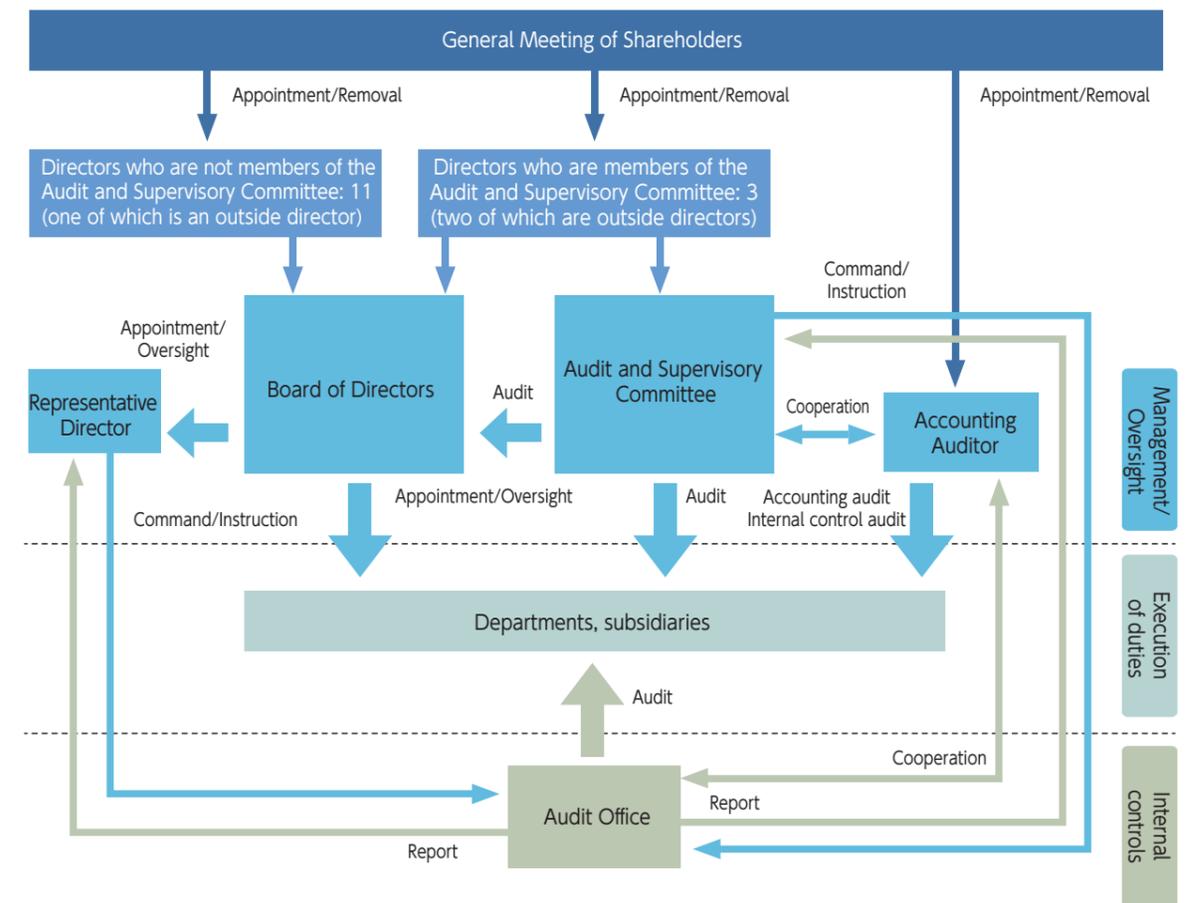
Directors	11 directors one of which is an outside director / independent officer
Audit and supervisory committee	3 directors two of which are outside directors / independent officers

At the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. The Board of Directors consists of 11 directors (excluding the Audit and Supervisory Committee members) and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

In addition, the three directors, which include the two outside directors, make up the Audit and Supervisory Committee and fulfill their oversight function through such methods as exercising their right to vote in the Board of Directors meetings, auditing the directors' execution of their duties, and preparing audit reports.

The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency.

### Corporate Governance Structure (As of June 28, 2018)



### Management status of the Board of Directors

Convening of Board of Directors meeting	In principle, once a month or as necessary
Number of times convened	14 times (April 1, 2017 - March 31, 2018)
Matters discussed	<ul style="list-style-type: none"> <li>■ Closing or opening pharmacies</li> <li>■ Budget / Results</li> <li>■ Personnel / Labor</li> <li>■ Fund procurement</li> <li>■ Establishment of rules</li> <li>■ Organizational changes</li> <li>■ M&amp;A</li> <li>■ Corporate governance</li> <li>■ Others</li> </ul>

## Disclosure Based on Each Principle of Corporate Governance Code

### ■ Strategic Shareholding

When holding the listed shares in terms of business operations or for the purpose of the enhancement of the business relationship, Nihon Chouzai will comprehensively consider the investment amount and the Company's benefits generated by the said shareholding and determine the propriety of the said shareholding. The Company regularly examines the purpose/reasonableness of the said shareholding in regard to the major shares among the listed shares held and reports the results to the Board of Directors. Moreover, approval or disapproval of exercising the voting right concerning the strategic shareholding will be determined based on the purpose of holding and whether or not it will contribute to the improvement of the investment destination's corporate value.

### ■ Transactions between the Parties Concerned

When the Company conducts a transaction (Transaction between the Parties Concerned) with the directors or major shareholders, etc., the Company makes the Transaction between the Parties Concerned the matter to be discussed in the Board of Directors meeting in the "Regulations on the Board of Directors Meeting" to make sure that the transaction will not harm the interests of the Company and common interests of the shareholders. The actual individual transactions will be approved in the Board of Directors meeting or oversight through the receipt of the report. In the resolution by the Board of Directors meeting concerning the Transaction between the Parties Concerned, legal check will be implemented by the department in charge of legal affairs.

### ■ Improvement of Information Disclosure

#### (1) What the Company is aiming for (management philosophy, etc.), management strategy, and management plan

The Nihon Chouzai Group's corporate philosophy, management strategy, and management plan are disclosed mainly on the Company's website with the following URL and transmitted by using mediums such as the Shareholder Report and Securities Report. Corporate Philosophy :  
<https://www.nicho.co.jp/corporate/profile/philosophy/>  
 Management Strategy/Management Plan :  
<https://www.nicho.co.jp/corporate/info/18742/>

#### (2) The policy and procedures when the Board of Directors determines the directors' remunerations

At the Company, the upper limit of remuneration for the directors (excluding directors who are Audit and Supervisory Committee members) and directors who are Audit and Supervisory Committee members is resolved at the General Meeting of Shareholders. Each director's degree of contribution, goal achievement level, etc. will be comprehensively considered in regard to individual amount of remuneration and its calculation method. The amounts will be decided upon deliberations by the

Board of Directors in the case of the directors (excluding directors who are Audit and Supervisory Committee members), and for the directors who are the Audit and Supervisory Committee members, the amounts will be decided upon deliberations by the Audit and Supervisory Committee.

#### (3) Policy and procedures in appointing and designating the directors (excluding the Audit and Supervisory Committee members) and the directors who are the Audit and Supervisory Committee members

The Company has a policy to appoint human resources who, as directors (excluding directors who are Audit and Supervisory Committee members and the same shall apply hereafter), respond to the entrustment of the management from the shareholders, have abundant experience with distinguished insight for management, and can fulfill the directors' duties and responsibilities as candidate directors. Based on this policy, the representative director prepares a draft on the candidate directors and proposes it to the Board of Directors, and the candidate directors are decided by the Board of Directors.

As for the directors who are the Audit and Supervisory Committee members, the Company has the policy to appoint human resources who understand the importance of the functions of audit in the management and the Audit and Supervisory Committee and can fulfill the Audit and Supervisory Committee members' duties and responsibilities as the candidates for the directors who are the Audit and Supervisory Committee members. Based on this policy, the representative director prepares the draft on the candidate directors and proposes it to the Board of Directors after gaining agreement with the Audit and Supervisory Committee, and the candidate directors are decided by the Board of Directors.

#### (4) Explanations on the appointment/designation of individual directors

The Company lists the reasons for choosing the candidate directors (excluding directors who are Audit and Supervisory Committee members) and directors who are the Audit and Supervisory Committee members in the notice of the General Meeting of Shareholders and discloses the said reasons on the website.

### ■ Role and Responsibility of the Board of Directors

The Company judges/decides the management policy/strategy and important matters in the execution of duties in the Board of Directors meeting in accordance with the laws and regulations, Articles of Incorporation, and Board of Directors Regulations. The matters to be delegated to the management have been stipulated in the Regulations on Administrative Authority and Regulations on Segregation of Duties and the Board of Directors receives reports on the status of the execution of duties to ensure the oversight function.

### ■ Standards for Determining the Independence of the Independent Outside Directors and Their Qualification

The Company appoints the independent outside directors who have excellent character and insight and can provide appropriate advice and oversight to the Company's management while meeting the Tokyo Stock Exchange's standards for independence.

### ■ Preconditions to Ensure the Effectiveness of the Board of Directors

i. In order to effectively fulfill the execution of duties and the management oversight function, the Company's Board of Directors consists of those who are familiar with and have a high level of competence for company management and the economic environment, those who have in-depth knowledge of and experience in the Company's business environment, and those who have knowledge of accounting, financial, legal and personnel affairs, etc. and give consideration to the balance as a whole and diversity. In addition, the Board of Directors consists of 11 directors (excluding directors who are Audit and Supervisory Committee members) and three other directors that serve as Audit and Supervisory Committee members.

ii. The Company keeps the number of additional posts held by the directors within the reasonable range in order to appropriately fulfill their roles and duties and the status of the additional posts is written in the notice of General Meeting of Shareholders.

iii. The Company carried out a questionnaire survey on 21 items concerning the evaluation of the effectiveness of the Board of Directors such as the "Structure and Operation of the Board of Directors," etc. among all directors except the President, who is Chairman of the Board of Directors, between May and June 2018 based on the opinions of an outside consultant and analyzed and evaluated the effectiveness of the entire Board of Directors in the Board of Directors meeting. An outline of the results showed good conclusions in the evaluation of all items and the effectiveness of the Board of Directors has been judged to be excellent. On the other hand, constructive opinions on the efforts in the aspect of operation in the Board of Directors were presented; therefore, the Company will continuously strive to improve the effectiveness of the entire Board of Directors based on the evaluation results at this time.

### ■ Directors' Training

The Company provides appropriate explanations on the directors' duties, etc. to the inside directors in a timely manner and provides opportunities to take training or seminars by third parties as needed of which the costs will be incurred by the Company. For the outside directors, with a view to deepen their understanding on the Company's business descriptions and business challenges, the Company provides opportunities to visit each Group company's major bases such as stores, plants, offices, etc. and receive explanations on the business descriptions, business challenges, etc. from the management or each department.

### ■ Policy for Constructive Dialogues with Shareholders

The Company actively, fairly, rightly, and timely discloses information on the Company's business and financial conditions to the shareholders and investors, aims for the proper formation of the share price, and organizes the investor relations (IR) activity promotion structure as follows:

#### (1) The department mainly in charge of the dialogues with shareholders and the director who supervises the department

Dialogues with shareholders in the Company are undertaken by the Corporate Planning Department, which is the department in charge of IR and is supervised by the director in charge of corporate planning.

#### (2) Measures to cooperate with the departments concerned

At the Company, the Corporate Planning Department, which is the department in charge of IR, strives to share information with and collect information from the General Affairs Department, Public Relations Department, Accounting Department, Finance Department, other departments, and our subsidiary companies, and organizes the cooperative structure.

#### (3) Efforts other than individual interviews

By implementing the General Meeting of Shareholders, Results Briefings, Business Briefings, plant tours, and information disclosure on the Company's website, the Company conducts activities to deepen understanding of the Company's management strategy and business environment.

#### (4) Measures to provide feedback to the management and Board of Directors

The Company has built a structure to regularly report the contents of suggestions from our shareholders and investors to the director in charge, etc. and provide feedback to the management.

#### (5) Measures to manage insider information

As a structure to prevent insider trading in IR, the Company sets a quiet period in regard to our financial result information from the day following the final day of the fiscal year to the day of the announcement of financial results. The Company has also established the Internal Information Management Regulations and improved the information management structure.

## Basic Concept of Internal Control System and Its Development Status

### ■ Standards for Determining the Independence of the Independent Outside Directors and Their Qualification

There are three outside directors. In our view, the function and role to be played by an outside director in corporate governance is to monitor management decision-making from an outside, objective point of view in decisions pertaining to the execution of the Company's duties. Further, to ensure their independence, we recognize the importance of their having no vested interest in the Company.

The Company appoints the independent outside directors who have excellent character and insight and can provide appropriate advice and oversight to the Company's management while meeting the Tokyo Stock Exchange's standards for independence.

### ■ Status of Internal Audit and Audit Committee Audit

We have established an Audit Office within the Company as an internal auditing body, and it is positioned as an organization with a direct reporting line to the president. It conducts internal audits according to each year's internal audit schedule to monitor the effectiveness of the internal audit. The office consists of one office head and two staff, but if additional personnel are required based on internal audit rules, a support system that assigns personnel from other departments to the internal audit has been established with the approval of the Representative Director.

The Audit Committee consists of three members, of which two are outside directors. Regular meetings are held once a month. Each member is a law and corporate auditing professional who strictly and productively monitors the directors' execution of their duties from their individual perspectives.

### ■ Progress in Establishment of Risk Management System

Based on the risk management rules established by each company, the Group regularly convenes the Risk Management Committee to understand and manage individual risks and establish a system to prevent risks. In the event that a risk appears, executives and employees report it to the Risk Management Committee, which immediately responds.

The Audit Office, which reports directly to the president, periodically audits the status of risk management in each division, reviews the appropriateness of the risk assumed and the risk management method, and has adopted a system to regularly report to the Board of Directors

### ■ Basic Concept of Internal Control System

By dividing the business and management functions into predefined departments and rigorously complying with rules for business and authority, the Company ensures the separation of authority and internal control in its business operations. In an effort to build an internal control system, a resolution on instituting a basic policy for building an internal control system was passed at the Board of Directors meeting of May 26, 2006 (the policy was partially revised at the Board of Directors meeting of June 28, 2016). Based on the Companies Act, the Company's policies for the following 12 matters have been stipulated:

- (1) The structure concerning the storage and management of information on the directors' execution of their duties
- (2) Regulations and other structure concerning the management of Nihon Chouzai Group's risk of loss
- (3) The structure to ensure that the Group's directors' execution of their duties has been efficiently conducted
- (4) The structure to ensure that the Group directors' and employees' execution of their duties has conformed to the laws and regulations as well as the Articles of Incorporation
- (5) The structure to report matters concerning our subsidiary company directors' and others' execution of their duties to the Company
- (6) Matters concerning the directors and employees who should assist the Audit and Supervisory Committee's duties
- (7) Matters concerning the securing of independence of the directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are the Audit and Supervisory Committee members) as well as the securing of the effectiveness of the instructions given to the said directors and employees
- (8) The structure for the directors (excluding the directors who are the Audit and Supervisory Committee members) and employees to make a report to the Audit and Supervisory Committee and the structure for reports to the Audit and Supervisory Committee

(9) The structure for our subsidiary company directors, auditors, etc. and employees or those who received reports from these persons to make a report to the Company's Audit and Supervisory Committee

(10) The structure to ensure that those who made a report to the Audit and Supervisory Committee will not receive unfair treatment on the grounds of making the said report

(11) Matters concerning the procedures for making an advance payment or reimbursement of the cost generated in executing the Audit and Supervisory Committee members' duties (limited to the ones concerning the Audit and Supervisory Committee's execution of their duties) and the policy concerning other costs or debts generated in executing the said duties

(12) The structure to ensure that the Audit and Supervisory Committee's audit will be effectively conducted

### ■ Development and Operation Status of Internal Control System

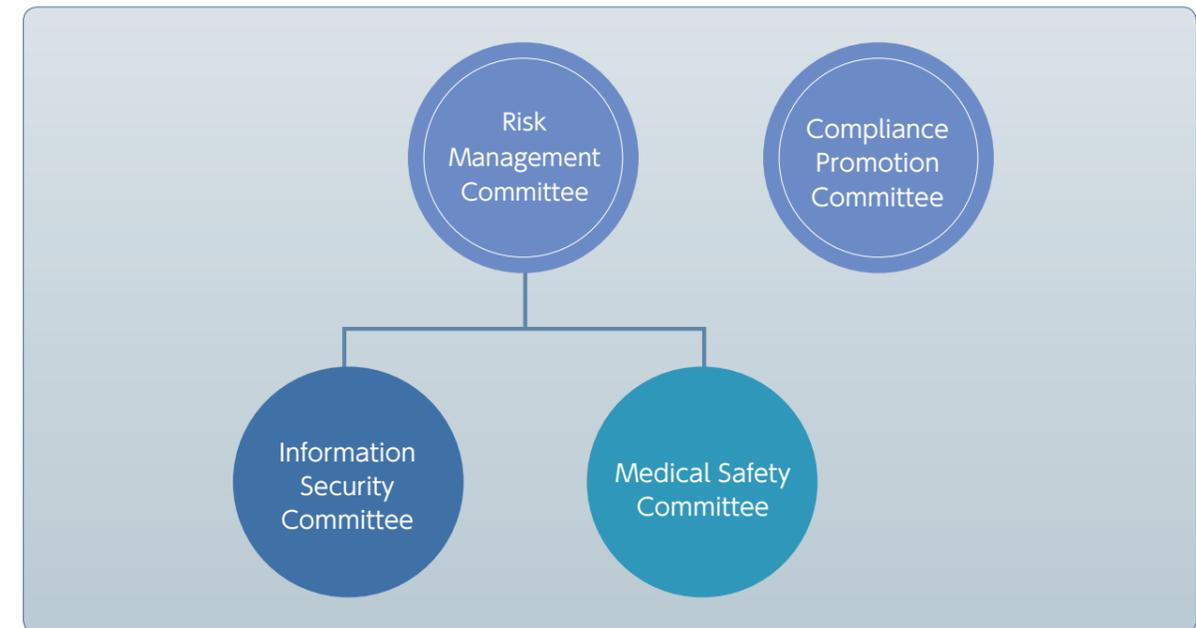
#### (1) Establishment of rules and their dissemination

To ensure that the Group operates properly, we have established rules, created manuals and cards, and are thoroughly disseminating them through circulation, instruction and training.

(2) Risk management and compliance promotion  
The Company convenes the Risk Management Committee (Information Security Committee and Medical Safety Committee) and the Compliance Promotion Committee once every three months and promotes various measures and shares information in each field. Each subsidiary also regularly convenes these committees.

Every month we circulate a Compliance Newsletter and Compliance Mail Magazine, and conduct a verification test through e-learning once a year.

## Organization Chart



# Board of Directors (As of June 28, 2018)



December 1979 Resigned Takeda Pharmaceutical Company Limited.  
 March 1980 President and Representative Director (to present)  
 January 1994 President and Representative Director of Miyagi Nihon Chouzai Co., Ltd. (Currently Medical Resources Co., Ltd.) (to present)  
 January 2005 President and Representative Director of Nihon Generic Co., Ltd. (to present)  
 January 2012 President and Representative Director of Japan Medical Research Institute Co., Ltd. (to present)  
 May 2013 Chairman and Representative Director of Choseido Pharmaceutical Co., Ltd. (to present)

President and Representative Director  
**Hiroshi Mitsuhashi**



September 1999 Joined the Company  
 April 2001 General Manager of Corporate Planning Department  
 January 2005 Director of Nihon Generic Co., Ltd.  
 April 2006 General Manager of Sales Promotion Department  
 October 2006 Director of Medical Resources Co., Ltd.  
 June 2007 Director, General Manager of Business Promotion Department  
 June 2010 Resigned the Director  
 June 2013 Director of Japan Medical Research Institute Co., Ltd. (to present)  
 June 2014 Director of the Company, Director of Nihon Generic Co., Ltd. (to present)  
 June 2015 Managing Director  
 June 2017 Senior Managing Director (to present)

Senior Managing Director  
**Yosuke Mitsuhashi**



May 2008 Joined the Company  
 April 2009 Manager of Finance Department  
 April 2015 General Manager of Finance Department  
 June 2015 Director of the Company, General Manager of Finance Department (to present)  
 Director of Medical Resource Co., Ltd. (to present)

Director  
**Kazunori Ogi**



January 2011 Joined the Company  
 General Manager of Sales Department for Public Institutions  
 October 2013 General Manager of General Affairs Department  
 June 2016 Director of the Company, General Manager of Administration Department and General Affairs Department (to present)

Director  
**Yoshihisa Fujimoto**



August 2002 Vice President and Representative Director of Japan Property Solutions Co., Ltd.  
 June 2008 President and Representative Director of M.U. Trust Sougou Kanri Co., Ltd.  
 June 2011 Chairman, M.U. Trust Sougou Kanri Co., Ltd.  
 June 2012 Managing Director, General Manager of Finance Department  
 June 2013 Managing Director (to present)  
 February 2014 Director of Choseido Pharmaceutical Co., Ltd. (to present)

Managing Director  
**Yoshiaki Kamada**



May 1994 Joined the Company  
 April 1995 Manager of Pharmaceutical Department, Kyushu Branch  
 June 2006 Branch Manager, Kyushu Branch  
 March 2008 General Manager of Pharmaceutical Headquarters  
 June 2008 Director of the Company, General Manager of Pharmaceutical Headquarters  
 April 2012 Director of the Company, Manager of Pharmaceutical Headquarters  
 June 2012 Resigned the Director  
 June 2012 Manager of Pharmaceutical Headquarters  
 June 2013 Director of the Company, General Manager of Contract Dispensing Service Department  
 June 2015 Managing Director, General Manager of Contract Dispensing Service Department (to present)

Managing Director  
**Katsuhiko Fukui**



April 1977 Joined The Daiei, Inc.  
 April 1994 General Manager of Corporate Planning Department of The Daiei, Inc.  
 September 1998 Executive Vice President of RE PARTNERS  
 December 1999 Director of OZ-corporation (Representative) (to present)  
 March 2000 Executive Officer of Office RECOF Co., Ltd. (Currently RECOF Corporation)  
 June 2007 Director and Senior Executive Officer of RECOF Corporation  
 June 2010 President and CEO of RECOF Corporation  
 October 2016 Chairman of the Board of RECOF Corporation  
 December 2016 Director of M&A Capital Partners Co., Ltd.  
 March 2018 Outside Director of Tokyo Tatemono Co., Ltd. (to present)  
 June 2018 Director of the Company (to present)

Outside Director  
**Yoshimitsu Onji**



September 1987 Joined the Company  
 June 2000 Director of the Company  
 June 2006 Branch Manager, Nagoya Branch  
 December 2009 Branch Manager, Yokohama Branch  
 February 2016 General Manager of Operational Audits Department at Nihon Chouzai Co., Ltd.  
 June 2018 Director of the Company (Audit Committee member) (to present)  
 Auditor of Nihon Generic Co., Ltd. (to present)  
 Auditor of Medical Resources Co., Ltd. (to present)  
 Auditor of Japan Medical Research Institute Co., Ltd. (to present)  
 Auditor of Choseido Pharmaceutical Co., Ltd. (to present)

Director, Audit Committee member  
**Nobuyuki Hatakeyama**



April 2013 Joined the Company  
 Manager of Sales Management Department  
 October 2013 General Manager of Sales Promotion Department  
 June 2015 Director of the Company, General Manager of Sales Promotion Department  
 April 2016 Director of the Company, General Manager of Sales Management Department  
 June 2016 Managing Director, General Manager of Sales Management Department (to present)

Managing Director  
**Naoto Kasai**



January 1992 Joined the Company  
 January 2004 Manager of Sales Department, Osaka Branch  
 April 2004 Branch Manager, Manager of Sales Department, Osaka Branch  
 April 2007 General Manager of Sales Management Department  
 June 2007 Director of the Company, General Manager of Sales Management Department  
 April 2016 Director of the Company, General Manager of Sales Promotion Department (to present)

Director  
**Noriaki Miyata**



April 1977 Public Prosecutor  
 April 1985 Registration of Attorneys (to present)  
 April 1990 Opened Usugane and Arizumi Law Firm  
 July 2001 Auditor of the Company  
 October 2013 Opened Usugane Law Firm (to present)  
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director, Audit Committee member  
**Kotaro Usugane**



July 2006 Resigned Tokyo Regional Taxation Bureau  
 August 2006 Registration of certified public accountant and licensed tax accountant (to present)  
 Partner of Japan Tax Management Institute, GPC (to present)  
 June 2014 Auditor of the Company  
 June 2015 Auditor of Sodick Co., Ltd. (to present)  
 June 2016 Director of the Company (Audit Committee member) (to present)

Outside Director, Audit Committee member  
**Takashi Nagashima**



June 2009 Joined the Company  
 General Manager of Administration Department  
 December 2009 General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities  
 June 2011 Director of the Company, General Manager of Sales Promotion Department for Health Insurance Societies and Elderly Person Facilities  
 June 2017 Director of the Company, General Manager of Health Promotion Department (to present)

Director  
**Shigeo Suzuki**



July 1990 Joined the Company  
 April 2000 Manager of Pharmaceutical Department, Tohoku Branch  
 December 2004 General Manager of East Japan Pharmaceutical headquarters  
 December 2009 General Manager of Purchasing Department, Pharmaceutical Headquarters  
 April 2012 General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters  
 June 2012 Director of the Company, General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters  
 January 2014 Director of the Company, General Manager of Pharmaceutical Headquarters (to present)

Director  
**Toshiyuki Koyanagi**

## Corporate Governance of Nihon Chouzai as Seen from an Outside Director (Audit Committee member)



Outside Director,  
Independent Officer,  
Audit Committee  
member

Kotaro Usugane

Outside Director,  
Independent Officer,  
Audit Committee member

Takashi Nagashima

### ■ Corporate Governance Structure

At the Ordinary General Meeting of Shareholders held on June 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. Audit and supervisory work will be performed by the Audit and Supervisory Committee, which consists of directors, who are Audit and Supervisory Committee members. As a result, directors who are Audit and Supervisory Committee members are responsible for oversight of the director's execution of their duties, and therefore, directors who are Audit and Supervisory Committee members have a heavier responsibility.

Although agreement of a majority of Audit Committee members is required to become an outside director, a distinctive characteristic of Nihon Chouzai is that an attorney from the public prosecutor's office and a tax accountant licensed as a certified public accountant from the National Tax Agency are appointed. Attorney Kotaro Usugane oversees the suitability of work from a compliance (legal compliance) perspective, while tax accountant Takashi Nagashima does the same from an accounting perspective.

Audit and Supervisory Committee members not only attend the regular monthly Board of Directors meeting of the corporate head office, but also the Board of Directors meetings of subsidiaries to watch over the meetings' discussions. By listening to corporate head office executives and key subsidiary officers talk about the current state of the Company, problems and other issues, they share information on these and other issues. They also collaborate with the head of the corporate Audit Office, who accompanies the corporate auditor on visits to branches and pharmacies and assists with the duties of the Audit and Supervisory Committee, and they work on auditing and oversight.

I hope to contribute to the development of Nihon Chouzai, which seeks to achieve a true separation of drug prescribing and dispensing services, by devoting myself to the mission of an outside director from the standpoint of an attorney.

(Kotaro Usugane: Outside Director, Independent Officer, Audit Committee member)

### ■ Initiatives to Strengthen Corporate Governance

Nihon Chouzai's goal is to contribute to society through the dispensing pharmacy business and further, to maintain and expand Japan's world-class social insurance system.

The Company's basic philosophy is to have all executives and employees rigorously comply with laws and regulations. Accordingly, the Company's stakeholders need to view compliance from a broader perspective. Therefore, Nihon Chouzai switched to a company with an audit and supervisory committee in 2016 and strengthened audits as a condition for exercising the right to vote in the Board of Directors meetings.

It is also important to ensure the effectiveness of the Board of Directors, including the establishment of rules on the execution of duties. This is also linked to creating an internal control system, and we can further strengthen corporate governance by reinforcing both concurrently.

(Takashi Nagashima: Outside Director, Independent Officer, Audit Committee member)

### ■ Specific Roles and Activities of Audit Committee Members

The most important purpose of the job of the former Board of Corporate Auditors was to oversee the legality of the directors' execution of their duties. After changing to an Audit and Supervisory Committee system, the validity of the directors' execution of their duties also became subject to oversight, and the scope of those activities has expanded.

Unlike before, it has now become possible to respond with an opinion that is backed by the organization based on a resolution of the Audit and Supervisory Committee, and not as the opinion of an individual auditor. Therefore, we listen to specific information given to us directly by individual directors and constantly verify if there have been problems concerning the verification of the legality of the directors' execution of their duties, which was the core job of the former corporate auditor, and concerning the details of work that focuses on each director and business, as well as legal problems currently arising in the execution of those duties.

We exchange opinions about the actual business problems of each pharmacy while keeping the head of internal audits informed, and we alert them through full-time Audit Committee members about the problems that were noticed from occasional visits to each pharmacy and subsidiary and observation of the specific environment and the work performed there.

(Takashi Nagashima: Outside Director, Independent Officer, Audit Committee member)

# 4

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## Data section

# Main Medical Service Fee Revisions

(Reference) Changes in Main Technical Fees Associated with Revision of Medical Service Fees in FY2018



		FY2016 medical service fees	FY2018 medical service fees
Ordinary	Basic dispensing fee 1	41 points ● Even at basic dispensing fee 2 or, at pharmacies below where family pharmacist guidance fees were assessed 100 times or more per month, and more than half of pharmacists submitted notifications on family pharmacist guidance fees	41 points ● Abolishment of special treatment regarding family pharmacist guidance fees
	Basic dispensing fee 2	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 90% ● Fill over 4,000 prescriptions per month from one medical institution	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 85% ● Fill over 4,000 prescriptions per month from one medical institution (if it is a pharmacy in a medical mall, add the number of prescriptions from within the mall) ● When the medical institutions that have the highest dispensing ratio with the same group of pharmacies are the same, the total number of prescriptions of those pharmacies exceeds 4,000 per month
Special case	Basic dispensing fee 3	20 points ● Pharmacies with a concentration ratio exceeding 95% in a group with more than 40,000 prescriptions per month	20 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 40,000 prescriptions per month
	Special basic dispensing fee	—	15 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 400,000 prescriptions per month
	Basic dispensing fee 4	31 points ● Falls under the category of basic dispensing fee 1, and percentage of concluded negotiations is 50% or less	10 points ● Has hospital and real estate transactions, and those hospitals have a concentration ratio exceeding 95% (so-called dispensing pharmacies in hospitals)
	Basic dispensing fee 5	19 points ● Falls under the category of basic dispensing fee 2, and percentage of concluded negotiations is 50% or less	Abolished
	Special basic dispensing fee	15 points ● Falls under the category of basic dispensing fee 3, and percentage of concluded negotiations is 50% or less	Abolished
Subtraction	50/100 subtraction	● Insurance pharmacies that are not engaged in the basic functions of family pharmacists shall set the basic dispensing fee to 50/100 (excluding insurance pharmacies that fill less than 600 prescriptions per month)	● Insurance pharmacies with low acceptance rates or no reports on acceptance shall set the basic dispensing fee to 50/100.
		Basic dispensing fee 1    41 points → 21 points Basic dispensing fee 2    25 points → 13 points Basic dispensing fee 3    20 points → 10 points Basic dispensing fee 4    31 points → 16 points Basic dispensing fee 5    19 points → 10 points Special basic dispensing fee    15 points → 8 points	Basic dispensing fee 1    41 points → 21 points Basic dispensing fee 2    25 points → 13 points Basic dispensing fee 3-a    20 points → 10 points Basic dispensing fee 3-b    15 points → 8 points Special basic dispensing fee    10 points → 5 points

(Reference) Main technical fees associated with revision of medical service fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
The generic pharmaceuticals dispensing system incentives	—	26 points 85% or more
	22 points 75% or more	22 points 80% or more
	18 points 65% or more	18 points 75% or more
Subtraction rule for basic dispensing fee	—	— 2 points ● The prescription ratio of generic pharmaceuticals is 20% or less, and the number of prescriptions exceeds 600
Standard prescription incentives	32 points ● Basic dispensing fee 1 only ● Pharmacies open 45 hours or more per week including Saturdays and Sundays ● 1,200 items stockpiled ● Management pharmacist employed at least 5 years in the same pharmacy and working 32 hours a week in the same pharmacy and employed at least one year in current pharmacy ● Results of at-home medical care for past one year ● 24-hour dispensing and at-home work system ● Notification on family pharmacist guidance fees	Abolished
Community support system incentives	—	35 points ● Basic dispensing fee 1 Same as the requirements for old standard prescription incentives  ● Other than basic dispensing fee 1 Add all of the following results to the requirements for each full-time pharmacist for one year (1)Results of nighttime/holiday response: 400 times (2)Results of drug guidance control incentives: 10 times (3)Results of incentive for preventing harmful drug interactions and duplicate prescriptions: 40 times (4)Results of family pharmacist guidance fees: 40 times (5)Results of outpatient medication support fees: 12 times (6)Results of medication adjustment support fees: 1 time (7)Results of at-home drug management of one patient in single building: 12 times (8)Results of the medication information and other information provided: 60 times

(Reference) Main Technical Fees Associated with Revision of Medical Service Fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
Drug history management and instruction fee	38 points ● Basic dispensing fee 1 pharmacy ● Visits pharmacy within 6 months ● Record requirements in medication notebook  50 points Other than the above	41 points ● Basic dispensing fee 1 ● Visit pharmacy within 6 months ● Record requirements in medication notebook  53 points Other than the above
Special cases of drug history management and instruction fee	—	13 points Pharmacies with less than 50% of patients bringing notebook within six months
Family pharmacist guidance fees	70 points ● Must be a certified pharmacist ● Must have been employed as a pharmacist for at least three years ● Must have worked for at least 32 hours per week ● Must have been employed by the current pharmacy for at least six months	73 points ● Must be a certified pharmacist ● Must have been employed as a pharmacist for at least three years ● Work for at least 32 hours per week Pharmacists who need shortened working hours due to child care and nursing care, work for 24 hours or more per week and four days or more per week ● Must have been employed by the current pharmacy for at least one year

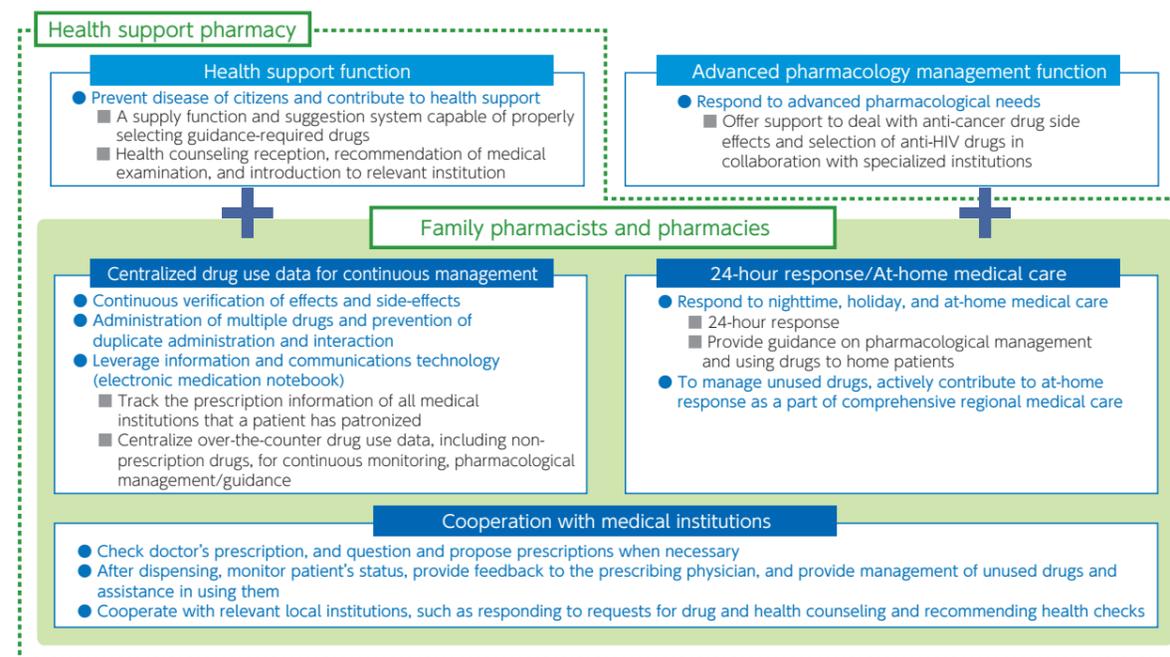
Calculate either drug history management and instruction fee or personal care pharmacist guidance fee

	FY2016 medical service fees	FY2018 medical service fees
Incentive for preventing harmful drug interactions and duplicate prescriptions	30 points ● Calculated only when prescription inquiries are made to doctors and the prescription is changed	40 points ● Changes due to factors other than unused drug reconciliation 30 points ● Changes due to unused drug reconciliation
Outpatient medication support fee	185 points Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others.	185 points Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others.  A prescription score can be calculated even when medication management, such as arrangement of the medication is brought in at the request of the patient, family or insurance doctor, and the result is provided to the insurance doctor.
Medication adjustment support fee	—	125 points ● When six or more types of internal medicine decrease by two or more types
Drug use data provision fee	20 points ● Based on the request of the patient, family, medical institution, or information provided in writing as judged necessary by the pharmacist	30 points ● Based on the medical institution's request or patient's consent 20 points ● Based on the patient's or family's request and consent
Incentive for drug administration guidance for infants	10 points ● Add when dispensing for infants below the age of six and the necessary guidance for taking the medicine and the guidance content are recorded in the medication notebook	12 points Content unchanged
Dispensing fee	5 points per day ● If 1st day or after and 7th day or before	Content unchanged
	4 points per day ● If 8th day or after and 14th day or before	Content unchanged
	70 points ● If 15th day or after and 21st day or before	67 points ● If 15th day or after and 21st day or before
	80 points ● If 22nd day or after and 30th day or before	78 points ● If 22nd day or after and 30th day or before
	87 points ● If 30 days or more	86 points ● If 30 days or more

A Vision of Pharmacies for Patients

The Ministry of Health, Labour and Welfare announced a "A Vision of Pharmacies for Patients" in October 2015. The announced vision is a guideline for fulfilling functions such as pharmacology management and guidance, which includes providing information about drugs and constantly acquiring new information about drugs and dealing with

at-home medical care. The guideline also attempts to achieve the separation of the roles of drug prescribing and dispensing for patients who live locally. The guideline also shows the direction that dispensing pharmacies should take and the functions required.



Family Pharmacist

The system of having the same pharmacist in charge as a "family pharmacist" by appointing the pharmacist to the patient began in April 2016. By appointing only one desired pharmacist from among pharmacists who have cleared certain nationally established requirements and signing a consent form, that pharmacist gives instructions about medicines, provides counseling and other services as the attending pharmacist next time.

(1) Pharmacist understands drugs collectively

The attending pharmacist collectively understands the patient's drugs, over-the-counter drugs, health foods or supplements received at another medical institution or drug store. The pharmacist provides advice, such as precautions when taking drugs, including whether duplicate drugs are being taken and the interactions that drugs have with each other or with food.

(2) Verification of change in physical condition and management of medicines

During the pharmacy visit, the pharmacist continuously checks the patient's progress after taking medication, including their past medication record. The pharmacist observes the medication's effect on the patient and changes in physical condition and contacts a medical institution, if necessary. If there is much medicine left over, the pharmacist proposes that the prescription be adjusted next time and organizes the medicines.

(3) Nighttime/holiday response and counseling

As a pharmacist who understands the patient's medication status, the pharmacist responds to requests for medication and health maintenance counseling. The pharmacist provides medication counseling, even when the patient's pharmacy is closed, such as at nighttime or on holidays.

Criteria

1. Possess at least three-years' experience as an insurance pharmacist

2. Works at least 32-hours per week in said insurance pharmacy
3. Has a tenure of at least one year in said insurance pharmacy
4. Received training certification from a training certification system that is approved by the Council on Pharmacists' Credentials

Family Pharmacist and Pharmacy

In A Vision of Pharmacies for Patients, the three functions required of family pharmacist and pharmacies are explained, but there are no facility standards, and notification is not required. The Ministry of Health, Labour and Welfare is studying KPIs for the quantitative evaluation of family pharmacists and family pharmacies, and clear indicators are expected to be announced later. The same ministry is seeking to restructure all pharmacies into family pharmacies by 2025.

Health Support Pharmacies

These are pharmacies that possess the basic functions of family pharmacists and family pharmacies and proactively support the independent maintenance and promotion of health by local residents. Healthcare centers must be notified in advance. The Ministry of Health, Labour and Welfare's goal is to register 10,000 to 15,000 health support pharmacies by 2025.

Criteria

1. Cooperation with other occupational disciplines such as medical institutions and nursing care providers within the comprehensive regional medical care system
2. A resident pharmacist who has completed health support pharmacy training and has five or more years of practical experience
3. An inquiry counter that takes account of personal information
4. Display "Health Support Pharmacy" outside and inside the pharmacy
5. Handle guidance-required drugs, nursing care products, etc.

Source: A Vision of Pharmacies for Patients" by the Ministry of Health, Labour and Welfare

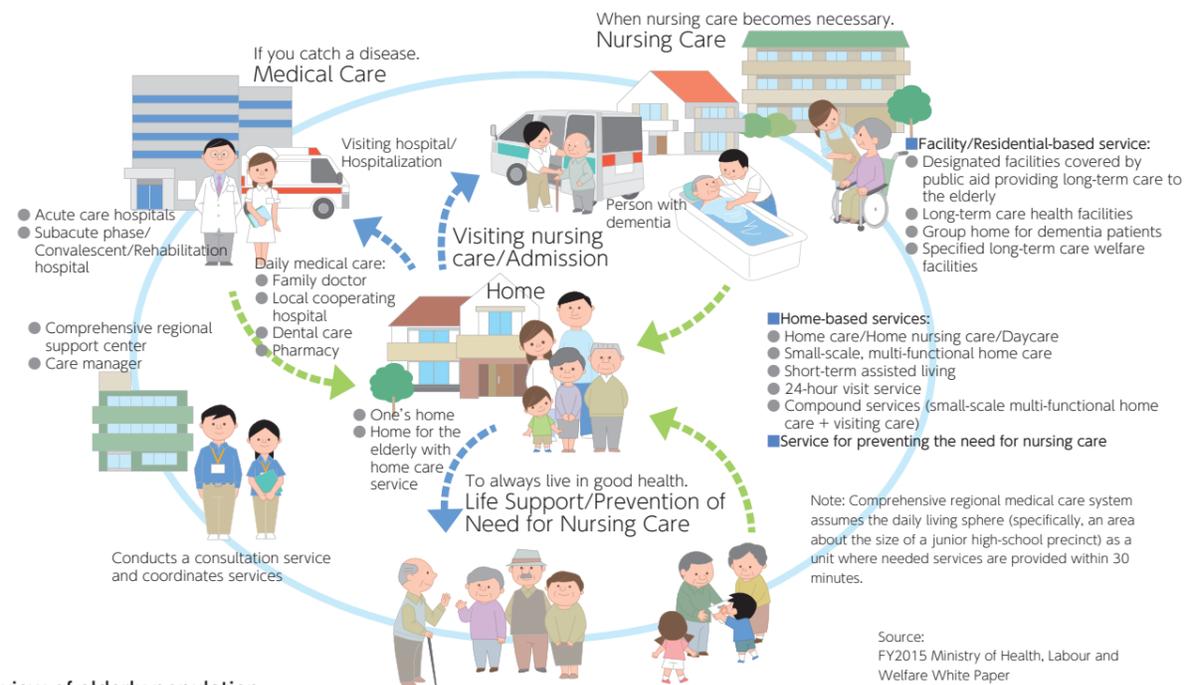
## Integrated Community Care System

The government is providing services such as shelter, medical care, nursing care, disease prevention, and life support with the aim of building an integrated community care system that will allow the elderly to continue living until the end of their lives in familiar surroundings, even if there becomes a serious need for nursing care.

A system that provides at-home medical and nursing care through the integrated cooperation of various occupational disciplines is needed in the medical nursing care field. Within

such a system, the importance of the role played by pharmacies and pharmacists is growing. The segment of the population that is 65 years or older has now exceeded 30 million (about one-in-four citizens) and will reach a peak of about 39 million in 2042. Under these circumstances, from 2025, the year that the baby-boom generation (about 8 million) turns more than 75 years old, further growth in demand from citizens for medical and nursing care is expected.

### Image of Integrated Community Care System



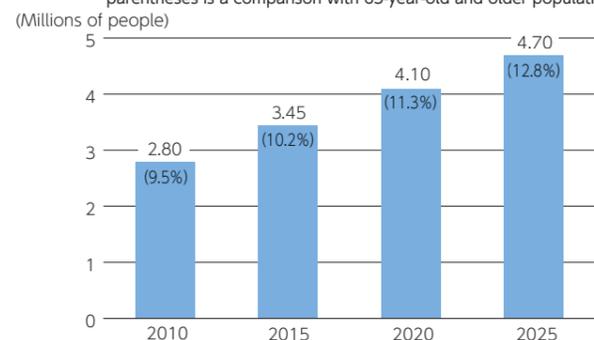
## Review of elderly population

**1** The number of elderly people of 65 years and older is projected to reach 36.57 million in 2025, and a peak of 38.78 million in 2042. Elderly people 75 years and older as a percentage of the total population are increasing and are expected to exceed 25% in 2055.

	Aug. 2012	2015	2025	2055
Elderly population 65 years and older (percentage)	30.58 million (24.0%)	33.95 million (26.8%)	36.57 million (30.3%)	36.26 million (39.4%)
Elderly population 75 years and older (percentage)	15.11 million (11.8%)	16.46 million (13.0%)	21.79 million (18.1%)	24.01 million (26.1%)

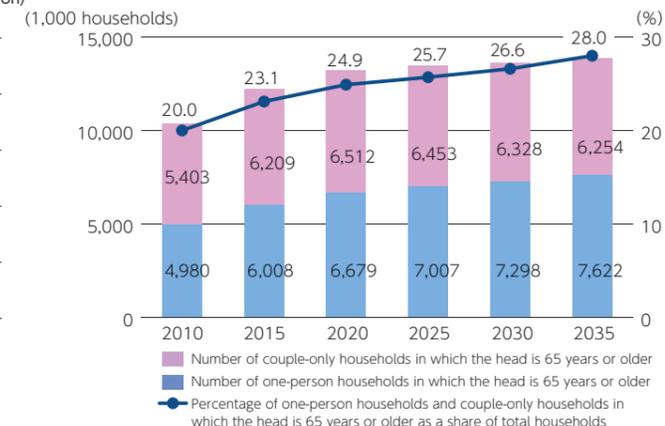
**2** Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

Estimate of the number of elderly people with a "degree of autonomy in daily life for elderly with dementia" of category II or above (figure in parentheses is a comparison with 65-year-old and older population)



**3** Households in which the head of one-person households and couple-only householders is 65 years or older are increasing.

Estimate of the number of one-person only and couple-only households in which the head is 65 years or older



Source: Review of future elderly population by the Ministry of Health, Labour and Welfare

## Separation of Drug Prescribing and Dispensing

This is a system whereby physicians examine patients and prescribe drugs, and based on the prescriptions made by physicians, pharmacists, who are independent entities from a management perspective, dispense drugs, manage medication histories, and provide guidance in using drugs, thus demonstrating their expertise in these areas. In this way, the system strives to raise the quality of medical care.

## Generic Drugs

A drug which, after the expiration of the term of a patent (substance patent) for the drug's active ingredients, is manufactured and supplied by other pharmaceutical companies with the same active ingredients. Legally, this is referred to as a "generic drug."

## Medical Service Fee

In Japan, fees paid in exchange for healthcare services provided by health insurance are specified for medical and dental treatment and drug dispensing by the Ministry of Health, Labour and Welfare with a medical service fee point table. In addition, the price of drugs is determined by the NHI Drug Price Standard. The standard, and the price is reviewed once every two years.

## Prescription dispensing fees

The portion of medical service fees that is utilized for prescription dispensing services. It is revised once every two years.

## Drug Prices

With respect to the price of drugs used in healthcare services provided by health insurance, an official price has been established as the "drug price standard." A Drug Price Standard List is issued four times a year for new drugs and two times a year for generic drugs so that it can be used in healthcare services provided by health insurance. The list is revised once every two years based on a survey (drug price survey) of market distribution prices for medical institutions and pharmacies.

## Basic Dispensing Fee

A fee that is paid one time per prescription when the pharmacist performs "drug dispensing at the pharmacy." The number of points varies depending on whether that pharmacy fulfills the role of a family pharmacy or chain-managed pharmacy or focuses on responding to demand for prescriptions made by specific medical institutions.

## Premium for Generic Drug Dispensing System

This is a fee added to the basic prescription fee for pharmacies that actively dispense generic drugs. Each time there is a revision, the calculation standard becomes stricter so as to make it difficult to obtain the premium if the pharmacy does not more actively convert to generic drugs.

## Community support system incentives

Newly established to coincide with the April 2018 revision of medical service fees for the purpose of assessing the record of community services (e.g. nighttime and holiday services) provided by pharmacies where family pharmacists contribute to medical care in their local communities within integrated community care system.

## At-Home Medical Care

Medical treatment carried out in cooperation with various occupational disciplines, such as physicians and nurses. Pharmacists visit the homes of patients who find it difficult to visit a hospital or clinic due to a physical disability or other reason, and give instructions about medicines and monitor and manage the patient to ensure they take the medicine.

## Hospital-front Pharmacies

A dispensing pharmacy located near a hospital that responds primarily to that hospital's prescription demand. However, an official definition does not exist. Some also function as family pharmacists and pharmacies that respond to prescription demand from many medical institutions, participate in at-home medical treatment, and provide other services.

## MC Pharmacy

A pharmacy that moves into a medical mall where a number of medical institutions are located and responds to the prescription demand of those medical institutions.

## Mentaio Pharmacy

A pharmacy that was opened in front of a train station or in a shopping district and responds to prescription demand from a relatively wide area, without being limited to prescriptions from specific medical institutions.

## Hybrid-type pharmacies

Pharmacies that combine the functions of *Mentaio* pharmacies, which have a high growth potential because increased familiarity among the public leads to higher profits, and MC pharmacies, which have a high degree of stability as a result of their reliable profit base.

## Okusuri Techo (Medication Notebook)

A notebook for centrally managing the information and records of prescribed medicines and for avoiding duplication and side effects caused by taking multiple medications. It assists in the proper use of medicine by listing past side effects and allergy symptoms.

## Electronic Okusuri Techo (Electronic Medication Notebook)

The electronic version of *Okusuri Techo*. It can record information on a smartphone or other electronic device. Although a number of companies have rolled out their own products, the products of companies that participate in the Japan Pharmaceutical Association's mutual browsing service can perform information browsing, including even other companies' electronic medication notebooks.

## Health Check Station\*

Exclusive areas set up within *Nihon Chouzai* pharmacies that are equipped with health consultation and health assessment capabilities in order to support the health of local community residents through disease prevention and pre-symptomatic initiatives.

## GMP

Abbreviation of Good Manufacturing Practice. This is a manufacturing quality management standard established by the United States' Food and Drug Administration based on the Federal Food, Drug, and Cosmetic Act of 1938. Every country has established similar standards. In Japan, this is called the Good Quality Practice for pharmaceutical products established by the Ministry of Health, Labour and Welfare based on the Pharmaceutical and Medical Device Act.

## Dispatching Act

The official name is the "Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers." This is a law with established rules that temporary staffing companies and companies that hire temporary staff must observe in order to protect the rights of dispatched workers. The law has been improved by, for example, establishing the period of time that a worker can be dispatched to the same office of a company that hires temporary staff.

\*The Health Check Station is a registered trademark of Nihon Chouzai Co., Ltd.

# 10-Year Summary of Financial and Non-financial Data

(Millions of yen)

Consolidated performance indicators	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	2FY2015	FY2016	FY2017
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made	✓		✓		✓		✓		✓	
<b>Business results (for the year)</b>										
Net sales	85,891	98,260	112,128	130,041	139,466	165,347	181,844	219,239	223,468	<b>241,274</b>
Gross profit	13,702	16,283	19,182	22,038	21,494	25,623	31,929	39,068	39,258	<b>43,837</b>
Selling, general and administrative expenses	11,483	12,733	14,398	16,574	18,248	20,878	25,281	28,578	30,738	<b>33,250</b>
Operating profit	2,218	3,549	4,784	5,464	3,245	4,744	6,647	10,489	8,519	<b>10,587</b>
EBITDA <sup>1</sup>	4,307	5,719	7,118	8,492	6,837	8,570	10,278	14,951	13,260	<b>15,801</b>
Ordinary profit	1,802	3,098	4,358	4,941	2,855	4,188	6,003	9,878	7,976	<b>10,138</b>
Profit attributable to owners of parent	420	1,404	1,821	2,085	184	1,901	2,778	6,329	4,638	<b>6,104</b>
<b>Cash flows (fiscal year)</b>										
Cash flows from operating activities	852	3,833	6,723	7,127	2,885	6,243	5,831	19,327	(940)	<b>23,141</b>
Cash flows from investing activities	(10,124)	(5,338)	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)	(28,444)	<b>(13,843)</b>
Cash flows from financing activities	9,233	3,434	1,109	7,920	5,496	8,782	1,422	7,031	18,205	<b>(2,034)</b>
<b>Financial position (at year-end)</b>										
Total assets	57,077	64,678	72,701	86,615	95,140	117,295	130,141	157,609	178,347	<b>186,573</b>
Net assets	10,725	11,405	12,780	14,716	14,702	15,849	17,635	32,473	36,447	<b>41,506</b>
Cash and cash equivalents	5,706	7,636	7,200	12,554	14,513	15,027	13,844	32,380	21,200	<b>28,464</b>
Merchandise and finished goods	5,150	5,231	8,595	8,419	11,908	12,165	15,911	15,328	21,455	<b>20,873</b>
Interest-bearing debts <sup>2</sup>	27,981	32,190	33,891	42,279	48,281	62,037	68,327	66,794	86,524	<b>87,611</b>
<b>Per share information</b>										
Net assets per share <sup>3</sup> (yen)	732.93	796.64	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22	2,278.70	<b>2,595.00</b>
Net income per share <sup>3</sup> (yen)	28.48	96.13	127.57	145.46	12.84	131.24	194.48	432.85	290.03	<b>381.69</b>
<b>Financial and non-financial data</b>										
Sales growth rate (%)	7.6%	14.4%	14.1%	16.0%	7.2%	18.6%	10.0%	20.6%	1.9%	<b>8.0%</b>
Selling, general and administrative expenses ratio (%)	13.4%	13.0%	12.8%	12.7%	13.1%	12.6%	13.9%	13.0%	13.8%	<b>13.8%</b>
Operating margin (%)	2.6%	3.6%	4.3%	4.2%	2.3%	2.9%	3.7%	4.8%	3.8%	<b>4.4%</b>
ROA <sup>4</sup> (%)	0.8%	2.3%	2.7%	2.6%	0.2%	1.8%	2.2%	4.4%	2.8%	<b>3.3%</b>
ROE <sup>5</sup> (%)	3.6%	12.7%	15.1%	15.2%	1.3%	12.0%	16.6%	25.3%	13.5%	<b>15.7%</b>
Equity ratio <sup>6</sup> (%)	18.8%	17.6%	17.6%	17.0%	15.5%	13.5%	13.6%	20.6%	20.4%	<b>22.2%</b>
Interest coverage ratio <sup>7</sup> (times)	2.5	7.8	12.8	13.0	4.9	8.6	7.1	24.4	—	<b>37.1</b>
D/E ratio <sup>8</sup> (times)	2.6	2.8	2.7	2.9	3.3	3.9	3.8	2.1	2.4	<b>2.1</b>
Capital investments	10,283	5,885	7,885	8,961	5,566	9,069	12,279	8,073	23,344	<b>15,316</b>
Depreciation	2,088	2,169	2,333	3,028	3,591	3,825	3,631	4,461	4,741	<b>5,214</b>
R&D expenses	583	807	985	1,224	1,023	1,534	1,767	1,913	2,388	<b>2,784</b>
Number of employees <sup>9</sup>	1,675	1,881	2,112	2,304	2,488	3,009	3,283	3,435	3,781	<b>4,075</b>

\* Figures shown have been rounded down. However, percentages shown have been rounded to the nearest first decimal place.

Notes: 1. EBITDA = operating income + depreciation

2. Interest-bearing debt = loans + lease obligations + installment account payable + bonds

3. Nihon Chouzai conducted a 2-for-1 stock split on October 1, 2015.

Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of fiscal 2008.

4. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year

5. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year

6. Equity ratio = shareholders' equity ÷ total assets

7. Interest coverage ratio = operating cash flow ÷ interest payments. This figure is not presented when operating cash flow is in negative territory.

8. D/E ratio = interest-bearing debt ÷ net assets

9. Number of employees indicates the number of full-time employees, but does not include temporary employees such as associate, contract, fixed-term, and part-time employees.

# Report of Business Results and Financial Analysis

The Nihon Chouzai Group's consolidated financial results in the fiscal year ended March 2018 were entirely driven by the Dispensing Pharmacy Business, its core business, in a year where there were no drug price or dispensing fee revisions. As a result, sales and profits increased sharply, resulting in record-high operating profit and ordinary income. The move toward industry reorganization is steadily moving forward in the Dispensing Pharmacy Business and generic drug industry. Nihon Chouzai will further strengthen collaboration among business segments to overcome major changes in the business environment and solidify its position to win a place in the reorganization.

## Status of Sales and Profits

### Net Sales

Net sales totaled 241,274 million yen (up by 8.0%, or 17,806 million yen year on year). Although the numbers were somewhat unsatisfactory in a year that was free of revisions, excluding the hepatitis C drug, the Company secured a double-digit growth of 10.3% year on year.

External sales of the pharmaceutical manufacturing and sales business remained low, with a 2.1% increase year on year, but sales in the Dispensing Pharmacy Business and the Medical Professional Staffing and Placement Business made up for the shortfall. In the Dispensing Pharmacy Business, the increase in new pharmacies due to aggressive openings including those opened through mergers and acquisitions, the contribution to sales made by stores opened the previous year, and the rise of drug unit prices in the following revision year were the main factors behind the sales increase. In the Medical Professional Staffing and Placement Business, the market environment with its continuing pharmacist shortage and the development of the business of introducing doctors to medical institutions as a new business field were the main reasons for the sales increase.

### Cost of Sales, Selling, and General Administrative Expenses

Sales costs totaled 197,437 million yen (up by 7.2%, or 13,226 million yen). In the Dispensing Pharmacy Business, the gross profit margin rose from 17.6% in the previous fiscal year, to 18.2% in the fiscal year under review, a 0.6% improvement, owing to a hike in the technical fee unit price due to increased efforts by family pharmacists and pharmacies and a rise in the number of prescriptions, mainly at existing pharmacies. Selling, general and administrative expenses rose by 8.2% year on year, slightly exceeding the revenue growth rate, to 33,250 million yen (up 2,511 million yen). This was mainly due to an increase in depreciation following the expansion of production capacity, and higher R&D expenses to boost the in-house manufacturing of products in the pharmaceutical manufacturing and sales business.

### Operating profit

Operating profit totaled 10,587 million yen (up by 24.3%, or 2,067 million yen) and the operating margin was 4.4% (up by 0.6 point). The Company posted a record-high operating profit of 10,587 million yen. In the Pharmaceutical Manufacturing and Sales Business and the Medical Professional Staffing and Placement Business, the operating margin declined slightly year on year due to an increase in expenses for the expansion these businesses. However, the operating

margin in the Dispensing Pharmacy Business increased 1% year on year, a factor behind the significant improvement.

### Profit Attributable to Owners of Parent Company

Profit attributable to owners of the parent company totaled 6,104 million yen (up by 31.6%, or 1,465 million yen). Return on equity (ROE) improved a substantial 2.2% year on year, from 13.5% in the previous fiscal year, to 15.7% in the fiscal year under review.

## Status of Each Business Segment

### Dispensing Pharmacy Business

Net sales of this business totaled 205,192 million yen (up by 8.4%, or 15,865 million yen), while operating profit was 12,411 million yen (up by 29.8%, or 2,851 million yen), a substantial increase in sales and profits.

Compared with the previous fiscal year, both the drug unit price and technical fee unit price in this business exceeded that of the plan and are proceeding favorably. The gross profit margin improved from 15.2% to 16.0%. Notable contributing factors were the focus on medical care service quality, such as the increased efforts of family pharmacists and family pharmacies, and the steady 6.1% year-on-year rise in the number of prescriptions including at existing pharmacies.

On the other hand, as a result of controlling selling, and general administrative expenses to the same level as in the previous fiscal year, a record high operating profit was achieved in this business segment. The operating margin improved 1.0% year on year, from 5.0% to 6.0%.

### Pharmaceutical Manufacturing and Sales Business

Net sales were 38,066 million yen (up by 3.4%, or 1,244 million yen), while operating profit was 1,194 million yen (down by 30.5%, or 524 million yen).

Net sales increased year on year thanks to higher internal sales accompanying the expansion of the Dispensing Pharmacy Business and higher external sales associated with the expansion of the generic drug market. However, the Company failed to reach its initial target, especially for external sales, falling 8.3% below the target.

Turning to profits, the Company steadily pursued its sales strategy, which emphasized profitability. However, profits declined year on year, as the Company could not compensate for the increased expenses due to capital expenditures to boost R&D activities in order to increase the number of its own manufactured products and thereby enhance its earning capacity, and to raise production capacity.

### Medical Professional Staffing and Placement Business

Sales and profits remained high, with sales of 11,970 million yen (up by 14.0%, or 1,470 million yen) and operating profit of 1,842 million yen (up 7.7%, or 131 million yen). As background information, there is a shortage of pharmacists at dispensing pharmacies that seek to realize "A Vision of Pharmacies for Patients" (October 2015, Ministry of Health, Labour and Welfare).

Turning to profits, while salaries of pharmacists in areas where it is difficult to recruit them continue to rise and was a factor that pushed gross profit down, the gross profit margin declined only 0.4% year on year thanks to growth in the placement business (pharmacists, doctors, etc.)

Turning to costs, the selling, general and administrative expense ratio rose from 22.6% in the previous fiscal year to 23.1% due to higher advertising expenses associated with efforts to boost the placement business. As a result, the operating margin dropped from 16.3% in the previous fiscal year to 15.4%, a 0.9% decline, but this is viewed positively as an upfront investment to expand the placement business.

## Analysis of Financial Position

### Assets

Total assets increased by 8,225 million yen, or 4.6%, from 178,347 million yen at the end of the previous fiscal year to 186,573 million yen at the end of the current fiscal year.

Current assets were 83,121 million yen, an increase of 793 million yen (1.0%), from 82,327 million yen at the end of the previous fiscal year. This was mainly attributable to an increase of 7,264 million yen in cash and deposits and a decrease of 6,795 in accounts receivable-trade. Non-current assets increased by 7,432 million yen (7.7%), from 96,019 million yen at the end of the previous fiscal year to 103,452 million yen. The opening of new pharmacies in the Dispensing Pharmacy Business, the transfer of business, the increase in goodwill through aggressive M&A in this business, and capital investments in the pharmaceutical manufacturing and sales business were mainly responsible for this increase.

### Liabilities

Total liabilities increased by 3,166 million yen (2.2%), from 141,900 million yen at the end of the previous fiscal year to 145,066 million yen at the end of this fiscal year. Current liabilities increased 4,004 million yen (6.0%), from 66,305 million yen at the end of the previous fiscal year to 70,310 million yen. This was mainly attributable to an 1,898 million yen increase in the current portion of long-term loans payable. Non-current liabilities decreased by 838 million yen (-1.1%), from 75,595 million yen at the end of the previous fiscal year to 74,756 million yen. This was mainly attributable to a 2,306 million yen decrease in long-term loans payable.

### Net Assets

Net assets increased by 5,059 million yen (13.9%), from 36,447 million yen at the end of the previous fiscal year to 41,506 million yen. This was attributable mainly to a 5,305 million yen increase in retained earnings. As a result, the equity ratio improved from 20.4% at the end of the previous fiscal year to 22.2%.

## Status of Cash Flows

Net cash provided by operating activities in the fiscal year under review was 23,141 million yen, net cash used in investing activities was 13,843 million yen, and net cash used in financing activities was 2,034 million yen. Operating cash flow improved substantially year on year. As a result, there was a net increase of 7,264 million yen in cash and cash equivalents from the end of the previous fiscal year to 28,464 million yen at the end of March 2018. Each cash flow status is as follows.

### Cash Flows from Operating Activities

A major source of cash inflow was profit before income taxes of 10,045 million yen, while the primary use of cash outflow was 1,399 million yen in trade payables. This is a 24,082 million yen year-on-year improvement due to the elimination of special factors such as an inventory increase in the hepatitis C drug and an increase in profit before income taxes, and it marks a record high for cash flows from operating activities.

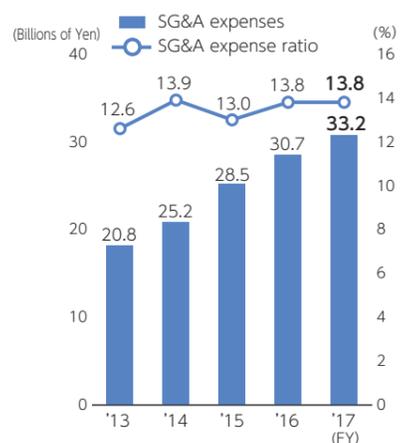
### Cash Flows from Investing Activities

The primary uses of cash outflow were payments of 12,076 million yen for the purchase of property, plants, and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business. There were also payments of 1,126 million yen for the acquisition of shares of subsidiaries resulting in a change in the scope of consolidation. The amount was reduced roughly in half mainly because the upfront investment in the Pharmaceutical Manufacturing and Sales Business exceeded the peak. As a result, free cash flow recovered to just under 10,000 million yen.

### Cash Flows from Financing Activities

The primary source of cash inflow was proceeds from long-term loans payable of 13,000 million yen, while cash was used mainly for payments of 13,408 million yen in repayments of long-term loans payable. Although Nihon Chouzai had a net cash inflow from financing activities due to continued aggressive investments, mainly in the pharmaceutical manufacturing and sales business, this fiscal year marked the first time the Company had an outflow of 2,034 million yen in its financing activities since listing on the stock exchange. As we are heading toward a recovery period in the Pharmaceutical Manufacturing and Sales Business, we will reinforce the financial side.

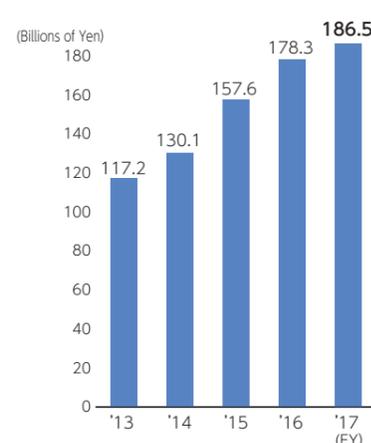
SG&A expenses and SG&A expense ratio



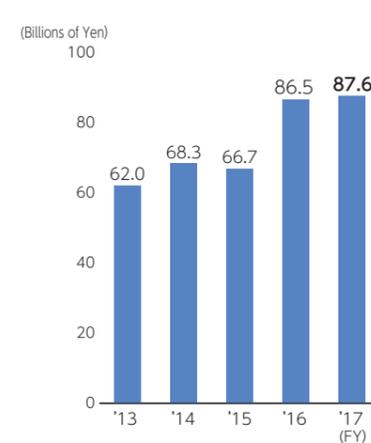
Profit and Profit ratio



Total assets

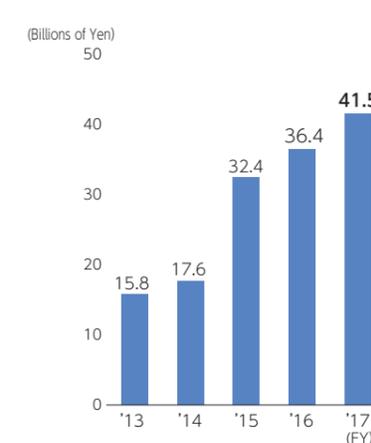


Interest-bearing debts

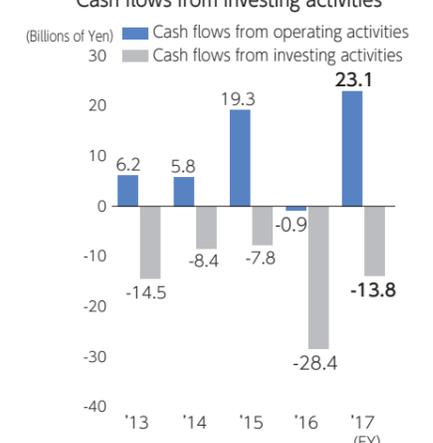


\*Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable-installment purchase, and bonds.

Net assets



Cash flows from operating activities  
Cash flows from investing activities



# Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries  
March 31, 2017 and 2018

(Millions of yen)

Assets	FY2016	FY2017
<b>Current assets</b>		
Cash and deposits	21,200	28,464
Notes receivable—trade	73	213
Accounts receivable—trade	26,698	19,902
Electronically recorded monetary claims—operating	872	1,115
Merchandise and finished goods	21,455	20,873
Work in process	2,509	1,304
Raw materials and supplies	5,550	6,047
Deferred tax assets	1,262	1,508
Other	2,713	3,698
Allowance for doubtful accounts	(7)	(6)
<b>Total current assets</b>	<b>82,327</b>	<b>83,121</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	39,675	53,483
Accumulated depreciation	(17,372)	(19,064)
Buildings and structures, net	22,303	34,418
Machinery, equipment and vehicles	12,690	14,129
Accumulated depreciation	(2,649)	(3,543)
Machinery, equipment and vehicles, net	10,040	10,585
Land	18,016	19,357
Leased assets	2,995	2,943
Accumulated depreciation	(1,582)	(1,858)
Leased assets, net	1,413	1,084
Construction in progress	13,521	6,750
Other	13,564	14,816
Accumulated depreciation	(10,346)	(11,352)
Other, net	3,217	3,464
Total property, plant and equipment	<b>68,513</b>	<b>75,662</b>
Intangible assets		
Goodwill	14,605	15,418
Other	2,167	2,534
Total intangible assets	<b>16,773</b>	<b>17,952</b>
Investments and other assets		
Investment securities	1,039	20
Long-term loans receivable	817	738
Lease and guarantee deposits	7,072	7,049
Deferred tax assets	587	786
Other	1,216	1,242
Total investments and other assets	<b>10,733</b>	<b>9,837</b>
<b>Total non-current assets</b>	<b>96,019</b>	<b>103,452</b>
<b>Total assets</b>	<b>178,347</b>	<b>186,573</b>

(Millions of yen)

Liabilities	FY2016	FY2017
<b>Current liabilities</b>		
Accounts payable—trade	38,909	36,203
Electronically recorded obligations—operating	2,124	3,770
Current portion of long-term loans payable	13,411	15,309
Lease obligations	390	311
Income taxes payable	1,537	3,040
Provision for bonuses	2,547	2,775
Provision for directors' bonuses	117	137
Asset retirement obligations	9	4
Other	7,257	8,759
<b>Total current liabilities</b>	<b>66,305</b>	<b>70,310</b>
<b>Non-current liabilities</b>		
Long-term loans payable	70,678	68,372
Lease obligations	1,002	697
Long-term accounts payable—installment purchase	609	1,991
Provision for directors' retirement benefits	949	1,048
Net defined benefit liability	1,294	1,503
Asset retirement obligations	760	821
Other	298	320
<b>Total non-current liabilities</b>	<b>75,595</b>	<b>74,756</b>
<b>Total liabilities</b>	<b>141,900</b>	<b>145,066</b>
<b>Net assets</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	21,511	26,816
Treasury shares	(46)	(47)
<b>Total shareholders' equity</b>	<b>36,345</b>	<b>41,648</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	263	0
Remeasurements of defined benefit plans	(161)	(144)
<b>Total accumulated other comprehensive income</b>	<b>101</b>	<b>(144)</b>
<b>Non-controlling interests</b>	<b>—</b>	<b>2</b>
<b>Total net assets</b>	<b>36,447</b>	<b>41,506</b>
<b>Total liabilities and net assets</b>	<b>178,347</b>	<b>186,573</b>

## Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries  
For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
Net sales	223,468	241,274
Cost of sales	184,210	197,437
Gross profit	39,258	43,837
Selling, general and administrative expenses	30,738	33,250
Operating profit	8,519	10,587
Non-operating income		
Interest income	1	0
Commission fee	144	151
Rent income	404	436
Insurance return	75	—
Other	157	193
Total non-operating income	783	781
Non-operating expenses		
Interest expenses	687	635
Commission fee	37	44
Rent expenses	322	328
Loss on retirement of non-current assets	113	45
Other	164	175
Total non-operating expenses	1,326	1,230
Ordinary profit	7,976	10,138
Extraordinary income		
Gain on sales of non-current assets	28	0
Gain on investment securities	0	360
Gain on transfer of business	—	48
Total extraordinary income	28	408
Extraordinary losses		
Loss on sales of non-current assets	6	10
Impairment loss	171	491
Total extraordinary losses	177	501
Profit before income taxes	7,827	10,045
Income taxes—current	3,024	4,272
Income taxes—deferred	164	(331)
Total income taxes	3,188	3,940
Profit	4,638	6,104
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	4,638	6,104

## Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries  
For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
Profit	4,638	6,104
Other comprehensive income		
Valuation difference on available-for-sale securities	66	(263)
Remeasurements of defined benefit plans, net of tax	69	17
Total other comprehensive income	136	(245)
Comprehensive income	4,775	5,858
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	4,775	5,858
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(Millions of yen)

For the year ended March 31, 2017	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	17,672	(44)	32,507	196	(231)	(34)	—	32,473
Changes of items during period										
Dividends of surplus			(799)		(799)					(799)
Profit attributable to owners of parent			4,638		4,638					4,638
Purchase of treasury shares				(1)	(1)					(1)
Net changes of items other than shareholders' equity						66	69	136	—	136
Total changes of items during period	—	—	3,839	(1)	3,837	66	69	136	—	3,973
Balance at end of current period	3,953	10,926	21,511	(46)	36,345	263	(161)	101	—	36,447

For the year ended March 31, 2018	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	21,511	(46)	36,345	263	(161)	101	—	36,447
Changes of items during period										
Dividends of surplus			(799)		(799)					(799)
Profit attributable to owners of parent			6,104		6,104					6,104
Purchase of treasury shares				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(263)	17	(245)	2	(243)
Total changes of items during period	—	—	5,305	(1)	5,303	(263)	17	(245)	2	5,059
Balance at end of current period	3,953	10,926	26,816	(47)	41,648	0	(144)	(144)	2	41,506

# Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries

For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
<b>Cash flows from operating activities</b>		
Profit before income taxes	7,827	10,045
Depreciation	4,741	5,214
Amortization of long-term prepaid expenses	104	126
Impairment loss	171	491
Amortization of goodwill	976	1,326
Increase (decrease) in allowance for doubtful accounts	(9)	(3)
Increase (decrease) in provision for bonuses	279	225
Increase (decrease) in provision for directors' bonuses	(21)	20
Increase (decrease) in net defined benefit liability	118	202
Increase (decrease) in provision for directors' retirement benefits	(7)	98
Interest and dividend income	(22)	(21)
Interest expenses	687	635
Loss (gain) on sales of non-current assets	(22)	10
Loss (gain) on sales of investment securities	(0)	(360)
Loss (gain) on transfer of business	—	(48)
Decrease (increase) in notes and accounts receivable-trade	(46)	6,691
Decrease (increase) in inventories	(7,005)	1,442
Increase (decrease) in notes and accounts payable-trade	(4,135)	(1,399)
Decrease (increase) in prepaid expenses	(84)	(111)
Increase (decrease) in accrued expenses	132	324
Increase (decrease) in accounts payable-other	758	390
Other, net	(349)	1,198
Subtotal	4,093	26,500
Interest and dividend income received	22	21
Interest expenses paid	(702)	(623)
Income taxes paid	(4,354)	(2,756)
<b>Net cash provided by (used in) operating activities</b>	<b>(940)</b>	<b>23,141</b>
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	5	—
Purchase of property, plant and equipment	(20,222)	(12,076)
Proceeds from sales of property, plant and equipment	72	46
Purchase of intangible assets	(926)	(656)
Proceeds from sales of investment securities	2	999
Increase in long-term prepaid expenses	(231)	(95)
Payments for transfer of business	(1,713)	(585)
Proceeds from transfer of business	—	144
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4,899)	(1,126)
Payments for loans receivable	(443)	(448)
Collection of loans receivable	103	88
Payments for lease and guarantee deposits	(385)	(251)
Proceeds from collection of lease and guarantee deposits	134	172
Other, net	59	(25)
<b>Net cash provided by (used in) investing activities</b>	<b>(28,444)</b>	<b>(13,843)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	(236)	—
Proceeds from long-term loans payable	33,600	13,000
Repayments of long-term loans payable	(6,509)	(13,408)
Redemption of bonds	(7,000)	—
Repayments of lease obligations	(412)	(391)
Repayments of installment payables	(431)	(433)
Purchase of treasury shares	(1)	(1)
Cash dividends paid	(802)	(799)
<b>Net cash provided by (used in) financing activities</b>	<b>18,205</b>	<b>(2,034)</b>
Net increase (decrease) in cash and cash equivalents	(11,180)	7,264
Cash and cash equivalents at beginning of period	32,380	21,200
Cash and cash equivalents at end of period	21,200	28,464

# Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2018," the matters that may have a significant impact on investors' decisions are described below. The Nihon Chouzai Group recognizes these risks and we have a policy to appropriately handle the risks in case the risks materialize; however, the decision for investment should be made after carefully considering this section and contents other than this section in this document. The matters about the future described below are decided by the Group as of June 28, 2018, and the matters may differ from actual results due to various factors.

## I. Matters About Each Business Segment

### 1. Dependency on Interest-Bearing Debts

The Nihon Chouzai Group opens new stores in the dispensing pharmacy business and makes capital investments in the pharmaceutical manufacturing and sales business by raising funds from mainly loans payable. We will continue to open new stores and make capital investments, in that case interest expenses may increase. Additionally, in case of failure to gain enough cash from management in each business operation, due to some problems such as difficulty in gaining additional loans payable, business plans or performance of the Group may be affected.

Furthermore, the rates of most loans payable are a fixed interest rate at this point; however, an increase of interest expenses due to rising interest rates may affect the performance of the Group.

### 2. Personal Information Management

The Nihon Chouzai Group handles personal information such as medical history and medication history of customers, and personal history of temporary employees in the dispensing pharmacy business and the medical professional staffing and placement business. In the Group, we strictly manage personal information. In case of leaking the personal information, there is a possibility that we are liable to pay a larger amount of compensation for damages when compared to the case of the leakage of general personal information such as addresses and names.

Additionally, regarding protection of personal information, in case the entities handling personal information including Nihon Chouzai and consolidated subsidiaries provide the personal information to a third party without obtaining the consent of the person, administrative sanctions shall be imposed and, in some cases, criminal penalties may be imposed by "Act on the Protection of Personal Information."

Moreover, most of our employees who handle personal information in dispensing pharmacies are pharmacists and serious confidentiality obligation is legally imposed on pharmacists (Article 134 of the Penal Code). In the Group, therefore, in case information leakage occurs, the performance of the Group may be affected by a large amount of reparation payment, administrative sanctions, and a decrease in credibility from existing customers and society accompanying the payment and sanctions.

### 3. Social Insurance Contributions

The Nihon Chouzai Group has all the people who are

eligible for social insurance join in the insurance. In case of an increase in insurance rate due to system amendment such as reform of medical care system for the elderly and improvement of employment insurance, and a significant increase in the amount of contributions by the company due to the change in the scope of insured person regarding a temporary employee, the performance of the Group may be affected.

### 4. Influence by Disasters and Other Emergencies

The Nihon Chouzai Group mainly gathers the headquarters functions of each company in Chiyoda ward, Tokyo. Regarding the pharmaceutical manufacturing and sales business, we establish the function in Tsukuba City, Ibaraki Prefecture. Regarding NIHON GENERIC CO., LTD, we establish its production facility in Kasukabe City, Saitama Prefecture. Regarding Choseido Pharmaceutical Co., Ltd., we establish its headquarters and production facility in Tokushima City, Tokushima Prefecture. To cope with disasters and other emergencies in these areas, our group companies have prepared a business continuity plan. However, if we suffer more damage than expected, the performance of the Group may be affected.

## II. Dispensing Pharmacy Business

### 1. Legal Regulations for Dispensing Pharmacy Business

#### (1) Opening Dispensing Pharmacies

When Nihon Chouzai opens and manages pharmacies, in case we cannot receive required authorization, designation, registration, or license by each prefecture, in case we fail to proceed for renewal and registration/notification, in case we violate related laws and regulations, or in case these laws and regulations are amended, our store opening plans and performance may be affected.

Main relevant legal regulations are "License for pharmacy," "Health insurance pharmacy designation" and others, and we obtain required permission in all stores. Regarding reasons for disqualification for permission, they do not apply to us as of June 28, 2018.

#### (2) Securing Pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids dispensing by anyone other than pharmacists. By "Law for Ensuring the Quality, Efficacy, and Safety of Drugs and Medical Devices" ("Pharmaceutical and Medical Devices Act" is used as an abbreviation. This was called "Pharmaceutical Affairs Act" before amendment) and an Ordinance of the Ministry of Health, Labour, and Welfare, not only pharmacist arrangement in a pharmacy, but also

the number of arranged pharmacists is strictly regulated, and it is required to arrange one pharmacist per 40 sheets of received prescriptions a day. Therefore, in case of failure to secure the required number of pharmacists, our store opening plans and performance may be affected.

### (3) Dispensing Operation

Nihon Chouzai takes various measures to prevent dispensing errors. For example, we introduce automatic check systems for dangerous drugs that produce serious symptoms due to a dispensing error, and pharmacists intensively conduct inspections for the dangerous drugs. In addition, we take measures that mitigate an impact to performance by signing up "Pharmacist liability insurance" at all stores just in case. However, in case a dispensing error occurs resulting in a large amount of reparation payment and a decrease in credibility from existing customers and society, our performance may be affected.

## 2. The Business Environment in the Dispensing Pharmacy Business

### (1) Trends in the rate of separation of prescribing and dispensing

The separation of prescribing and dispensing has been promoted as a national policy to improve the quality of medical care by devoting medical institutions to medical practices such as medical examinations, and having dispensing pharmacies conduct medication history management and medication consulting. In case of decline in the growth rate of separation of prescribing and dispensing in the future, the performance of the Nihon Chouzai Group may be affected.

### (2) Reform of the medical care system

#### [1] Revisions of the NHI Drug Price Standards and dispensing fees

The dispensing sales in the dispensing pharmacy business, which is the core business of the Nihon Chouzai Group, are the total amount of drug income based on the drug price standards regulated primarily by Ministry of Health, Labour, and Welfare notifications, and the income from technical dispensing based on dispensing fee points regulated by Ministry of Health, Labour, and Welfare notification acts. Therefore, in case the drug price standards are reduced by the revisions of NHI drug price standards, while the actual purchase price is not reduced to the same degree, or in case dispensing fee points are reduced by the prescription dispensing fee revision, the performance of the Group may be affected.

#### [2] Other reforms of systems

In recent years, various reforms of medical care system are promoted by improvement in patients' rights awareness to medical care or pressure on medical care financing. It is possible that further various reforms of medical care system will be conducted. Depending on trends, due to a decrease in the number of patients, the performance of the Group may be affected.

## 3. Business Development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores including acquisition of stores, in case we cannot open stores as planned due to

not being able to secure the property that conforms to the conditions of store opening, in case the first planned sales cannot be included after opening a store due to the state of competitions or some situations where the separation of prescribing and dispensing does not progress well, in case store sales decrease due to relocation or discontinuance of medical institutions, or in case store operation cannot be continued or deposits cannot be recovered due to business conditions of a property owner, business plans or performance of the Nihon Chouzai Group may be affected.

## 4. Seasonal Variation of Sales

The sales in the dispensing pharmacy business also account for much of the total sales of the Nihon Chouzai Group in the current consolidated fiscal year, and the performance changes of the dispensing pharmacy business we operate greatly affect the performance changes of the Group. Regarding the dispensing pharmacy business, depending on increasing prescriptions for influenza, which prevails in winter, and pollinosis (allergic rhinitis), which mainly develops in the beginning of spring, the performance changes may be affected.

## 5. Impacts from Consumption Taxes

In the dispensing pharmacy business, dispensing sales are exempted from taxes by the Consumption Tax Act, whereas the purchase of pharmaceuticals is taxed by the Act. Therefore, in the dispensing pharmacy business, Nihon Chouzai is the final tax payer, and the consumption taxes we paid to suppliers are included in the section of selling, general, and administrative expenses. When the consumption tax rate was revised in the past, increased amount of the consumption tax rate was taken into account on the occasion of the NHI drug price standard revisions. However, in the future, if the consumption tax rate is revised and the NHI drug price standards of drugs are not linked to the variability rate of the consumption tax rate, the performance of the Nihon Chouzai Group may be affected.

## III. Pharmaceutical Manufacturing and Sales Business

### 1. Legal regulations for Pharmaceutical Manufacturing and Sales Business

By the enforcement of the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) in April 2005, the marketing approval system of pharmaceuticals was introduced and the total outsourced manufacturing for pharmaceuticals became possible. Because of this, the Nihon Chouzai Group obtained the pharmaceutical manufacturing and sales business approval at one of our consolidated subsidiaries, NIHON GENERIC CO., LTD, in April 2005. In April 2006, we commenced sales of generic drugs produced by other companies, and in July 2007, we obtained approval to commence manufacturing and sales of generic drugs.

Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we productize and sell generic drugs with development costs relatively less than those of new drugs. For the actual manufacturing process, we furthered manufacturing products at our own factory from October 2010. The legal risks involved in the product liability, and

the risk factors for this business including the following legal regulations regarding manufacturing and sales of the medicines for medical treatment may greatly affect the performance of the Group.

Manufacturing and sales of the medicines for medical treatment is regulated by laws and regulations related to the Pharmaceutical and Medical Devices Act, and it is required to receive authorization, designation, registration, or license by each prefectural governor and submit notification. The main things are "First-class Marketing Authorization," "Second-class Marketing Authorization," and "Wholesale Distribution License" for medicines and others.

In case there is violation of laws and regulations, suspension of business and revocation of approval and authorization are conducted by the competent authorities. This may affect the performance of the Group. Additionally, regarding the developed and applied manufacturing and selling items in this business, we have obtained the approval for each item from the Minister of Health, Labour and Welfare. However, in case of failure to obtain these approvals as planned, the performance of the Group may be affected.

## 2. The Business Environment in the Pharmaceutical Manufacturing and Sales Business

Regarding the medicines for medical treatment, according to the NHI Drug Price Standards established by the Ministry of Health, Labour and Welfare, drug prices are established, which is the basis for the drug cost calculation in dispensing fees at medical institutions and dispensing pharmacies. Drug prices tend to decline at every biennial revision of the NHI drug price standards because of a containing medical cost movement influenced by Japan's financial reforms, and the lowering rate may increase each time of the revision. This trend of drug prices may affect the policy of product prices in the Group.

Additionally, in the manufacturing and sales market for generic drugs handled in the business, significant changes in the medical care system may rapidly expand demand, whereas competition involving the whole pharmaceutical industry may intensify in the future. These changes in the business environment may affect the performance of the Group.

## 3. Outsourcing of Pharmaceutical Manufacturing

In this business, in accordance with the manufacture and sales approval system based on the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) enforced in April 2005, we distribute products to the market in the form of outsourcing the manufacturing of generic drugs with the national approval, or in the form of selling the drugs, which we have the manufacture and sales approval, through our own distribution channel. We conclude the continuous contracts for the product supply with several generic drug manufacturers; however, there is a possibility of not being able to supply products due to contract termination or contract changes of a product for some reasons of a manufacturing subcontractor. In these cases, the performance of the Group may be affected.

## 4. Patent Litigation

Regarding the Pharmaceutical Manufacturing and Sales Business in the Nihon Chouzai Group, we develop products with paying full attention to intellectual property rights and the Unfair Competition Prevention Act; however, there are cases where an original drug manufacturer files a patent lawsuit because of the characteristic particular to the generic drug product. If such situation occurs, the performance of the Group may be affected.

## 5. Product Recall and Discontinuation of Sales

Generic drugs have the use results in which the efficacy and safety had been confirmed throughout a period of time in the original drug. In addition to that, they go on sale after reexamination, so it is considered that the occurrence risk of a serious side effect other than that of an original drug is extremely small. However, in case unexpected new side effects occur or an accident including mixture of impurities into a product, we may be forced to recall products or discontinue sales. This may affect the performance of the Group.

## 6. Purchase of Raw Materials and Merchandise

At suppliers of raw materials and merchandise, in case it becomes impossible for us to purchase raw materials and merchandise due to regulation problems, disasters including fire/earthquakes, and accidents during transportation, the production and supply of products may stop. This may affect the performance of the Group.

## IV. Medical Professional Staffing and Placement Business

### 1. Legal Regulations for Medical Professional Staffing and Placement Business

Since the staffing of pharmacists was permitted in accordance with the amendment of the Worker Dispatching Act in December 1999, the subsidiary, Nihon Chouzai Pharma Staff Co., Ltd. (currently, Medical Resources Co., Ltd.) launched a staffing business specialized for pharmacists in July 2000, and they dispatch pharmacists to Nihon Chouzai as well. In addition, they have been operating a medical professional placement business for pharmacists since June 1, 2002.

In this business, permissions from the Ministry of Health, Labour and Welfare, such as "License for General Worker Dispatching Undertakings" and "License for Employment Placement Businesses" are required. This business is also regulated by "A guideline on measures to be taken by dispatching business operators" and "A guideline for employment placement business providers, persons conducting recruitment of workers, commissioned recruiters, and labor supply business providers to take appropriate actions regarding equal treatments, clear indication of working conditions, treatment of personal information of job seekers, responsibility of employment placement business providers, and accurate indication of details of recruitment" established by the Ministry of Health, Labour and Welfare. In case the permissions were revoked due to violation of the laws and regulations, and the guidelines, the performance of the Nihon Chouzai Group may be affected.

## Company Profile

### Company Profile

#### Trade Name

NIHON CHOUZAI Co., Ltd.

#### Established

March 1980

#### Headquarters

37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737  
+81-(0) 3-6810-0800 (general)

#### Capital

3,953.02 million yen

#### Consolidated Net Sales

241,200 million yen (FY2017)

#### Number of Employees

Regular employees: 3,103

Part-time employees and others: 738

\* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion.

(As of March 31, 2018)

#### Main Financing Banks

Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.

#### Our Business

Management of health insurance dispensing chain pharmacies

### Shareholder Information

#### Total Number of Authorized Shares

44,192,000 shares

#### Total Number of Issued Shares

16,024,000 shares

#### Number of Shareholders

7,981 shareholders

#### Annual General Meeting of Shareholders

June

#### Administrator of Shareholder Registry

Mitsubishi UFJ Trust and Banking Corporation  
1-1, Nikko-cho, Fuchu City, Tokyo 183-0044  
0120-232-711 (toll-free)

#### Stock Exchange for Listing

Tokyo Stock Exchange (TSE) First Section

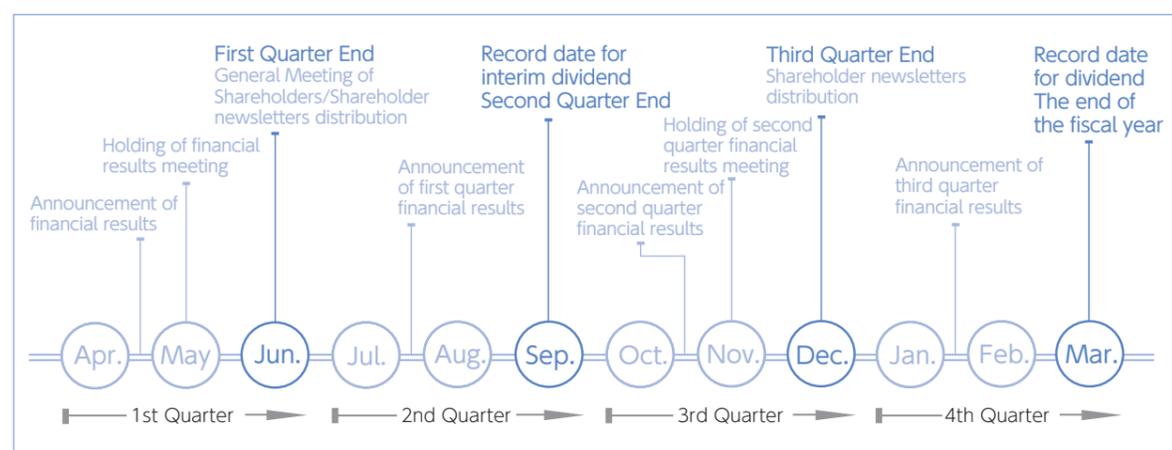
#### Securities Code

3341

#### Settlement Date

March 31

### IR Calendar



## History

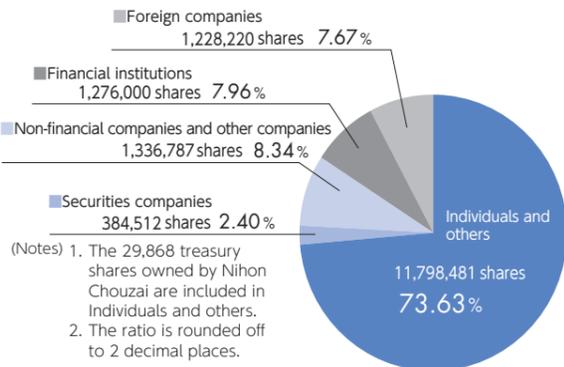
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon Chouzai Yamahana dispensing pharmacy, in Chuo-ku, Sapporo City
August 1987	Opened a Tokyo branch
October 1993	Opened a Yokohama branch
January 1994	Opened a Tohoku branch Established the subsidiary Miyagi Nihon Chouzai Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.)
April 1995	Relocated the headquarters to Tokyo. Opened a Sapporo branch and a Kyushu branch
December 1999	Opened dispatching pharmacists because of liberalization in principle for worker dispatching business (The amendment of Worker Dispatching Act)
February 2000	Nihon Chouzai Pharma Staff Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.) was established (Changed the trade name and the purpose of Miyagi Nihon Chouzai Co., Ltd.)
October 2000	Opened an Osaka branch
April 2001	Opened a Nagoya branch and a Hiroshima branch
September 2004	Listed on the TSE Second Section
January 2005	Established Nihon Generic Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2005	By the revised Pharmaceutical Affairs Act (The present Pharmaceutical and Medical Devices Act), manufacture and sales of pharmaceuticals by the total outsourced manufacturing became possible
September 2006	Listing upgraded to the TSE First Section
October 2006	Established Medical Resources Co., Ltd. as a subsidiary (The current consolidated subsidiary)
November 2007	Relocated the headquarters (1-9-1, Marunouchi, Chiyoda-ku, Tokyo)
July 2008	Merged Medical Resources into Nihon Chouzai Pharma Staff (with Medical Resources as the surviving company)
October 2010	Launched the manufacture of generic drugs at Nihon Generic's Tsukuba plant
March 2011	Achieving the opening of a pharmacy in every prefecture in the country
January 2012	Established Japan Medical Research Institute Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2012	Opened a Kitakanto branch, a Higashikanto branch, a Kyoto branch, and a Kobe branch
April 2013	Made a subsidiary of Choseido Pharmaceutical Co., Ltd. (The current consolidated subsidiary)
April 2014	Choseido Pharmaceutical Plant No. 2 completed
February 2015	Nihon Generic acquired the Kasukabe plant of Teva Pharma Japan Inc. (Current Teva Takeda Pharma Ltd.)
October 2016	Opened Sapporo Logistics Center, the fourth logistics center established following those in East Japan, West Japan, and Kanto
February 2017	Formed business partnership with Dai-ichi Life Insurance Company, Limited
March 2018	Nihon Generic Co., Ltd. Tsukuba Plant No. 2 completed

The law amendment or system changes are written in blue.

# Stock Information

(As of March 31, 2018)

## Distribution of Shares for Each Owner



## Trend of Holding Stock Ratio

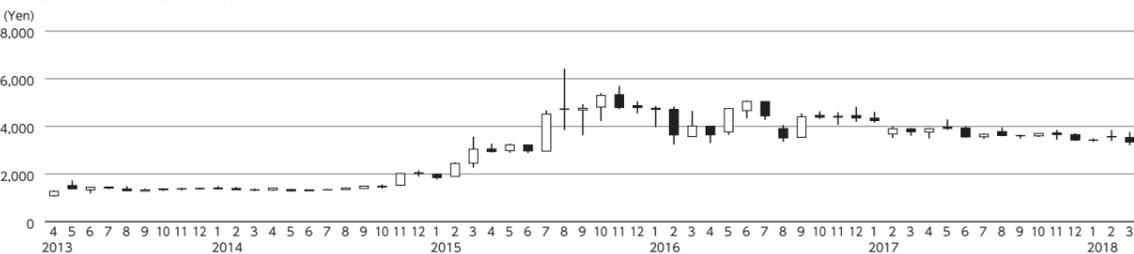
Ratio for Number of Shares	2017/3	2018/3
Individuals and others	73.88%	73.63%
Securities companies	2.95	2.40
Non-financial companies and other companies	8.59	8.34
Financial institutions	6.34	7.96
Foreign companies	8.24	7.67

## Major Shareholders (Top 10 Shareholders)

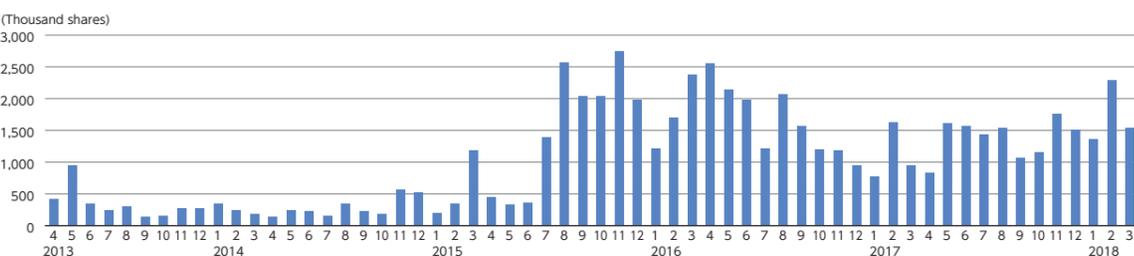
Names of the Shareholders	Number of Owned Shares (Shares)	Investment Ratio (%)
Hiroshi Mitsuahara	4,680,000	29.26
Yosuke Mitsuahara	3,320,000	20.76
Max Planning, Inc.	1,120,000	7.00
Nihon Chouzai Employee shareholding association	433,800	2.71
Yoko Mitsuahara	400,000	2.50
Japan Trustee Services Bank, Ltd. (Trust account)	317,000	1.98
Keiko Mitsuahara	293,000	1.83
The Master Trust Bank of Japan, Ltd. (Trust account)	206,300	1.29
Japan Trustee Services Bank, Ltd. (Trust account 9)	162,500	1.02
Japan Trustee Services Bank, Ltd. (Trust account 5)	133,100	0.83

(Notes) 1. The investment ratio was calculated excluding the number of treasury stock (29,868 shares).  
2. The investment ratio is rounded down to 3 decimal places.

## Trend of Share Price



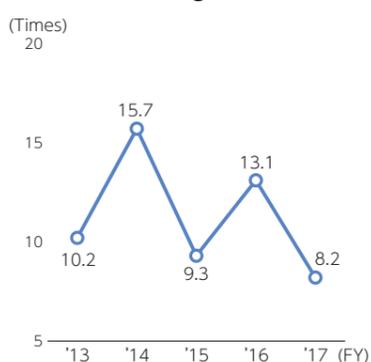
## Trend of Turnover



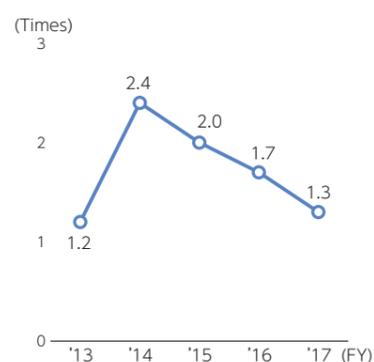
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2013.

## Stock Price Index

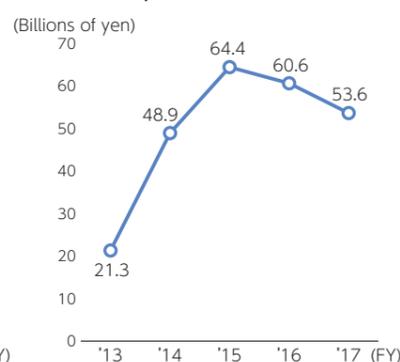
### PER (Price earnings ratio)



### PBR (Price-book value ratio)



### Market capitalization



# Reference Pages for Major Contents

Content	Sections of this report	Web links <a href="https://www.nicho.co.jp/corporate/">https://www.nicho.co.jp/corporate/</a>
Corporate philosophy	Corporate philosophy ..... P02	Company Profile>Corporate philosophy <a href="https://www.nicho.co.jp/corporate/profile/philosophy/">https://www.nicho.co.jp/corporate/profile/philosophy/</a>
Business characteristics and strengths	Business model ..... P01 Business performance ..... P19	Company Profile>Nihon Chouzai Group <a href="https://www.nicho.co.jp/corporate/profile/group/">https://www.nicho.co.jp/corporate/profile/group/</a> Businesses <a href="https://www.nicho.co.jp/corporate/business/">https://www.nicho.co.jp/corporate/business/</a>
Management objectives	Toward a Long-term Vision for 2030 ..... P03	
Management strategy	Message from the President ..... P09	IR information>Management information>Message from the President <a href="https://www.nicho.co.jp/corporate/ir/message.html">https://www.nicho.co.jp/corporate/ir/message.html</a>
Relevant laws and regulations	Main Medical Service Fee Revisions ..... P61 Explanation of Terminology ..... P64	IR information>Management>Business environment and issues to be addressed by the Company <a href="https://www.nicho.co.jp/corporate/ir/management.html">https://www.nicho.co.jp/corporate/ir/management.html</a>
Relationship with stakeholders	Social ..... P49 Human ..... P44	Company Profile>Social Contribution Activities by Nihon Chouzai <a href="https://www.nicho.co.jp/corporate/profile/contribution/">https://www.nicho.co.jp/corporate/profile/contribution/</a>
Corporate governance	Corporate governance ..... P51	IR information>Management information>Corporate governance <a href="http://www.nicho.co.jp/eng/ir/index.html">http://www.nicho.co.jp/eng/ir/index.html</a>
Financial data	Financial highlights ..... P17 Data section ..... P67	IR information>Financial highlights <a href="https://www.nicho.co.jp/corporate/ir/highlight.html">https://www.nicho.co.jp/corporate/ir/highlight.html</a> IR information>IR library <a href="http://www.nicho.co.jp/eng/ir/annual.html">http://www.nicho.co.jp/eng/ir/annual.html</a>

### For further information, please contact

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Corporate Planning / Investor Relations  
Corporate Communications Div.

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URL : <https://www.nicho.co.jp>

 NIHON CHOUZAI Co.,Ltd.