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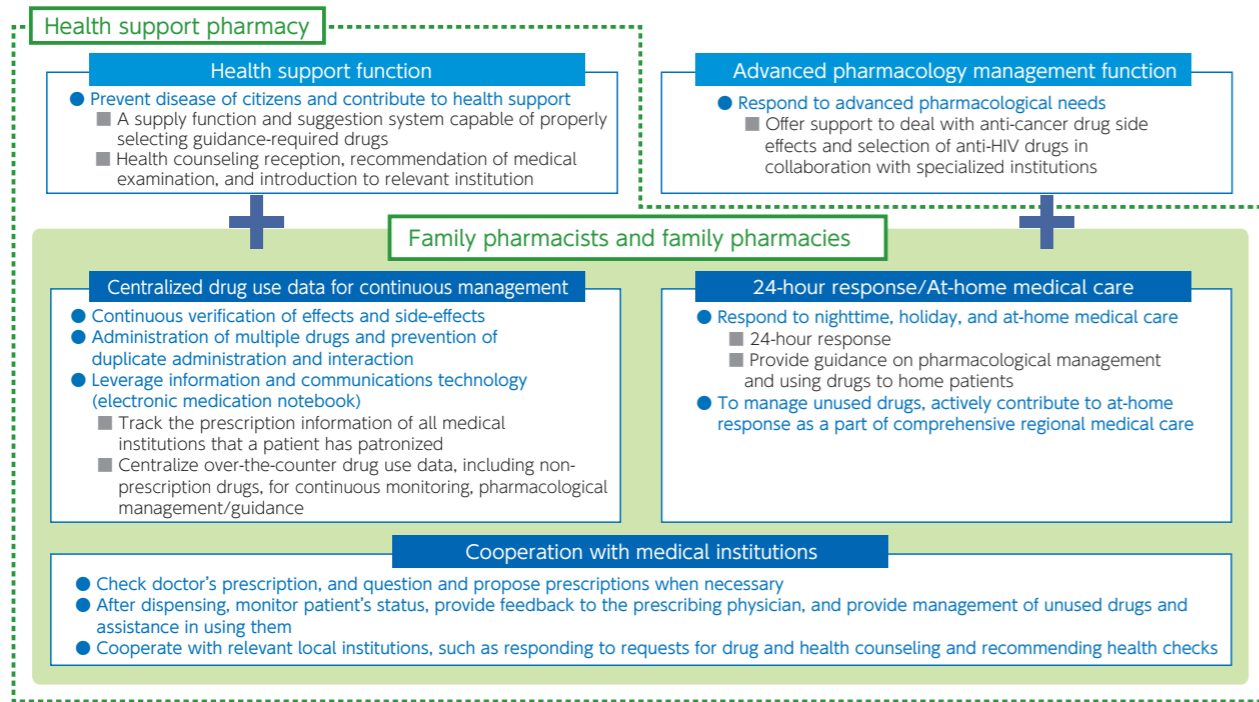
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A Vision of Pharmacies for Patients

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 six months in said insurance pharmacy
4. Received training certification from a training certification system that is approved by the Council on Pharmacists' Credentials

Family Pharmacy

In A Vision of Pharmacies for Patients, the three functions required of family 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.

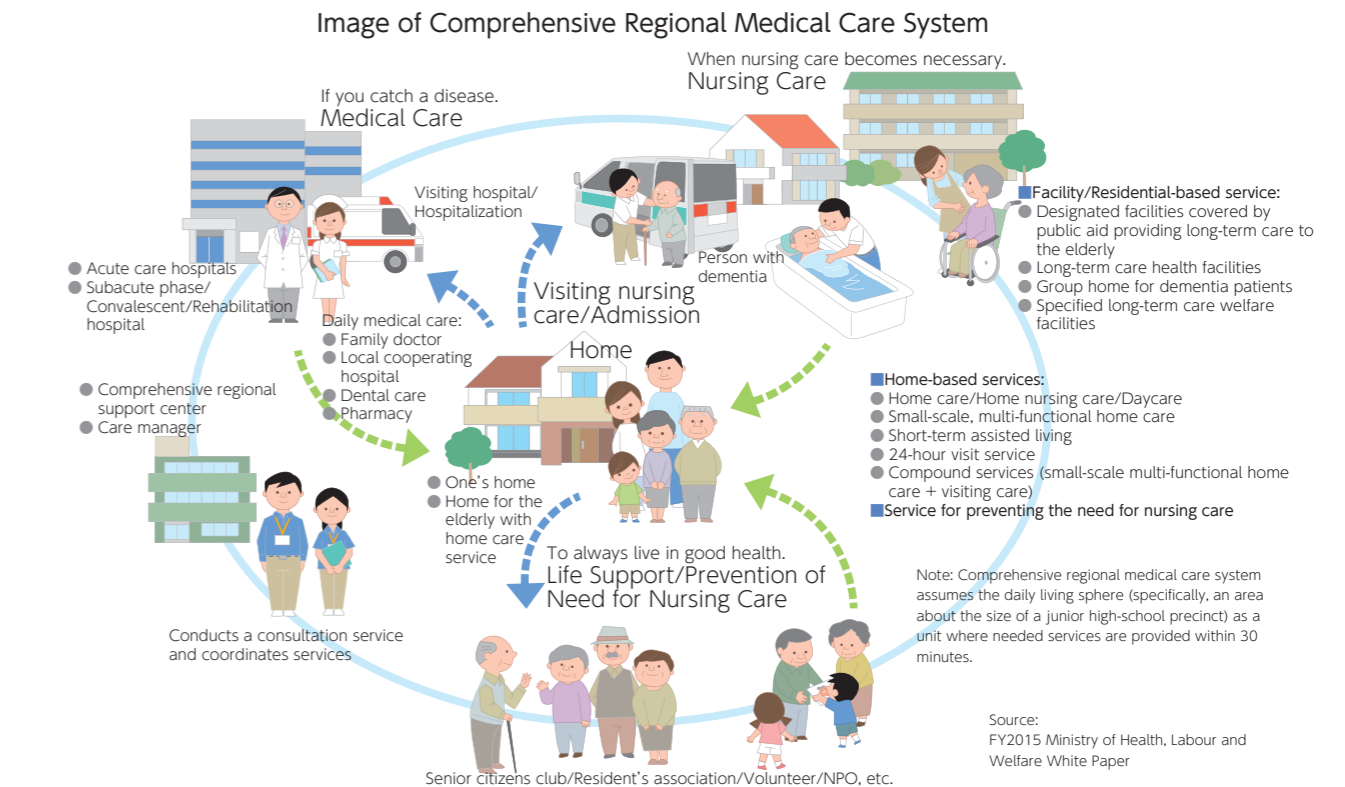
Source: A Vision of Pharmacies for Patients" by the Ministry of Health, Labour and Welfare

Comprehensive Regional Medical 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 comprehensive regional medical 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 turns more than 75 years old, further growth in demand from citizens for medical and nursing care is expected.



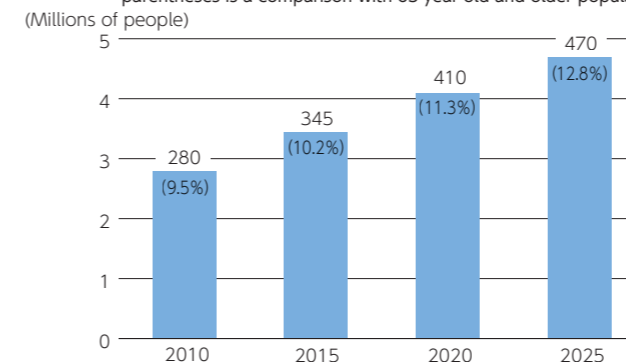
Review of elderly population

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%)

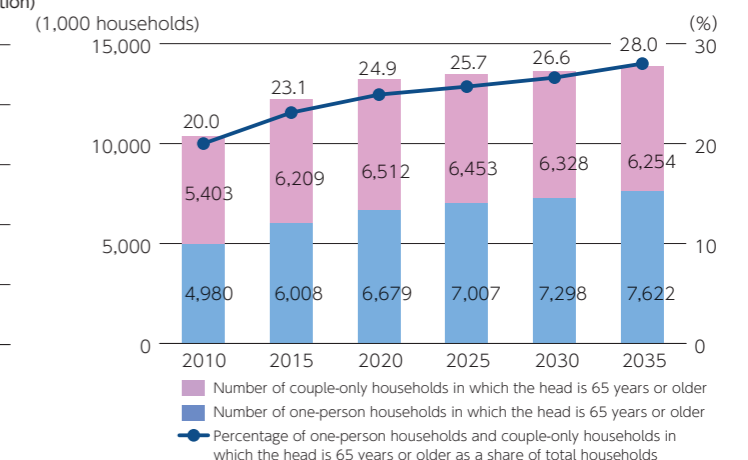
2 Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

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.

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.

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.

Advanced Treatment Hospital

A hospital that has been approved by the Minister of Health, Labour and Welfare as being able to provide advanced, state-of-the-art medical treatment. As conditions for approval, the hospital must not only have the facilities of a general hospital, but it must also be equipped with an intensive-care unit, sterilized hospital rooms, a drug information management room, at least 400 hospital beds, 10 or more clinical departments, and a 30% or higher referral rate from visiting patients, among other conditions. The number of approved hospital was 85 in April 2017 nationwide.

Local Medical Support Hospital

A hospital that diagnoses and treats patients referred from a "family physician" so that treatment can be continued by the family physician after the patient's medical condition has stabilized. It also performs logistics support for local medical care through the shared use

of emergency medical care and medical equipment. After meeting the stipulated conditions, such as the ratio of referred patients to new patients, approval is received from the prefectural governor. As of March 2017, there were 540 such hospitals nationwide.

DPC System

A system that involves the comprehensive payment of medical service fees per day of hospitalization based on diagnosis procedure combination (DPC) for acute inpatient medical care at hospitals that have met a certain standard.

DPC Hospitals

Hospitals to which the DPC system applies. Since 2003, the DPC system has been introduced to advanced treatment hospitals at 82 locations nationwide. In April 2017, the system applied to 1,664 hospitals and 480,000 hospital beds.

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 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.

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.

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.

Health Insurance System Overview of Different Countries

		Japan	Germany	United Kingdom	United States
System overview		Universal health insurance system. Citizens enroll in national insurance administered by municipalities, or in employees' health insurance for each occupational field.	Employees enroll in public medical insurance by occupational field or region. People who are not subject to mandatory application must enroll in private medical insurance.	In principle, the National Health Service (NHS) provides free medical care. 80% of its financial resources come from taxes with the remainder borne by national insurance, beneficiaries, etc.	Medicare is for elderly and disabled people 65 years or older, while Medicaid is for low-income earners. Working-generation medical insurance is mainly private insurance.
Public medical care	Coverage	All citizens	About 90% of all citizens	All citizens	Elderly people 65 years and older, and disabled and low-income earners only
	Type	Social insurance system	Social insurance system	Tax-financed system	Medicare: Social insurance system Medicaid: Tax-financed system
Method of determining medical service fee		Ministry of Health, Labour and Welfare, Japan decides based on the findings of the Central Social Insurance Medical Council	The country decides total amount and general rules.	The country decides total amount and NHS allocates within that framework.	With some exclusions, insurers, hospitals and doctors decide.
Payment method	Clinics/Physician in private practice	Fee-for-service plan	Total sum contract plan (lump sum payment from insurer to insurance medical association. The insurance medical association reimburses individual doctors for services provided)	Registered number of users plan (each patient) + basic medical service allowance	Medicare: Fee-for-service plan Private insurance fee-for-service plan Number of users plan, etc.
	Hospital	Outpatient fee-for-service plan Hospital care, nursing care, and medical management are under a fixed rate payment plan, and surgeries are under a fee-for-service plan	Specific treatments are under a comprehensive coverage plan for each treatment Other benefits are under a fixed rate payment per day plan	General budget limits for each hospital + actual payment	Medicare: Fixed-rate payment depending on illness Private insurance: Fee-for-service plan Number of users plan
Access		No introduction to doctor required	No introduction to doctor required	If there is no introduction of a registered physician (general practitioner [GP]), in principle, a medical exam is not possible	No introduction to doctor required Depending on the private insurance, the patient may be required to visit a family physician (general practitioner [GP]).

Differences between Japanese and U.S. pharmacies

	Japan	United States
Assignment conditions for pharmacists	40 prescriptions per pharmacist per day	No restriction of numbers of prescriptions per pharmacist per day
Difference in system between Japanese and U.S. pharmacies	All pharmacists perform dispensing, inspection, and medication instruction.	Pharmacists perform inspection, medication, and instruction. Technicians perform simple dispensing.
	Divided dispensing, is possible in some cases based on doctor's instructions. Prescriptions can be divided and dispensed only when certain conditions are met.	Refill Prescription can be used multiple times.
	Person-to-person sales only Pharmacist must respond person-to-person.	Mail order Prescription drugs can be delivered.

10-Year Summary of Financial and Non-financial Data

(Millions of yen)

Consolidated performance indicators	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made		○		○		○		○		○
Business results (for the year)										
Net sales	79,801	85,891	98,260	112,128	130,041	139,466	165,347	181,844	219,239	223,468
Gross profit	13,126	13,702	16,283	19,182	22,038	21,494	25,623	31,929	39,068	39,258
Selling, general and administrative expenses	10,302	11,483	12,733	14,398	16,574	18,248	20,878	25,281	28,578	30,738
Operating income	2,823	2,218	3,549	4,784	5,464	3,245	4,744	6,647	10,489	8,519
EBITDA ¹	4,662	4,307	5,719	7,118	8,492	6,837	8,570	10,278	14,951	13,260
Ordinary income	2,568	1,802	3,098	4,358	4,941	2,855	4,188	6,003	9,878	7,976
Profit attributable to owners of parent	399	420	1,404	1,821	2,085	184	1,901	2,778	6,329	4,638
Cash flows (fiscal year)										
Cash flows from operating activities	2,943	852	3,833	6,723	7,127	2,885	6,243	5,831	19,327	(940)
Cash flows from investing activities	(5,803)	(10,124)	(5,338)	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)	(28,444)
Cash flows from financing activities	5,010	9,233	3,434	1,109	7,920	5,496	8,782	1,422	7,031	18,205
Financial position (at year-end)										
Total assets	46,445	57,077	64,678	72,701	86,615	95,140	117,295	130,141	157,609	178,347
Net assets	12,431	10,725	11,405	12,780	14,716	14,702	15,849	17,635	32,473	36,447
Cash and cash equivalents at year end	5,745	5,706	7,636	7,200	12,554	14,513	15,027	13,844	32,380	21,200
Merchandise and finished goods	4,006	5,150	5,231	8,595	8,419	11,908	12,165	15,911	15,328	21,455
Interest-bearing debts ²	16,756	27,981	32,190	33,891	42,279	48,281	62,037	68,327	66,794	86,524
Per share information										
Net assets per share ³ (yen)	800.68	732.93	796.64	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22	2,278.70
Net income per share ³ (yen)	25.33	28.48	96.13	127.57	145.46	12.84	131.24	194.48	432.85	290.03
Financial and non-financial data										
Sales growth rate (%)	21.3%	7.6%	14.4%	14.1%	16.0%	7.2%	18.6%	10.0%	20.6%	1.9%
Selling, general and administrative expenses ratio (%)	12.9%	13.4%	13.0%	12.8%	12.7%	13.1%	12.6%	13.9%	13.0%	13.8%
Operating margin (%)	3.5%	2.6%	3.6%	4.3%	4.2%	2.3%	2.9%	3.7%	4.8%	3.8%
ROA ⁴ (%)	0.9%	0.8%	2.3%	2.7%	2.6%	0.2%	1.8%	2.2%	4.4%	2.8%
ROE ⁵ (%)	3.2%	3.6%	12.7%	15.1%	15.2%	1.3%	12.0%	16.6%	25.3%	13.5%
Equity ratio ⁶ (%)	26.8%	18.8%	17.6%	17.6%	17.0%	15.5%	13.5%	13.6%	20.6%	20.4%
Interest coverage ratio ⁷ (times)	14.7	2.5	7.8	12.8	13.0	4.9	8.6	7.1	24.4	—
D/E ratio ⁸ (times)	1.3	2.6	2.8	2.7	2.9	3.3	3.9	3.8	2.1	2.4
Capital investments	6,000	10,283	5,885	7,885	8,961	5,566	9,069	12,279	8,073	23,344
Depreciation	1,839	2,088	2,169	2,333	3,028	3,591	3,825	3,631	4,461	4,741
R&D expenses	362	583	807	985	1,224	1,023	1,534	1,767	1,913	2,388
Number of employees ⁹	1,523	1,675	1,881	2,112	2,304	2,488	3,009	3,283	3,435	3,781

* 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 2006.

4. ROA = net income attributable to the equity holders of the parent company/average of total assets at the beginning and end of the fiscal year

5. ROE = net income attributable to the equity holders of the parent company/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 2016 was greatly affected by the biennial prescription dispensing fee revisions and NHI drug price revisions, regarding both sales and profits in the dispensing pharmacy business and the pharmaceutical manufacturing and sales business. As the movement for the industry reorganization became clear in the dispensing pharmacy business and the pharmaceutical manufacturing and sales business, the business environment became very severe for the Group. In the long-term (10-year) trends, however, both net sales and operating profit achieved a double-digit compound annual growth rate in spite of varying operating income owing to the strong impact of revisions.

Status of Sales and Profits

Net Sales

The net sales totaled 223,468 million yen (up by 1.9%, or 4,228 million yen year on year). One of the major reasons the increase remained small was a considerable price reduction by over 30% for a hepatitis C drug and a decrease in prescriptions. Except for the impact of the hepatitis C drug, the revenue growth rate was 6.9%, which is not very high, but the minimum level was able to be secured.

In addition, owing to the medical fee revisions in April 2016, the movement for increasing the counter-referral ratio of patients became more obvious than expected mainly at regional medical care support hospitals, and thus the number of prescriptions at large-scale dispensing pharmacies near hospitals remained low. Another reason was the slowdown in the sales in the generic drug market owing to aggressive sales promotions by originator pharmaceutical companies.

Cost of Sales, Selling, and General Administrative Expenses

Sales costs totaled 184,210 million yen (up by 2.2%, or 4,038 million yen). Selling and general administrative expenses totaled 30,738 million yen (up by 7.6%, or 2,160 million yen) as a result of aggressive upfront investments based on a hard look at the following future business expansions: the maintenance of prescription laboratories to promote family pharmacies and family pharmacists, reinforcement of education for pharmacists, expansion of production capacity in preparation for the expanding generic drug market, and efforts in research development to reinforce product lines.

Operating Income

Operating income totaled 8,519 million yen (down by 18.8%, or 1,970 million yen) and the operating margin was 3.8% (down by 1.0 point).

Profit greatly decreased in this term. However, when compared with the other fiscal years of the revisions (3,245 million yen in the fiscal term ended in March 2013, 6,647 million yen in the fiscal term ended in March 2015, and 8,519 million yen in this term), the increasing trend that bears comparison with the net sales change was maintained. The operating margin has been steadily increasing, up 2.3% in the fiscal term ended in March 2013, 3.7% in the fiscal term ended in March 2015, and 3.8% in this term.

Profit Attributable to Owners of Parent Company

Profit attributable to owners of the parent company totaled 4,638 million yen (down by 26.7%, or 1,690 million yen). ROE (Return on Equity) could be maintained at a certain level of 13.5%, but greatly decreased from 25.3% in the previous period owing to the impact of a substantial fall in profits.

Status of Each Business Segment

Dispensing Pharmacy Business

Net sales of this business totaled 189,327 million yen (down by 0.8%, or 1,546 million yen year on year) mainly because the decrease in the prescriptions of a hepatitis C drug and the reduction in NHI drug prices could not be covered with the revenue growth by increasing the number of stores.

Operating income was affected, as the number of prescriptions did not increase enough to cover the increase in various expenses involved in the promotion of family pharmacies and family pharmacists and the negative impact was seen immediately after the revisions. As a result, operating income was 9,560 million yen (down by 10.7%, or 1,147 million yen).

Pharmaceutical Manufacturing and Sales Business

Although selling prices decreased as a result of the revisions of NHI prices in April 2016, the use of generic drugs by medical institutions showed an upward trend, supported by the medical fee revisions. Also, as a result of strong cooperation between all group companies, sales were 36,821 million yen (up by 13.0%, or 4,223 million yen).

Profitability was affected by aggressive low prices of long-term listed drugs offered by original pharmaceutical companies while the expenses increased owing to a series of upfront investments such as expanding operation capacity in preparation for the extending generic drug market and reinforcement of research development to increase our own manufacturing products. Thus, operating income was 1,719 million yen (down by 35.5%, or 948 million yen).

Medical Professional Staffing and Placement Business

After revisions to the prescription dispensing fee in April 2016, the roles of family drug stores and family pharmacists have been expanded and strengthened more than before. Thus, the demand for

medical professional staffing and placement has remained at a high level. Under these circumstances, this business continued to increase job offers by adding new customers for staffing and placement services and to maintain a large number of registered personnel. As a result, sales were 10,500 million yen (up by 17.5%, or 1,565 million yen).

Profitability slightly decreased as a result of a steep rise in website advertising rates. However, operating income was 1,710 million yen (up by 7.0%, or 111 million yen).

Analysis of Financial Position

Assets

Total assets increased by 20,737 million yen, or 13.2%, from 157,609 million yen at the end of the previous fiscal year to 178,347 million yen at the end of this fiscal year.

Current assets were 82,327 million yen, a decrease of 2,511 million yen (3.0%), from 84,838 million yen at the end of the previous fiscal year. This was attributable mainly to a decrease of 11,185 million yen in cash and deposits. Non-current assets increased by 23,248 million yen (31.9%) from 72,770 million yen at the end of the previous year to 96,019 million yen. Opening of new pharmacies in the dispensing pharmacy business, transfer of business, 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 16,763 million yen (13.4%), from 125,136 million yen at the end of the previous fiscal year to 141,900 million yen at the end of this fiscal year.

Current liabilities decreased 2,679 million yen (3.9%), from 68,985 million yen at the end of the previous fiscal year to 66,305 million yen at the end of this fiscal year. This was attributable mainly to a 3,080 million yen decrease in accounts payable—trade. Non-current liabilities increased by 19,443 million yen (34.6%) from 56,151 million yen at the end of the previous fiscal year to 75,595 million yen. This was attributable mainly to a 20,057 million yen increase in long-term loans payable.

Net Assets

Net assets increased by 3,973 million yen (12.2%) from 32,473 million yen at the end of the previous fiscal year to 36,447 million yen. This was attributable mainly to a 3,839 million yen increase in retained earnings. As a result, the equity ratio slightly decreased from 20.6% at the end of the previous fiscal year to 20.4%.

Status of Cash Flows

Net cash used in operating activities in the fiscal year was 940 million yen, net cash used in investing activities was 28,444 million yen, and net cash provided by financing activities was 18,205 million yen.

As a result, there was a net decrease of 11,180 million yen in cash and cash equivalents from the end of the previous fiscal year to 21,200 million yen at the end of March 2017. Each cash flow status is as follows.

Cash Flows from Operating Activities

A major source of cash inflow was profit before income taxes of 7,827 million yen, while the primary use of cash outflow was a 7,005 million yen in inventory and a 4,135 million yen in trade payables.

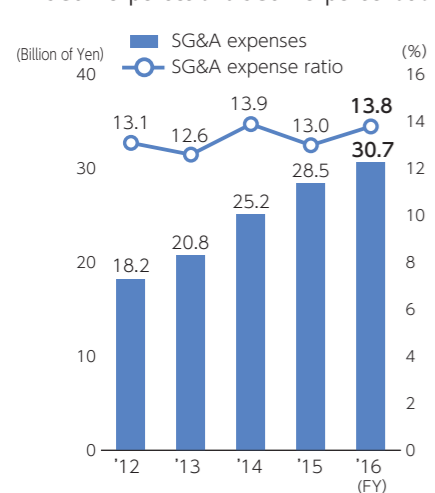
Cash Flows from Investing Activities

The primary uses of cash outflow were payments of 20,222 million yen for the purchase of property, plants, and equipment incidental to opening new stores in the dispensing pharmacy business and capital investments in the pharmaceutical manufacturing and sales business. There were also payments of 4,899 million yen for acquisition of shares of subsidiaries resulting in change in scope of consolidation.

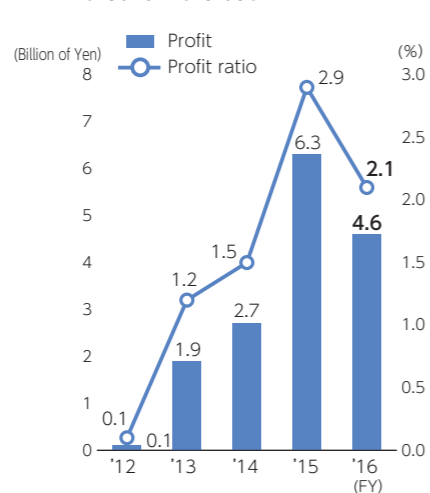
Cash Flows from Financing Activities

The primary source of cash inflow was proceeds of 33,600 million yen in long-term loans payable, while cash was used mainly for payments of 7,000 million yen in bond redemption.

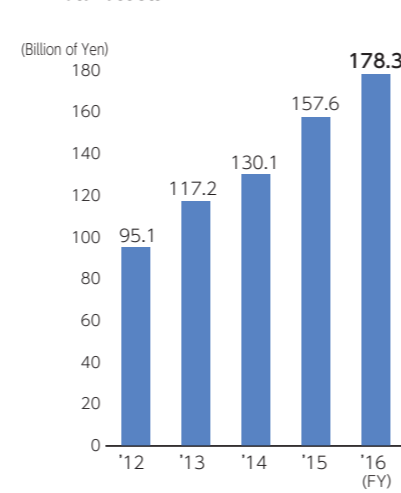
SG&A expenses and SG&A expense ratio



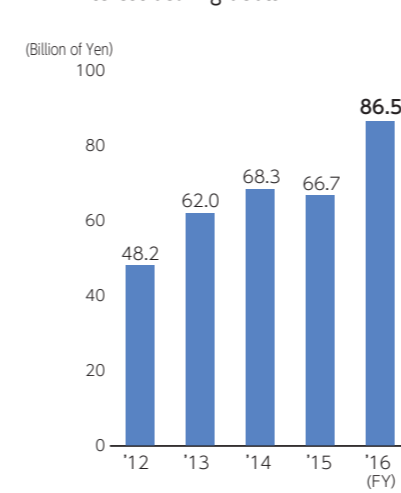
Profit and Profit ratio



Total assets

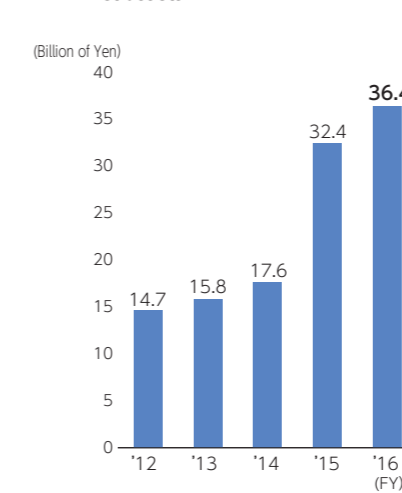


Interest-bearing debts

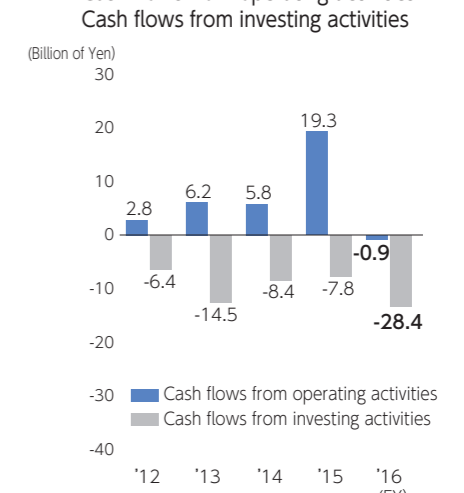


*Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable—installment purchase, and bonds.

Net assets



Cash flows from operating activities
Cash flows from investing activities



Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries
March 31, 2016 and 2017

(Millions of yen)

Assets	FY2015	FY2016
Current assets		
Cash and deposits	32,385	21,200
Notes receivable—trade	197	73
Accounts receivable—trade	25,839	26,698
Electronically recorded monetary claims—operating	774	872
Merchandise and finished goods	15,328	21,455
Work in process	1,993	2,509
Raw materials and supplies	4,695	5,550
Deferred tax assets	1,447	1,262
Other	2,187	2,713
Allowance for doubtful accounts	(10)	(7)
Total current assets	84,838	82,327
Non-current assets		
Property, plant and equipment		
Buildings and structures	36,733	39,675
Accumulated depreciation	(15,196)	(17,372)
Buildings and structures, net	21,537	22,303
Machinery, equipment and vehicles	7,862	12,690
Accumulated depreciation	(2,007)	(2,649)
Machinery, equipment and vehicles, net	5,855	10,040
Land	17,188	18,016
Leased assets	2,943	2,995
Accumulated depreciation	(1,233)	(1,582)
Leased assets, net	1,710	1,413
Construction in progress	2,807	13,521
Other	11,765	13,564
Accumulated depreciation	(8,867)	(10,346)
Other, net	2,898	3,217
Total property, plant and equipment	51,997	68,513
Intangible assets		
Goodwill	8,507	14,605
Other	1,615	2,167
Total intangible assets	10,122	16,773
Investments and other assets		
Investment securities	945	1,039
Long-term loans receivable	886	817
Lease and guarantee deposits	6,932	7,072
Deferred tax assets	647	587
Other	1,239	1,216
Total investments and other assets	10,650	10,733
Total non-current assets	72,770	96,019
Total assets	157,609	178,347

(Millions of yen)

Liabilities	FY2015	FY2016
Current liabilities		
Accounts payable—trade	41,989	38,909
Electronically recorded obligations—operating	2,664	2,124
Current portion of bonds	7,000	—
Current portion of long-term loans payable	5,963	13,411
Lease obligations	400	390
Income taxes payable	2,745	1,537
Provision for bonuses	2,249	2,547
Provision for directors' bonuses	138	117
Asset retirement obligations	7	9
Other	5,826	7,257
Total current liabilities	68,985	66,305
Non-current liabilities		
Long-term loans payable	50,621	70,678
Lease obligations	1,337	1,002
Long-term accounts payable—installment purchase	1,040	609
Provision for directors' retirement benefits	957	949
Net defined benefit liability	1,157	1,294
Asset retirement obligations	723	760
Other	312	298
Total non-current liabilities	56,151	75,595
Total liabilities	125,136	141,900
Net assets	FY2015	FY2016
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	17,672	21,511
Treasury shares	(44)	(46)
Total shareholders' equity	32,507	36,345
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	196	263
Remeasurements of defined benefit plans	(231)	(161)
Total accumulated other comprehensive income	(34)	101
Total net assets	32,473	36,447
Total liabilities and net assets	157,609	178,347

Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2016 and 2017

(Millions of yen)

	FY2015	FY2016
Net sales	219,239	223,468
Cost of sales	180,171	184,210
Gross profit	39,068	39,258
Selling, general and administrative expenses	28,578	30,738
Operating income	10,489	8,519
Non-operating income		
Interest income	6	1
Commission fee	137	144
Rent income	378	404
Surrender value of insurance	—	75
Other	217	157
Total non-operating income	740	783
Non-operating expenses		
Interest expenses	790	687
Commission fee	45	37
Rent expenses	294	322
Loss on retirement of non-current assets	35	113
Other	185	164
Total non-operating expenses	1,351	1,326
Ordinary income	9,878	7,976
Extraordinary income		
Gain on sales of non-current assets	22	28
Gain on investment securities	—	0
Total extraordinary income	22	28
Extraordinary losses		
Loss on sales of non-current assets	—	6
Impairment loss	219	171
Total extraordinary losses	219	177
Profit before income taxes	9,681	7,827
Income taxes—current	3,720	3,024
Income taxes—deferred	(368)	164
Total income taxes	3,352	3,188
Profit	6,329	4,638
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	6,329	4,638

Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2016 and 2017

(Millions of yen)

	FY2015	FY2016
Profit	6,329	4,638
Other comprehensive income		
Valuation difference on available-for-sale securities	(136)	66
Remeasurements of defined benefit plans, net of tax	(17)	69
Total other comprehensive income	(153)	136
Comprehensive income	6,175	4,775
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,175	4,775
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income			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	
For the year ended March 31, 2016									
Balance at beginning of current period	3,953	4,754	11,868	(3,059)	17,515	333	(213)	119	17,635
Changes of items during period									
Dividends of surplus			(525)		(525)				(525)
Profit attributable to owners of parent			6,329		6,329				6,329
Purchase of treasury shares				(6)	(6)				(6)
Disposal of treasury shares		6,172		3,021	9,194				9,194
Net changes of items other than shareholders' equity						(136)	(17)	(153)	(153)
Total changes of items during period	—	6,172	5,803	3,015	14,991	(136)	(17)	(153)	14,837
Balance at end of current period	3,953	10,926	17,672	(44)	32,507	196	(231)	(34)	32,473

For the year ended March 31, 2017

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income			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	
For the year ended March 31, 2017									
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

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2016 and 2017

(Millions of yen)

	FY2015	FY2016
Cash flows from operating activities		
Profit before income taxes	9,681	7,827
Depreciation	4,461	4,741
Amortization of long-term prepaid expenses	107	104
Impairment loss	219	171
Amortization of goodwill	663	976
Increase (decrease) in allowance for doubtful accounts	(0)	(9)
Increase (decrease) in provision for bonuses	167	279
Increase (decrease) in provision for allowance for sales discount	(130)	—
Increase (decrease) in provision for directors' bonuses	40	(21)
Increase (decrease) in net defined benefit liability	223	118
Increase (decrease) in provision for directors' retirement benefits	70	(7)
Interest and dividend income	(27)	(22)
Interest expenses	790	687
Gain on sales of noncurrent assets	(22)	(22)
Loss (gain) on sales of investment securities	—	(0)
Decrease (increase) in notes and accounts receivable-trade	(5,339)	(46)
Decrease (increase) in inventories	(881)	(7,005)
Increase (decrease) in notes and accounts payable-trade	11,212	(4,135)
Decrease (increase) in prepaid expenses	(7)	(84)
Increase (decrease) in accrued expenses	265	132
Increase (decrease) in accounts payable-other	853	758
Other, net	441	(349)
Subtotal	22,787	4,093
Interest and dividend income received	27	22
Interest expenses paid	(792)	(702)
Income taxes paid	(2,695)	(4,354)
Net cash provided by (used in) operating activities	19,327	(940)
Cash flows from investing activities		
Payments into time deposits	(5)	—
Proceeds from withdrawal of time deposits	82	5
Purchase of property, plant and equipment	(6,880)	(20,222)
Proceeds from sales of property, plant and equipment	25	72
Purchase of intangible assets	(243)	(926)
Proceeds from sales of investment securities	—	2
Increase in long-term prepaid expenses	(104)	(231)
Payments for transfer of business	(454)	(1,713)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(226)	(4,899)
Payments for loans receivable	(16)	(443)
Collection of loans receivable	115	103
Payments for lease and guarantee deposits	(256)	(385)
Proceeds from collection of lease and guarantee deposits	160	134
Other, net	(19)	59
Net cash provided by (used in) investing activities	(7,823)	(28,444)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(5,100)	(236)
Proceeds from long-term loans payable	10,400	33,600
Repayments of long-term loans payable	(6,069)	(6,509)
Redemption of bonds	—	(7,000)
Repayments of lease obligations	(430)	(412)
Repayments of installment payables	(431)	(431)
Proceeds from disposal of treasury shares	9,194	—
Purchase of treasury shares	(6)	(1)
Cash dividends paid	(524)	(802)
Net cash provided by (used in) financing activities	7,031	18,205
Net increase (decrease) in cash and cash equivalents	18,535	(11,180)
Cash and cash equivalents at beginning of period	13,844	32,380
Cash and cash equivalents at end of period	32,380	21,200

Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2017," 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 29, 2017, 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 29, 2017.

(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 mainly regulated by the Health Insurance Act, and the income from technical dispensing based on dispensing fee points regulated by this Act. 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

223,400 million yen (FY2016)

Number of Employees

Regular employees: 2,893

Part-time employees and others: 749

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

(As of March 31, 2017)

Main Financing Banks

Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, 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

8,160 shareholders

Annual General Meeting of Shareholders

June

Administrator of Shareholder Registry

Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081
0120-232-711 (toll-free)

Stock Exchange for Listing

Tokyo Stock Exchange (TSE) First Section

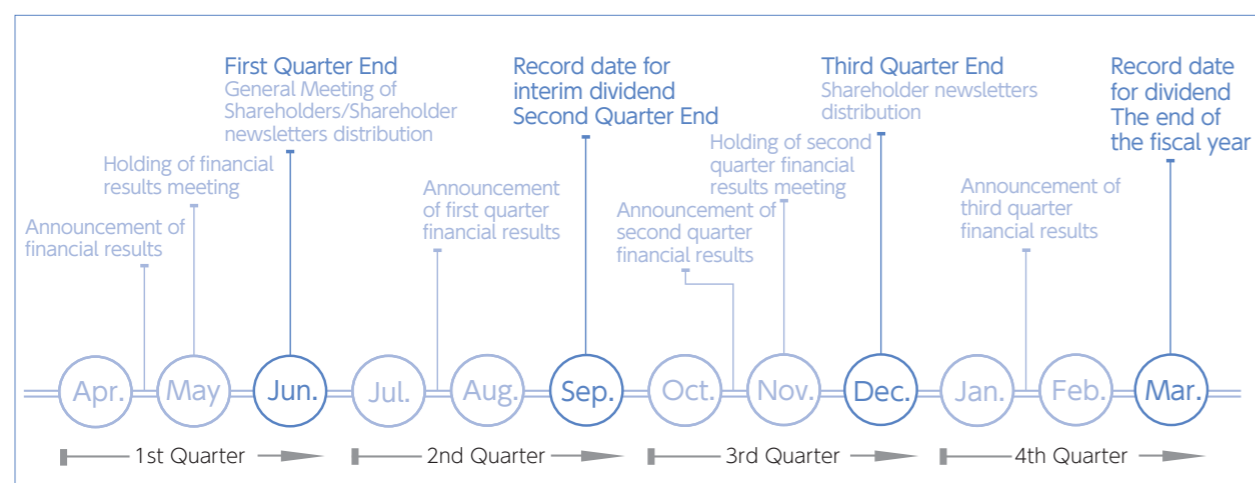
Securities Code

3341

Settlement Date

March 31

IR Calendar



History

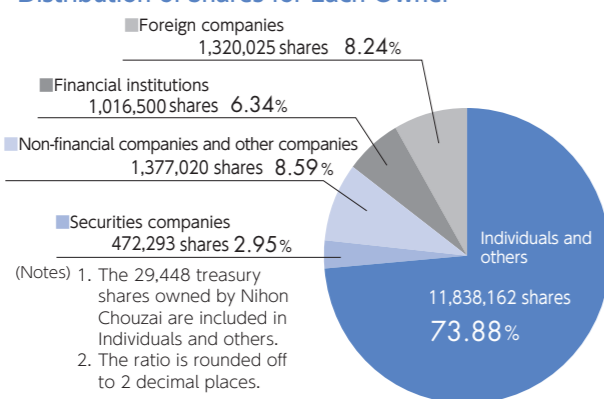
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon 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)
February 2015	Nihon Generic acquired the Kasukabe plant of Teva Pharma Japan Inc. (Current Teva Takeda Pharma Ltd.)

The law amendment or system changes are written in blue.

Stock Information

(As of March 31, 2017)

Distribution of Shares for Each Owner



Trend of Holding Stock Ratio

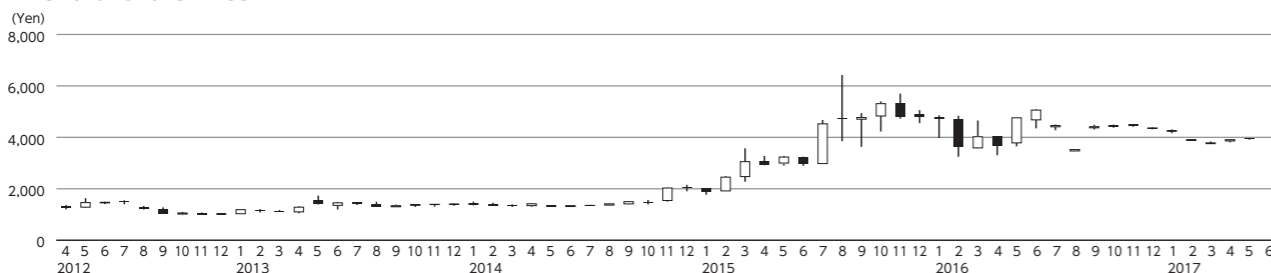
Ratio for Number of Shares	2016/3	2017/3
Individuals and others	77.46%	73.88%
Securities companies	3.10	2.95
Non-financial companies and other companies	9.00	8.59
Financial institutions	4.51	6.34
Foreign companies	5.93	8.24

Major Shareholders (Top 10 Shareholders)

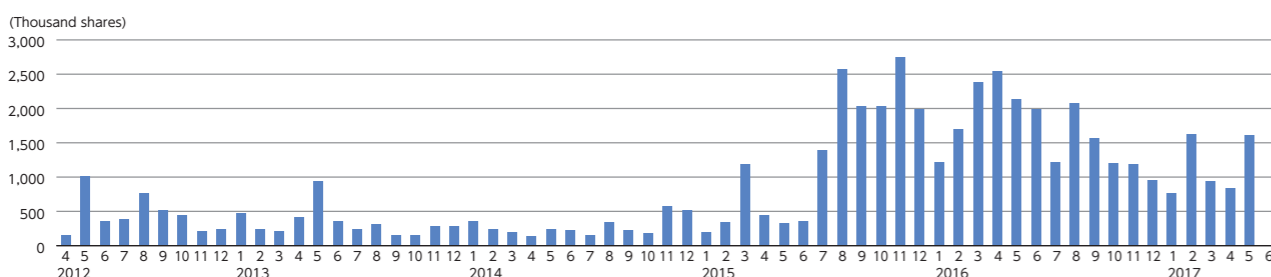
Names of the Shareholders	Number of Owned Shares (Shares)	Investment Ratio (%)
Hiroshi Mitsuhara	4,680,000	29.25
Yosuke Mitsuhara	3,320,000	20.75
Max Planning, Inc.	1,120,000	7.00
Nihon Chouzai Employee shareholding association	432,500	2.70
Yoko Mitsuhara	400,000	2.50
Keiko Mitsuhara	400,000	2.50
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN(CASHPB)	315,300	1.97
Nomura Securities Co., Ltd. (Proprietary account)	270,000	1.68
The Master Trust Bank of Japan, Ltd. (Trust account)	164,300	1.02
Japan Trustee Services Bank, Ltd. (Trust account)	161,100	1.00

(Notes) 1. The investment ratio was calculated excluding the number of treasury stock (29,448 shares).
2. The investment ratio is rounded down to 3 decimal places.

Trend of Share Price



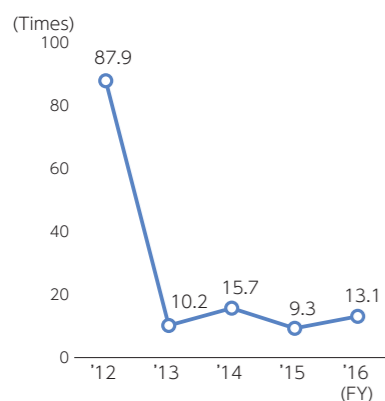
Trend of Turnover



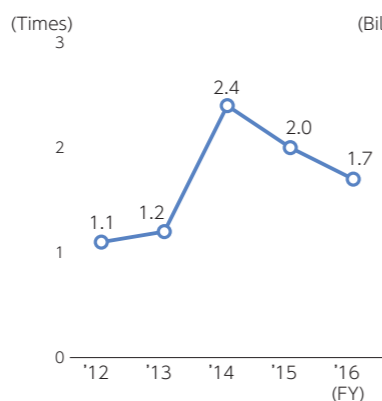
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2011.

Stock Price Index

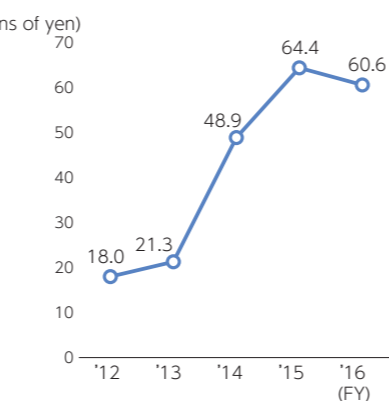
PER (Price earnings ratio)



PBR (Price-book value ratio)



Market capitalization



Determining Degree of Importance

This "Corporate Report 2017" presents topics with a high degree of importance to the Nihon Chouzai Group and to society. This document is published on an annual basis, and it is reference material for readers to gain an understanding of the Company's business status and its corporate policies. Nihon Chouzai has positioned aiming to achieve new growth as an integrated medical group by taking advantage of major changes — healthcare industry reorganization— as important themes, which it discusses in this report.

Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and non-financial 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 2016 (April 2016 to March 2017). However, as necessary, the contents may also cover some aspects of fiscal 2017.

Notes Concerning Forward-Looking Statements

The Corporate Report 2017 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.