

Achieving true separation of drug prescribing and
dispensing services



Corporate Report **2016**

Contents

Provide and improve corporate value

- 02 Corporate Philosophy and The 4th Medium-term Management Plan
- 03 Nihon Chouzai Group's Business Model
- 07 Financial Highlights
- 09 Non-financial Highlights
- 11 Nihon Chouzai Group The Year in Brief

Management vision and business performance

- 13 Message from the President
- 19 Business Overview
Dispensing Pharmacy Business
- 26 Business Overview
Information Provision and Consulting Business
- 27 Business Overview
Pharmaceutical Manufacturing and Sales Business
- 31 Business Overview
Medical Professional Staffing and Placement Business

Base that supports Nihon Chouzai

- 33 Corporate Governance
- 35 Board of Directors
- 37 Dialogue with Stakeholders

Data section

- 39 Explanation of Terminology 1
- 41 Explanation of Terminology 2
- 43 10-Year Summary of (Financial and Non-financial Data)
- 45 Report of Business Results and Financial Analysis
- 47 Consolidated Financial Statements
- 52 Risks of Businesses
- 55 Company Profile
- 56 History
- 57 Stock Information

About the Cover

The concentric rings shown on the cover represent the diverse roles that Nihon Chouzai plays in modern society. Since its founding, Nihon Chouzai, which began its operations as a dispensing pharmacy, has worked to evolve and grow its visionary business model, and it has endeavored to contribute to the reform of Japan's social security system. Today, with the advent of a "super-aged" society, the Nihon Chouzai Group aims for a new social security platform, and to create even greater corporate value. Working as one with society, Nihon Chouzai sees its role as one to provide ever-greater value.



Determining Degree of Importance

This "Corporate Report 2016" 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 raising corporate value through the Company's sustainable growth and providing sustainable value to society 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 2015 (April 2015 to March 2016). However, as necessary, the contents may also cover some aspects of fiscal 2016.

Notes Concerning Forward-Looking Statements

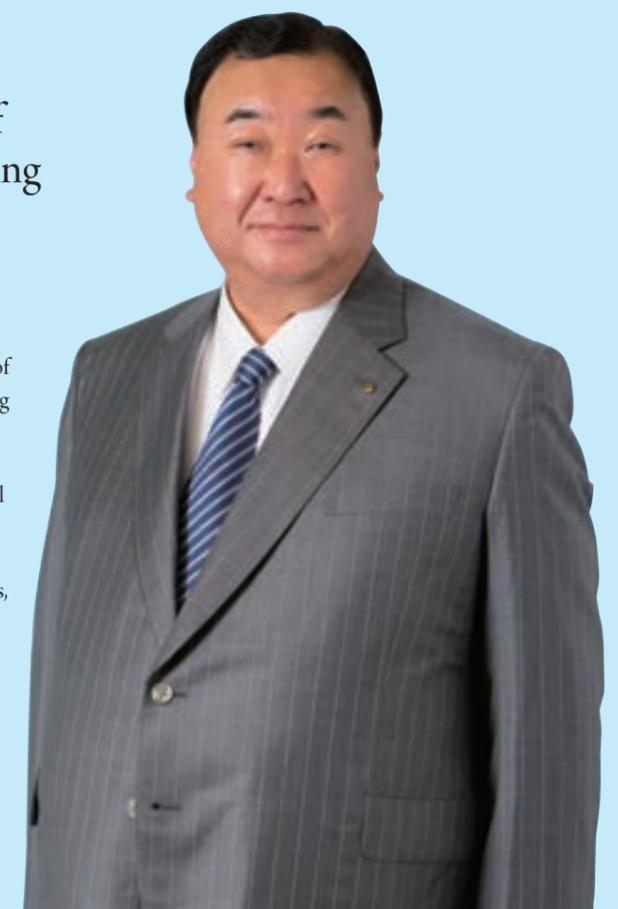
The Corporate Report 2016 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual 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.

Corporate Philosophy True separation of the roles of drug prescribing and dispensing services

The separation between dispensary and medical practices, presently standing at over 70%, is becoming increasingly prevalent across Japan. That said, one can still come across such a situation where a healthy level of separation has yet to be attained. As a leading dispensing pharmacy operator in Japan, Nihon Chouzai is committed to being an independent service provider, where pharmacists who work independently of medical institutions conduct drug preparation and dispensary services, medication history management, and instruction on dosage and administration. By doing this, it fulfils its mission to contribute to people's health and welfare, as well as to Japan's medical insurance system. This makes Nihon Chouzai vital to society, and this is what it aspires to in its pursuit of the true separation of the roles of drug prescribing and dispensing services.

Hiroshi Mitsuhashi, President & CEO

三津原 博



The 4th Medium-term Management Plan

(Fiscal 2015–fiscal 2017)

Major Targets

	FY2017	(Results) FY2015
Net sales	¥273.8 billion (50% growth)*	¥219.2 billion
Operating income	¥12.2 billion (100% growth)*	¥10.4 billion
Operating income margin	4.5%	4.8%
Properly implement Japan's Corporate Governance Code for greater growth in corporate value		

Note: All of the above are on a consolidated basis and after eliminations for inter-segment transactions

* Compared to fiscal 2014

Sales Target by Business Segment

	FY2017	(Reference) FY2015
Dispensing Pharmacy Business	217.6 billion	190.8 billion
Pharmaceutical Manufacturing and Sales Business	55.7 billion	32.5 billion
Medical Professional Staffing and Placement Business	14.0 billion	8.9 billion

Note: All of the above are prior to eliminations for inter-segment transactions

Major Initiatives

Dispensing Pharmacy Business

- Increase at-home medical care
- Thoroughly promote the use of generic drugs
- Continue to aggressively open pharmacies in a diverse range of formats
- Strengthen activities to raise the level of corporate awareness
- Establish a robust framework to adapt to Japan's medical system reforms

Pharmaceutical Manufacturing and Sales Business

- Grow faster than the overall market
- Rank among industry leaders in the number of products sold
- Build an infrastructure for the stable supply of high-quality products

Medical Professional Staffing and Placement Business

- Quickly increase annual net sales to more than 10 billion yen
- Boost the monthly number of medical professionals newly registering for placement

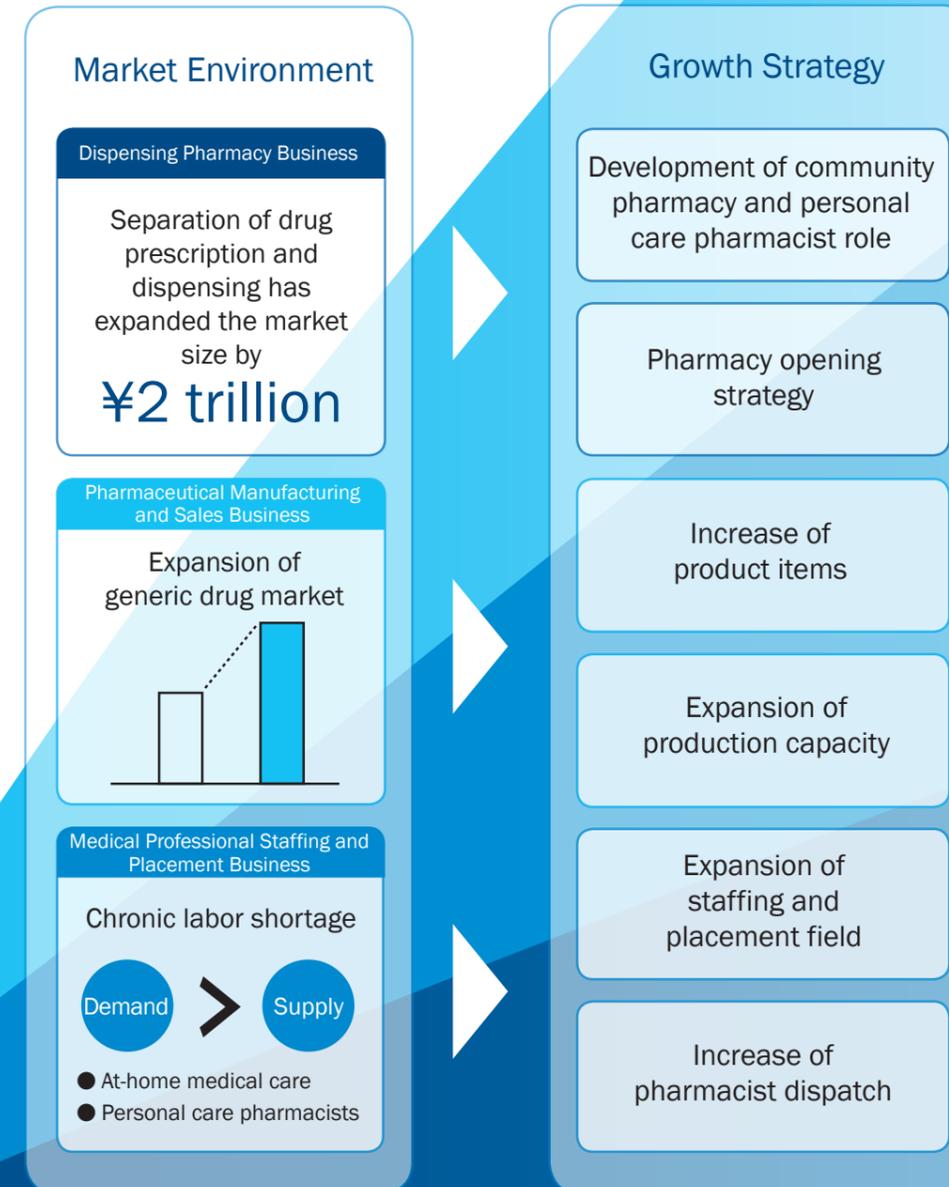
Information Provision and Consulting Business

(Net sales in this business are included in the Dispensing Pharmacy Business)

- Develop new products in the data provision business
- Bolster consulting function for medical institutions

Sustainable Growth as a "Comprehensive Healthcare Group" That Comprehends Social Changes

The Nihon Chouzai Group, while centered on its Dispensing Pharmacy Business, has been operating in peripheral businesses that generate synergistic effects. The Group has responded quickly to social changes and has invested in growing diverse businesses. For example, in conjunction with the lifting of the ban on the dispatching of pharmacists, the Group established a temporary staffing company (now, Medical Resources Co., Ltd.), and with the revision to the law authorizing the manufacture and sale of pharmaceuticals, it established Nihon Generic Co., Ltd. The Group will continue to expand its diversified business portfolio to enable sustainable growth.



Launching a New Stage as a Comprehensive Healthcare Group

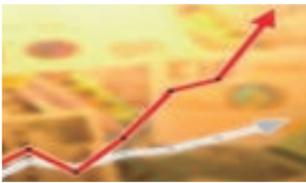


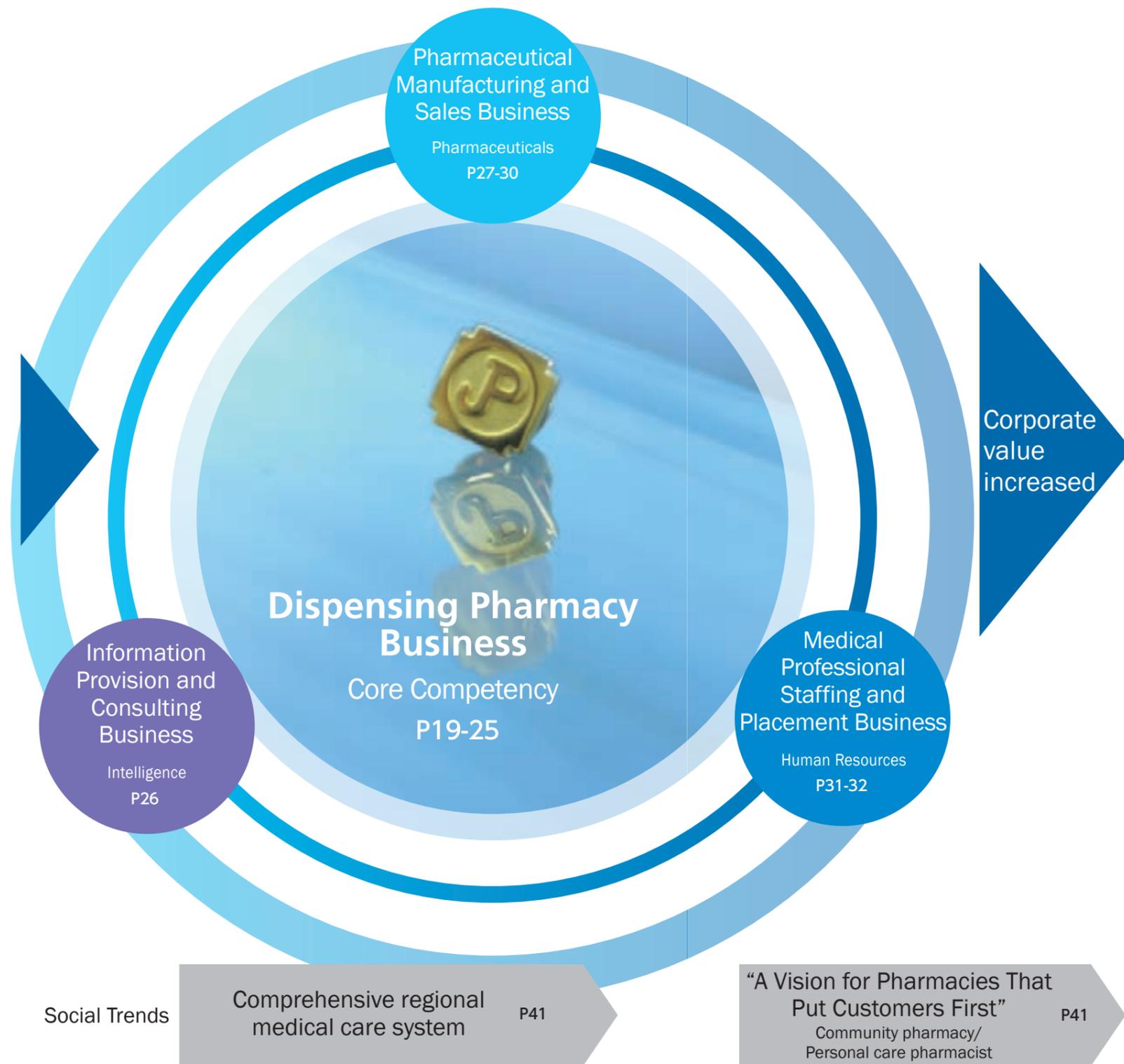
Provide and improve corporate value
Management vision and business performance
Base that supports Nihon Chouzai
Data section

Sustainable Value Creation for Society

While remaining firmly grounded in the dispensing pharmacy business, the Nihon Chouzai Group has developed peripheral businesses that add value as it works to address social issues based on medical systems. Value creation in individual businesses will spread to other businesses, enabling the Group to achieve sustainable value creation for society.

Social Issues

- 
 - Japan's financial situation
 - Rising medical expenses
- 
 - Super-aged society
 - Increase of lifestyle diseases
- 
 - Management of unused drugs
 - Multiple dosing
- 
 - Expansion of pharmacist role
 - At-home medical care



Social Value Creation

- To patients**

 - Support through personal care pharmacists
 - Lighten the burden of medical expenses
- To governments/administrations**

 - Control increasing medical expenses
- To local communities**

 - Provision of health information
 - Participation in comprehensive regional medical care system
- To ordinary citizens**

 - Self-medication
 - Initiatives for preventing diseases
- To medical institutions**

 - Strengthen cooperation with medical institutions
- To shareholders/investors**

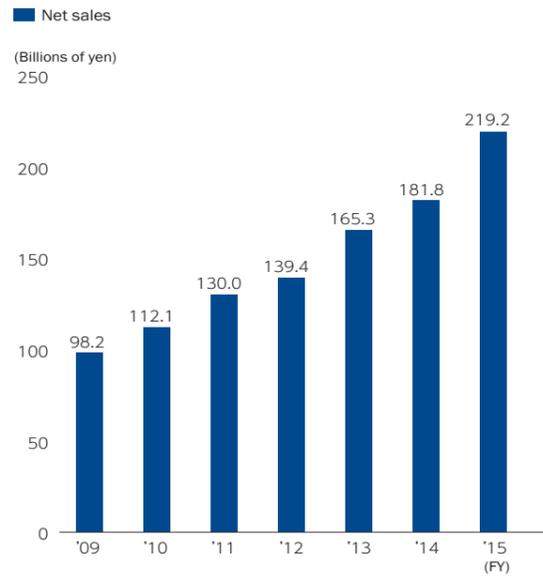
 - Stable and continuous profit returns
- To employees**

 - Provide new opportunities for success
 - Enhance educational opportunities

Financial Highlights

Net sales

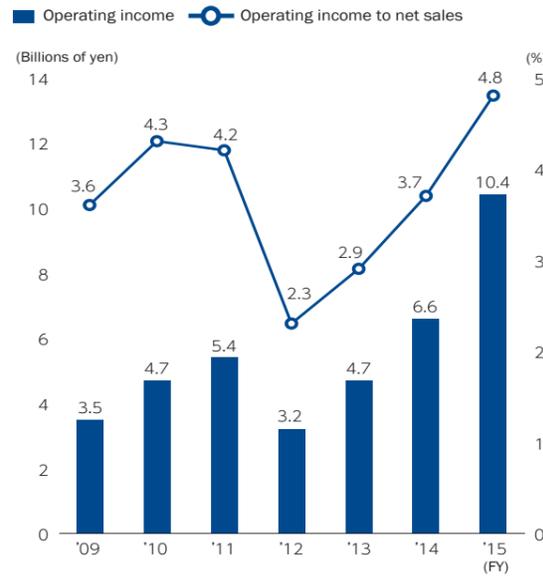
219.2 billion yen



Sales increased in all business segments, and the growth rate was a significant 20.6%.

Operating income/Operating income to net sales

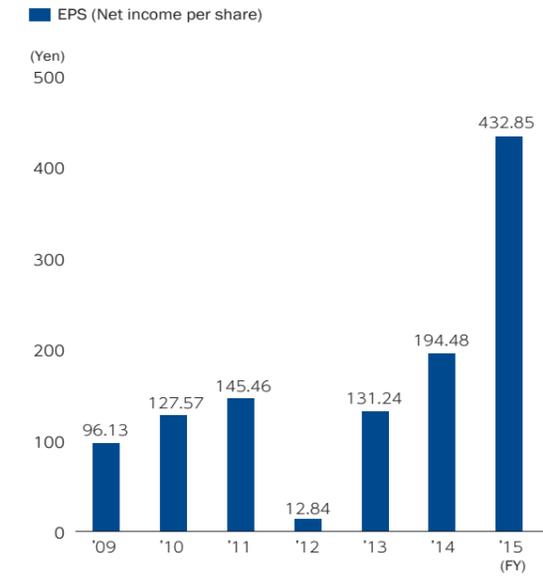
10.4 billion yen **4.8** %



Operating income increased for the third consecutive fiscal year. It rose to a record high for the second consecutive fiscal year.

EPS

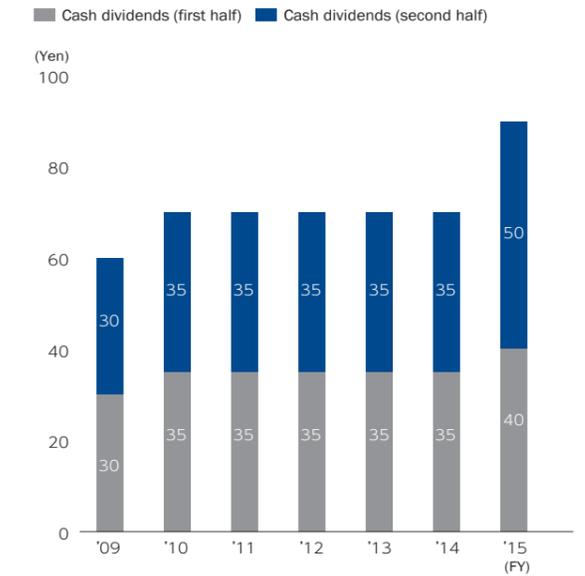
432.85 yen



EPS improved due to higher profit. EPS has been calculated after adjustment to reflect the stock split of October 1, 2015.

Cash dividends

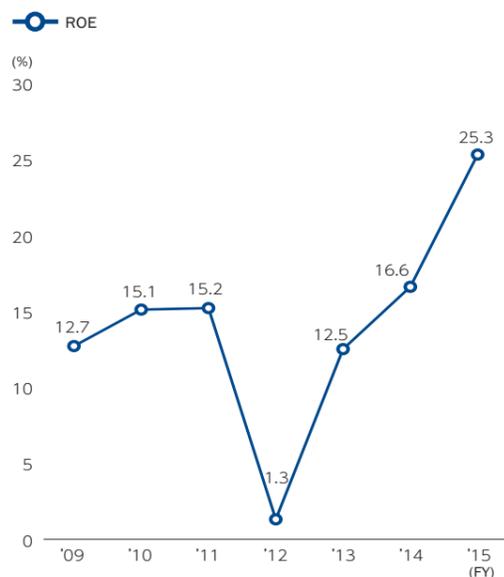
Annual dividend per share: **¥90**



The dividend was increased due to improvement in business operations. The second half of fiscal 2015 is shown on a pre-stock split basis. After the stock split, the dividend comes to 25 yen per share.

ROE

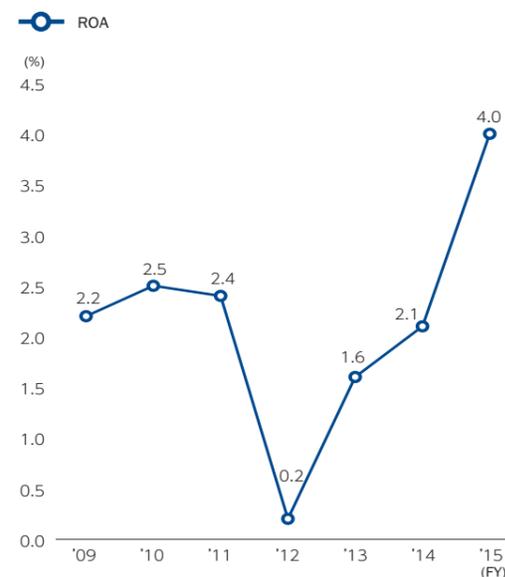
25.3 %



Although shareholders' equity increased due to sales of treasury stock, return on equity (ROE) improved dramatically on a substantial rise in profit.

ROA

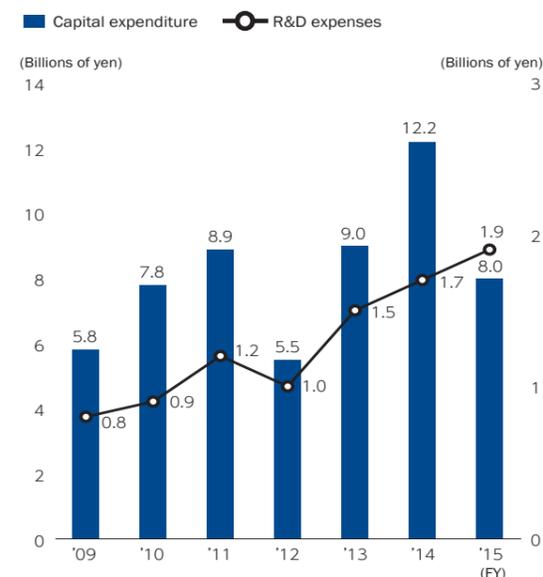
4.0 %



Although total assets increased due to expansion of business operations, return on assets (ROA) improved on a substantial increase in profit.

Capital expenditure/R&D expenses

Annual capital expenditure **¥8.0** billion



We will maintain growth investments, as we perceive this to be a critical time for the market to make a major move.



Okusuri Techo Plus Membership exceeds 80,000

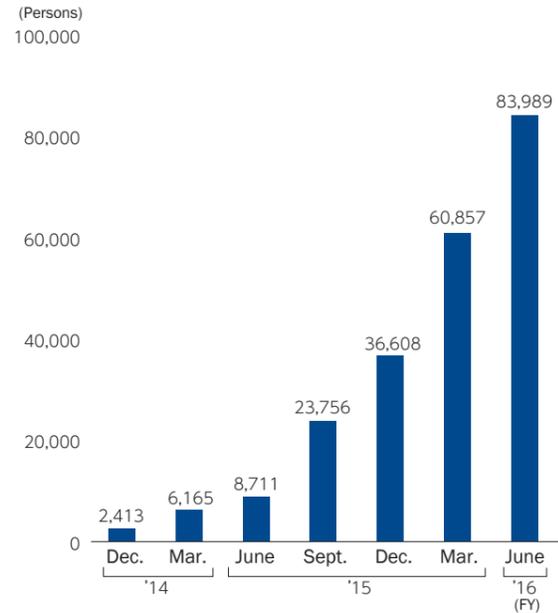
From April 2016, the electronic medication notebook can be used in the same way as a paper-based medication notebook. Nihon Chouzai's "Okusuri Techo Plus," an electronic medication notebook, is essential to centralized and continuous medication management for patients, and its use is growing.



Okusuri Techo Plus membership

83,989

■ Okusuri Techo Plus: Membership



Preparatory course for the national pharmacist exam 64 universities 3,857 participants

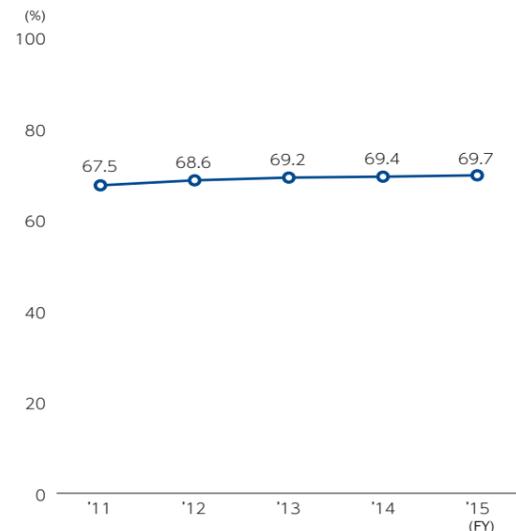
Nihon Chouzai has offered a preparatory course for the national pharmacist exam and supported students who aspire to be pharmacists. This course has been offered nationwide 67 times from March to December 2015, and 3,857 people from 64 universities have attended it. We will continue to proactively offer this course and contribute to future pharmacists who will serve as leaders of comprehensive regional medical care.



Ratio of female employees

69.7%

○ Employee ratio (female)

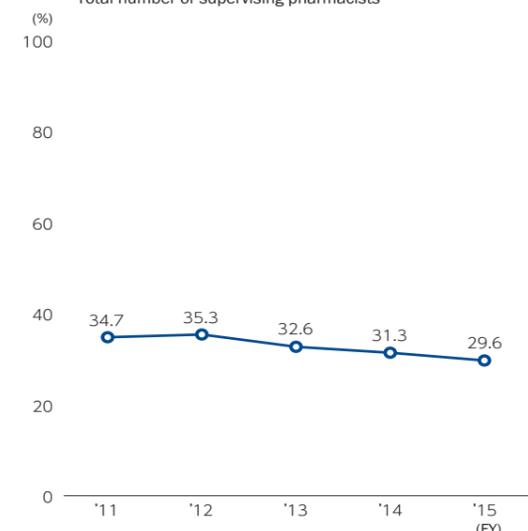


We are proactively recruiting female employees including pharmacists, and their opportunities are expanding.

Ratio of female supervising pharmacists in pharmacies

29.6%

○ Number of female supervising pharmacists / Total number of supervising pharmacists

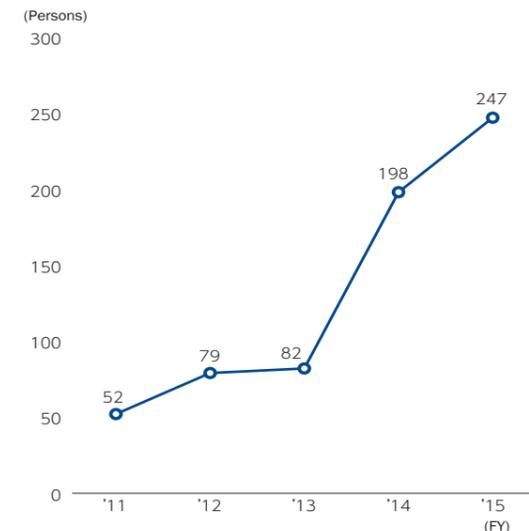


Approximately 30% of Nihon Chouzai supervising pharmacists are female. Female pharmacists can leave their supervising pharmacist job after giving birth or in order to raise children. We will continue to improve training for female supervising pharmacists and promote their appointment.

Number of users of shortened working hour system

247

○ Number of users of shortened working hour system

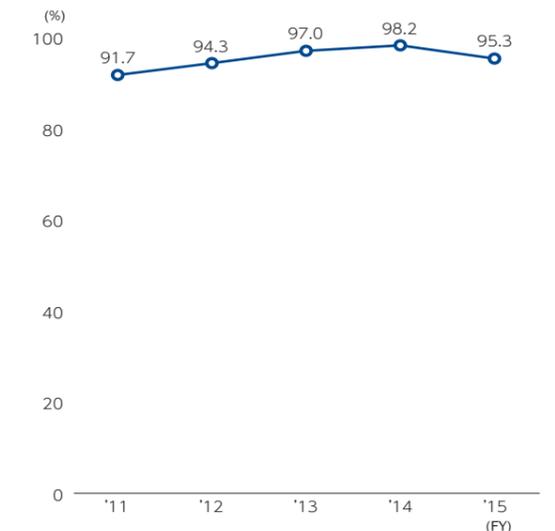


As a result of widely publicizing the shortened working-hour system for workers caring children the number of users of this system has rapidly increased. We have established an environment where it is easy to work while raising children.

Retention rate of employees returning from childcare leave

95.3%

○ Retention rate of employees returning from childcare leave



We have established a workplace environment where employees can work long term after returning, and 90% or more have been retained.

The Year in Brief

Nihon Chouzai Group

Dispensing Pharmacy Business

June 2015

Established fourth aseptic dispensary



July 2015

"Okusuri Techo Plus" Electronic Medication Notebook
Membership exceeds 10,000



September 2015

Pharmacies offering at-home medical care reached 95%



September 2015

Established psychiatrist-supervised "Health Contents" in "Okusuri Techo Plus"



January 2016

Started "Health Monitoring Business" in "Health Care ICT Model Project" in Kanagawa Prefecture



March 2016

Aired TV commercial featuring Junko Kubo as a spokesperson raising public awareness about "Community Pharmacies"



July 2015

Opened one of Japan's largest pharmacies in Asahi City, Chiba Prefecture that support the "Separation of the Roles of Drug Prescribing and Dispensing Services Project"



September 2015

Started "Japan's "Community Pharmacies" Declaration" Campaign



November 2015

Participated in "Disease Prevention Market Creation Promotion Business" in Kanagawa Prefecture



June
Announcement of Basic Policies 2015 (Government of Japan)

October
Announcement of Vision for pharmacies that put customers first (Ministry of Health Labour and Welfare)

March
Result Announcement of National Examination for Pharmacists

2015

2016

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

Pharmaceutical Manufacturing and Sales Business

April 2015

Tsukuba Plant S building began full operation (Nihon Generic)



Headquarters Second Plant was built and began full operation (Choseido Pharmaceutical)



June 2015

Released 19 new generic drugs with 8 different active ingredients



September 2015

Released 9 new generic drugs with 5 active ingredients aiming to achieve a production system with a maximum annual output capacity of 10 million tablets



December 2015

Released 9 new generic drugs with 5 different active ingredients



Medical Professional Staffing and Placement Business

March 2015

First to be designated an "Excellent Job Placement Agency"



Authorized as Excellent Job Placement Agency by the Ministry of Health, Labour and Welfare
第1402013(01)号

July 2015

Obtained "Privacy Mark"



For companies acquiring the "Privacy Mark"

July - December 2015

Drug History Records Improvement Sessions (5 Sessions) were held

606 participants in FY2015

- First Session July and August, 2015 (Tokyo, Osaka, Nagoya and Kyushu)
- Second Session September and October, 2015 (Tokyo, Osaka and Nagoya)
- Third Session October 2015 (Tokyo and Nagoya)
- Fourth Session November 2015 (Tokyo and Nagoya)
- Fifth Session December 2015 and January 2016 (Tokyo and Nagoya)



February 2016

Began education and training system for temporary staff



March 2016

Designated an "Excellent Temporary Work Agency"



優良派遣事業者

Provide and improve corporate value

Management vision and business performance

Base that supports Nihon Chouzai

Data section



Hiroshi Mitsuhashi, President & CEO

三津原 博

Launching a new stage of growth for the true separation of the roles of drug prescribing and dispensing services

Q The Company has as its corporate philosophy the “True separation of the roles of drug prescribing and dispensing services.” Please tell us your thoughts on the state of separation between prescribing and dispensing in Japan, and the idea behind the word “true” separation.

In the separation of drug prescribing and dispensing, when doctors and pharmacists have maintained an equal footing, then that, I believe, is the very essence of “true” separation.

By achieving a separation of prescribing and dispensing, we'd like this to enable a significant commitment by pharmacists to Japan's healthcare. Realizing the “true” separation stated in Nihon Chouzai's corporate philosophy means to **establish pharmacists as independent experts** and achieve a separation of the two fields **based on having pharmacists maintain an equal footing with physicians**.

To realize the true separation of prescribing and dispensing based on this idea, it will be important to have the widespread understanding of all employees, but fortunately, they have accepted my policies, and all of them are progressing in the same direction. As one example that comes up, I can mention the rate of prescription inquiries. The national average

prescription inquiry rate is less than 5%, but at Nihon Chouzai, it is approximately 17%. Conflicting views from physicians and pharmacists will always arise when it comes to drug therapies. However, unless **physicians and pharmacists are able to maintain an equal footing**, the kind of appropriate prescription enquiries that will **work to protect the patient** will not arise.

It is exactly because we have this strong belief in the need to realize true separation of prescribing and dispensing services that there is such trust in the 3,000 Nihon Chouzai pharmacists who serve some 50,000 patients every day. I firmly believe that this is tied to our business operations.

Q What do you think the Company should do to deal with Japan's social security system, which is facing ongoing demands for major reforms?

We will enthusiastically press forward with the shift to generic drugs.

Today's social security system in Japan was designed decades ago on the premise of ever-increasing growth, namely, a growing population, rising corporate earnings and higher GDP. Nonetheless, years ago the population began to decline, and for 20 years the GDP has essentially been flat. Given this situation, the design of the system itself has begun to fray around the edges. You might say that Japan's system of universal health coverage is itself on the brink of death, and this is a situation of grave concern for the nation.

To overcome this situation, the way to reduce medical costs in a way that any citizen will be able to accede to and find easy to understand is to **promote generic drugs**. This idea is my philosophy. Now, in Japan, of the medications used for

medical purposes, on a volume basis approximately 65% are generic drugs. Factoring this into drug prices, the effect is an approximate 35% cut in the price of drugs. The point is that this leads to a reduction in the medical costs patients must pay.

Just as with Japan, other developed countries are also seeing medical costs starting to rise along with increasingly aged societies, and they have reached an even higher share of generic drug use than in Japan. Contrasting with this, Japan has yet to reach the halfway point. As we look to the true separation of the roles of drug prescribing and dispensing services, Nihon Chouzai is moving in an all-out effort to promote the use of generic drugs with the intent of contributing to the social security of Japan.

Q The first year of the 4th Medium-term Management Plan is now finished, so what is your evaluation of its results overall?

For two consecutive years we've posted record sales and earnings, representing a strong start to this first year of the medium-term management plan.

During the last fiscal year, in June the government unveiled specific measures to reduce the growth of social security expenses by announcing the Basic Policy on Economic and Fiscal Management and Reform 2015, and in October, the Ministry of Health, Labour and Welfare outlined steps to restructure dispensing pharmacies as community pharmacies that contribute to communities with its "A Vision for Pharmacies That Put Customers First."

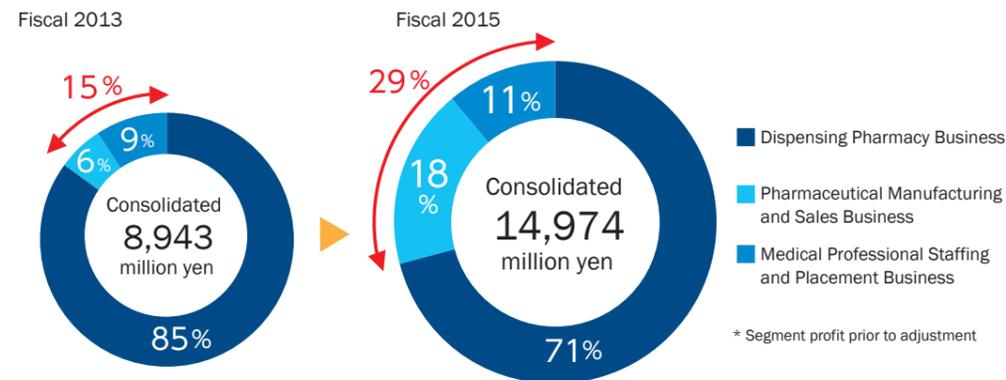
To promote the use of generic drugs, the Basic Policy sets forth a range of specific measures to realize the government's goal of an 80% share based on volume, entailing even greater efforts than before. Use by large hospitals and other medical

institutions is on track for ongoing increases.

In April 2015 the Group started its new medium-term management plan, under which all business units have worked even more closely together, taking actions aimed at further expanding business operations. The result has been the ability to jump off to a smooth start in the first year of the new medium-term management plan, as sales and earnings rose to a record high for the second consecutive fiscal year.

* Please refer to Dispensing Pharmacy Business on pages 19-26 (including Information Provision and Consulting Business), Pharmaceutical Manufacturing and Sales Business on pages 27-30, and Medical Professional Staffing and Placement Business on pages 31-32 for further details of the business performances.

Composition of Operating Income by Segment



An Increasingly Multi-Layered Business

The operating income composition ratio combining the Pharmaceutical Manufacturing and Sales Business and Medical Professional Staffing and Placement Business grew 29%. The growth of these two businesses, with their high margins, is contributing to improved overall margins.

Q Please tell us about the outlook for the second year of the medium-term management plan.

This will be the year of the bi-annual NHI price and fee revisions, and we will make it an opportunity to further solidify our corporate foundations.

The major prescription dispensing fee revisions put in place in April of this year presented the need for the industry to review its conventional ideas and shift to a new approach. At the Nihon Chouzai Group, we see this market realignment and other significant changes in the business climate as opportunities to continue our dramatic growth, and we are positioning this fiscal year as a year to solidify the foundations in each of our business domains.

In the Dispensing Pharmacy Business, we will continue to aggressively open pharmacies, while placing an emphasis on profitability. With existing pharmacies, we will actively introduce the latest prescription preparation equipment to secure safety and enhance efficiency. We will also utilize the "Okusuri Techo Plus," an electronic medication notebook developed by Nihon Chouzai, and we will take even more measures aimed at raising the level of satisfaction among patients.



In the Pharmaceutical Manufacturing and Sales Business, in light of the recent revisions to medical service fees that include a number of measures to promote the use of generic drugs, Nihon Generic Co., Ltd., a subsidiary of Nihon Chouzai, plans to increase capacity utilization at its manufacturing base by making more products developed internally, cutting the cost of sales and increasing sales. In addition, this company and Choseido Pharmaceutical Co., Ltd., another Nihon Chouzai subsidiary, are working together to increase production and supply capabilities across the Nihon Chouzai Group. Plans for growth also include the contract manufacturing of drugs for a range of pharmaceutical companies.

In the Medical Professional Staffing and Placement

Business, revisions have resulted in the establishment of a system of personal care pharmacists, and expectations are for increased demand for pharmacists with a thorough knowledge of pharmacology. To meet this demand, the Nihon Chouzai Group company, Medical Resources Co., Ltd., plans to increase the number of job offers and registrations, and it will work to strengthen bonds within the Group to provide advanced training to pharmacists. By giving pharmacists the skills needed to meet the requirements of pharmacies, the Company plans to increase sales while improving profitability.

Through this range of measures, we are in pursuit of a third consecutive year of record sales and earnings, even with fiscal 2016 being a year of price and fee revisions.

Sales Target by Business Segment (Prior to Eliminations for Inter-Segment Transactions)

	FY2014	FY2015	FY2016	YoY Change	
	Results	Results	Targets	Amount	Ratio
Dispensing Pharmacy Business	157,999	190,874	197,536	6,662	3.5%
Pharmaceutical Manufacturing and Sales Business	27,550	32,598	46,271	13,673	41.9%
Medical Professional Staffing and Placement Business	6,554	8,934	10,500	1,565	17.5%
Total	192,104	232,406	254,308	21,901	9.4%

(Millions of yen)



“The Nihon Chouzai Group has a role to play in the development of a platform for Japan’s social security system”

Q Amidst an enormous wave of government measures, including the 2015 Basic Policy, A Vision for Pharmacies That Put Customers First, and the revisions to medical service fees, how do you see the transformation in the future of the dispensing pharmacy industry and the generic drug industry?

It certainly appears, from my perspective, that we will be entering an age when in the dispensing pharmacy industry, quality will be in demand, and in the generic drug industry, what will be required is a structure of uniform drug pricing.

In the dispensing pharmacy industry, as the medical service fee revisions of this April suggests, my belief is that it will be necessary to raise the targets substantially with regard to business. The revisions went so far as to state such things as pharmacists’ academic knowledge and working hours, so we have entered an age where quality is in demand. With approximately a 70% separation of drug prescribing and dispensing achieved, it appears that the government has begun to shift its focus to a direction where in the future, emphasis will be placed on quality.

Pharmacies that have been unable to sufficiently secure pharmacists of high quality will as a matter of course likely have to pull out from the market. As for Nihon Chouzai, we look upon this change as a good opportunity, expanding our scale with individual pharmacies, and we plan to roll out pharmacies that can operate on a 24/7 basis. Additionally, **at-home medical care services are another important future area.** At Nihon Chouzai we already offer at-home medical care from almost all of our pharmacies, and we would like to be actively involved in helping patients with terminal cancer or other terminal care at private homes.

Currently, approximately one million people die every year

in Japan, and this is projected to reach 2.5 million in 20 to 25 years. It is estimated that there will be a 25% difference in medical costs between having people die in the hospital versus having people die at home. This is the kind of discussion we tend to avoid, but that is no option for the Company, given the nature of our business operations. Fortunately, all of our employees understand and support this policy of mine. The **end-of-life care** is another area to which we will apply our efforts. Nihon Chouzai will give due consideration to the death of patients, and will, to the extent possible, strive to relieve the suffering of the patient’s final moments.

In the generic drug industry, it is probable that in two years’ time, the current three-tier cost structure of drugs (those items of over 50% of the highest price for the drugs with the same active ingredient and standards, between 30% to 50% of the highest price, and less than 30% of the highest price) will be unified. Moreover, farther down the line, I foresee the development of a system environment whereby patients who wish to use an original, high-priced drug will themselves have to pay the difference between that and a generic drug product. Considering that medical costs should be kept in check as much as possible, these trends have solid support.

Q What do you think is the origin of current strength of the Nihon Chouzai Group?

Dispensing pharmacies are the only healthcare establishments that can operate as publicly traded companies. Our strength comes from the fact that we have pioneered this business model, pursuing the rationalities and merits that it can provide.

In Japan, **dispensing pharmacies are currently the only healthcare establishments that have been able to emerge as publicly traded companies.** Hospitals and medical facilities cannot operate as listed companies. Fundamental to becoming a public company is the necessity to be able to employ the investments of others, the ability to distribute dividends, and to have the capability to freely establish a business presence anywhere in the country. Specifically, what this means is that there exists a capability to raise cost performance while cutting costs and making rational and independent business decisions. Taking on a large volume of work in an independent and rational manner also leads to a lowering of Japan’s social security costs. We have realized these points faster than other companies in

our industry, and as a result of putting them into practice, the Nihon Chouzai Group has grown into an enterprise of the scale which it is today.

Social security in Japan has the unavoidable fate of needing to cut costs, and the fact is, the government has no say in doing anything about that. Nihon Chouzai will proactively extend its cooperation on solutions to this problem. While advancing rationalization and cost performance more than ever, we will take the lead as we actively participate in the development of a platform for Japan’s social security system. From there, what we are setting our sights on is being a company that grows as a “comprehensive healthcare group.”

Q Please tell us about the future vision of the Nihon Chouzai Group and convey a message to the shareholders, investors and other stakeholders.

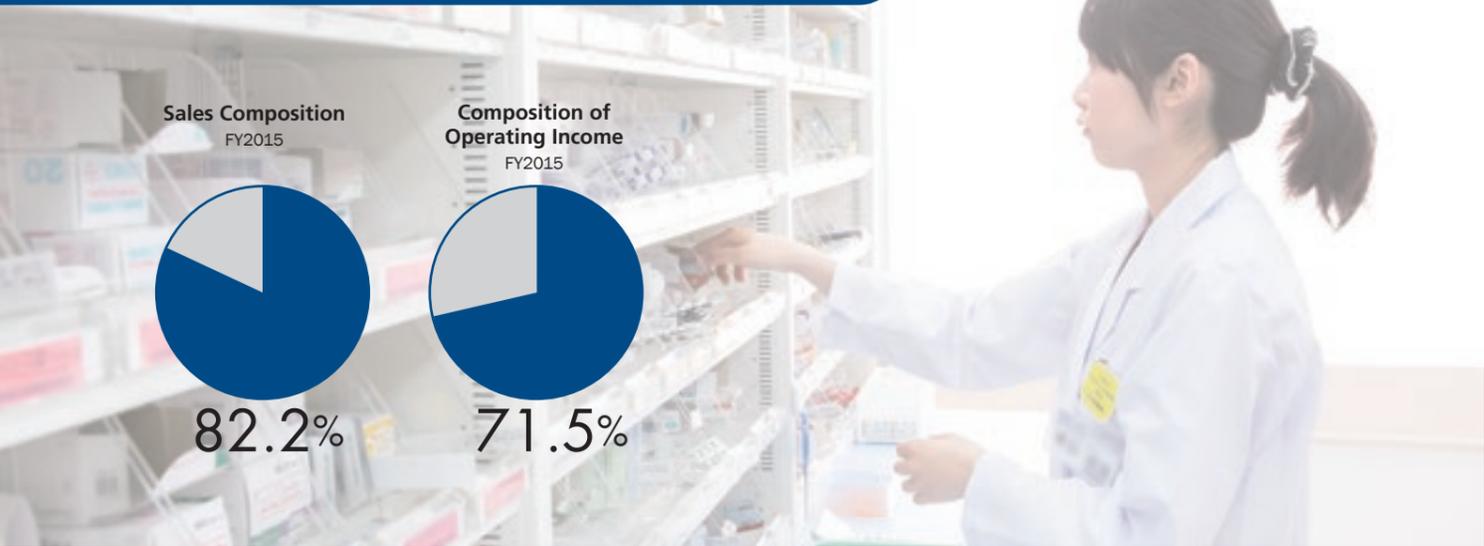
We will enter a new stage of growth as a “comprehensive healthcare group.”

Taking an overall look at the state of today’s Nihon Chouzai Group, it is my belief that **we are at the vanguard of social security system reform in Japan.** We can take pride in this as it represents one success that will lead to further growth in the future. Leveraging this success into something larger will also take us to a new stage of growth as a “comprehensive healthcare group.” We will apply our energies into expanding the scale of our business with balanced growth for each of our business units and by tackling new initiatives to fortify our business foundations to enable such vision.

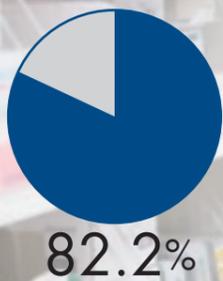
Looking to achieve **balanced growth in all of our business units**, in addition to the principal measures I have already explained, we will further contribute to job mobility

for medical professionals and to filling vacant positions at medical institutions through the Medical Professional Staffing and Placement Business. In the Information Provision and Consulting Business, we will strive to perform useful duties such as analyzing and further utilizing prescription information, then providing this data to pharmaceutical manufacturers for product development, which will lead to the rationalization of medical care in Japan.

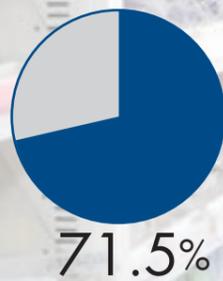
The Nihon Chouzai Group is becoming increasingly diversified, and we are working to **attain sustainable expansion as a “comprehensive healthcare group” that secures sales growth and stable profits.** Please do look forward to what the Nihon Chouzai Group has to offer in the future.



Sales Composition FY2015



Composition of Operating Income FY2015



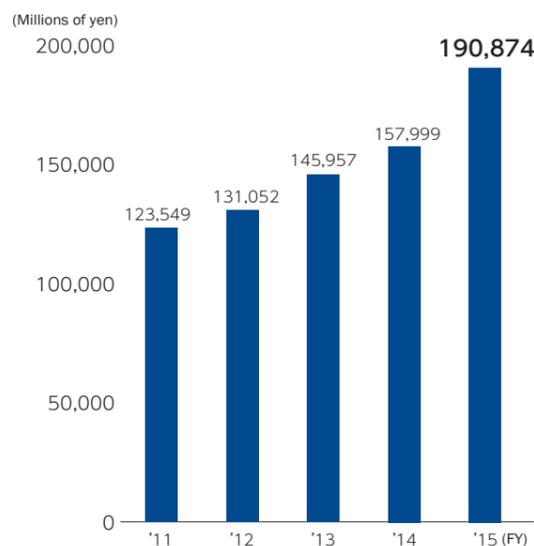
Review of the FY 2015

Expansion of Dispensing Pharmacies Business

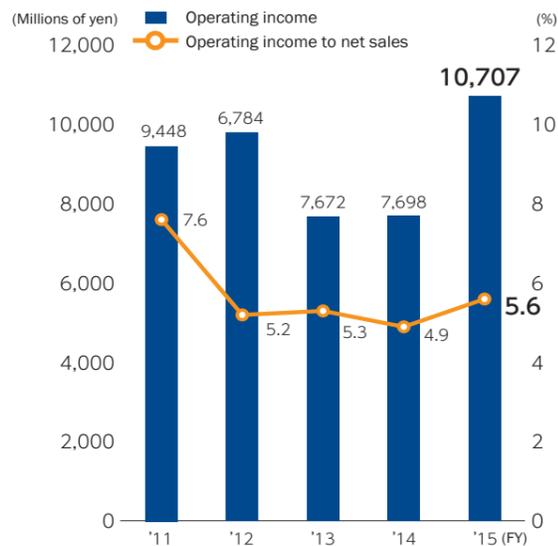
In fiscal 2015, net sales came to 190,874 million yen (up 20.8% year on year). This was largely due to strong growth in the opening of new, large-scale pharmacies, higher sales at existing pharmacies and an increase in prescriptions for a hepatitis C drug. New pharmacy openings are focused on scale and profitability, without excessive concern for number.

Operating income was 10,707 million yen (up 39.1%). This was mainly attributable to higher profits due to increased sales and cost-cutting measures, as well as to an increase in prescription dispensing fees resulting from stronger efforts to promote generic drug use and at-home medical care.

Net sales



Operating income/Operating income to net sales

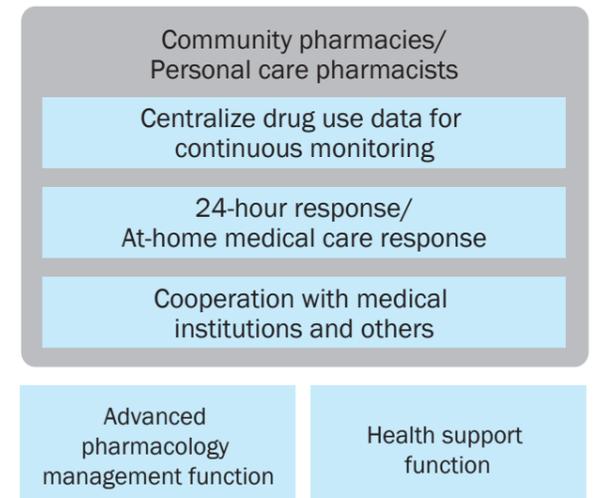


Challenges and Initiatives for fiscal 2016

Changes in the Role Required of Pharmacies

In A Vision for Pharmacies that Put Customers First, announced in October 2015 by the Ministry of Health, Labour and Welfare, the functions shown in the diagram were added and a shift to community pharmacies was requested. In the prescription dispensing fee revisions implemented in April 2016, a shift from pharmacy location to pharmacy function and from product services to people services was clearly shown. As a result, the shift from number of pharmacies to quality of pharmacies and the raising of pharmacist quality have become important issues.

Nihon Chouzai aims to become a pharmacy that is needed by patients and society by shifting its operations to community pharmacies with personal care pharmacists, while improving profitability at the same time. To that end, in September 2015, we announced "Japan's 'Community Pharmacy Declaration'" and began taking action ahead of our competitors.



Market Environment

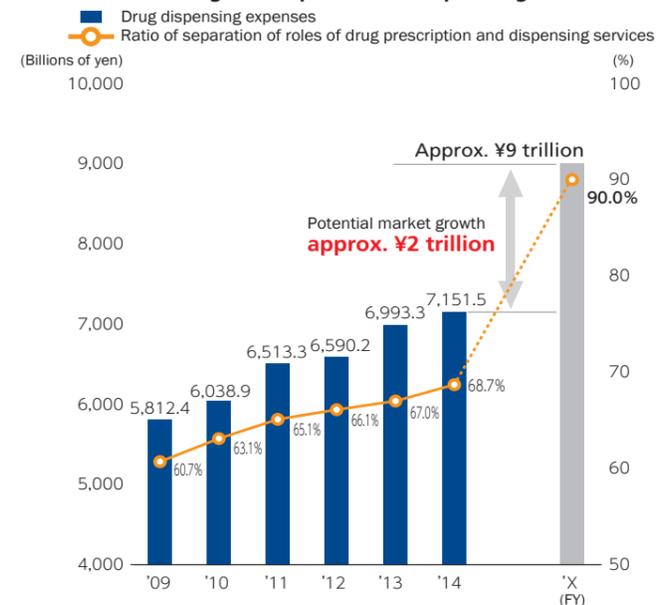
Expansion of Market Scale and Industry Restructuring

At the end of March 2015, the ratio of the separation of the roles of drug prescription and dispensing services was 68.7%, and annual dispensing expenses reached 7,151.5 billion yen. According to the Ministry of Internal Affairs and Communications' Statistical Handbook of Japan 2014, the population of people 65 years or older continues to grow, and dispensing expenses are expected to increase over the next 10 years. In addition, the ratio of the separation of the roles of drug prescription and dispensing services has

risen, and once the ratio reaches 90%, dispensing expenses are expected to exceed about 9 trillion yen. The potential for future market growth is projected to be at least 2 trillion yen.

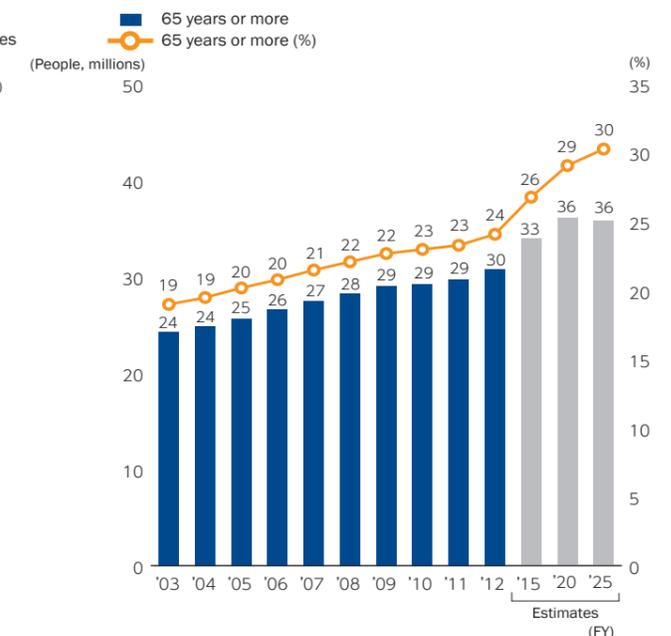
Meanwhile, pharmacies that cannot cope with such changes as dispensing fee revisions, as well as pharmacies that have a shortage of replacement people and pharmacists, are expected to undergo a culling process due to M&A and business closings, and be restructured.

Drug Dispensing Expenses and Ratio of Separation of Roles of Drug Prescription and Dispensing Services



Source: Japan Pharmaceutical Association "Insurance Dispensing Trends (fiscal 2016 Dispensed Portion)"
Drug Dispensing Expenses, Ministry of Health, Labour and Welfare, Drug Dispensing Expense Trends, Fiscal 2014 version
Note: Fiscal year X denotes a predicted value

Population Statistics for Japan



Source: Ministry of Internal Affairs and Communications, Statistical Handbook of Japan 2014

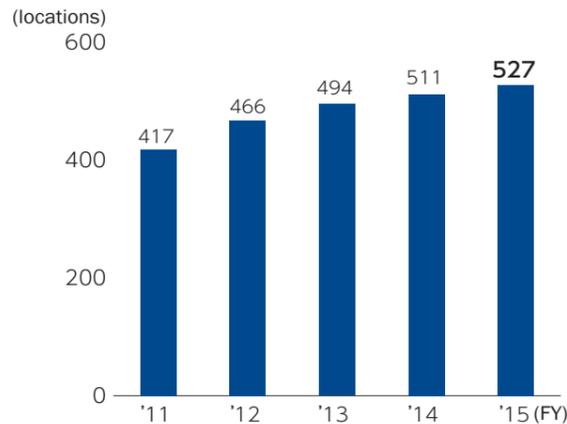
Pharmacy Opening Strategy

Opening of Pharmacies Emphasizes Scale and Profitability

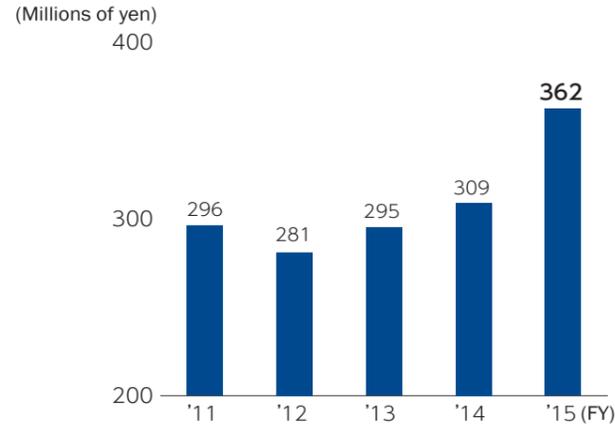
In fiscal 2015, Nihon Chouzai opened 27 new pharmacies in the dispensing pharmacy business and closed 11, and the total number of Nihon Chouzai Group pharmacies became 527 (including one location specializing in the sales of general merchandise) at the end of March, 2016. The new pharmacies include pharmacies in Chiba Prefecture for the separation of drug prescribing and dispensing services at a large hospital. Nihon Chouzai's pharmacy-

opening policy is to emphasize the pharmacy scale needed to carry out the 24-hour response and at-home medical care and advanced pharmacology management required as community pharmacy functions, as well as to emphasize profitability to compensate for the increase in personnel. The Company is also engaged in M&A strategies proactively, focusing on scale and profitability, based on the Company's original criteria.

Change of the Number of Dispensing Pharmacies



Dispensing Sales per Pharmacy

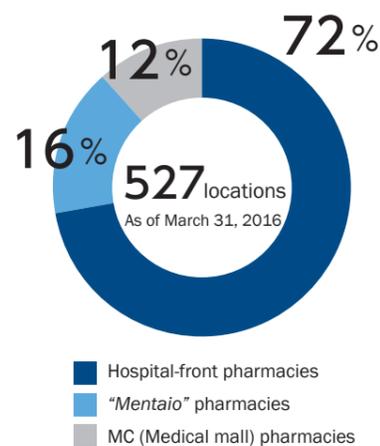


Multifaceted Pharmacy Expansion (expansion of hospital-front, MC, and mentaio)

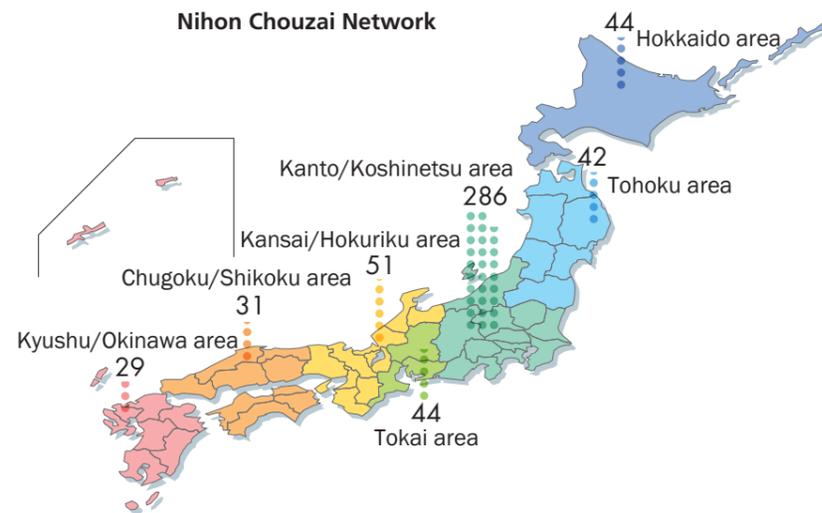
The Company has carried out a multifaceted expansion of pharmacies that includes hospital-front pharmacies opened around university hospitals, flagship hospitals, and others, MC (medical mall) pharmacies opened in medical malls, and mentaio pharmacies opened in front of train stations and in shopping districts.

In recent years, not only have relatively large-scale hospitals taken the bold step of separating drug prescribing and dispensing services, because of the rebuilding of hospitals due to their aging, but also the form of recent pharmacy openings has been centered on hospital-front pharmacies, and sales per pharmacy are rising.

Percentage of Number of Pharmacies



Nihon Chouzai Network



Note: Including one location specializing in the sales of general merchandise As of March 31, 2016

Initiatives to Promote Generic Drug Use

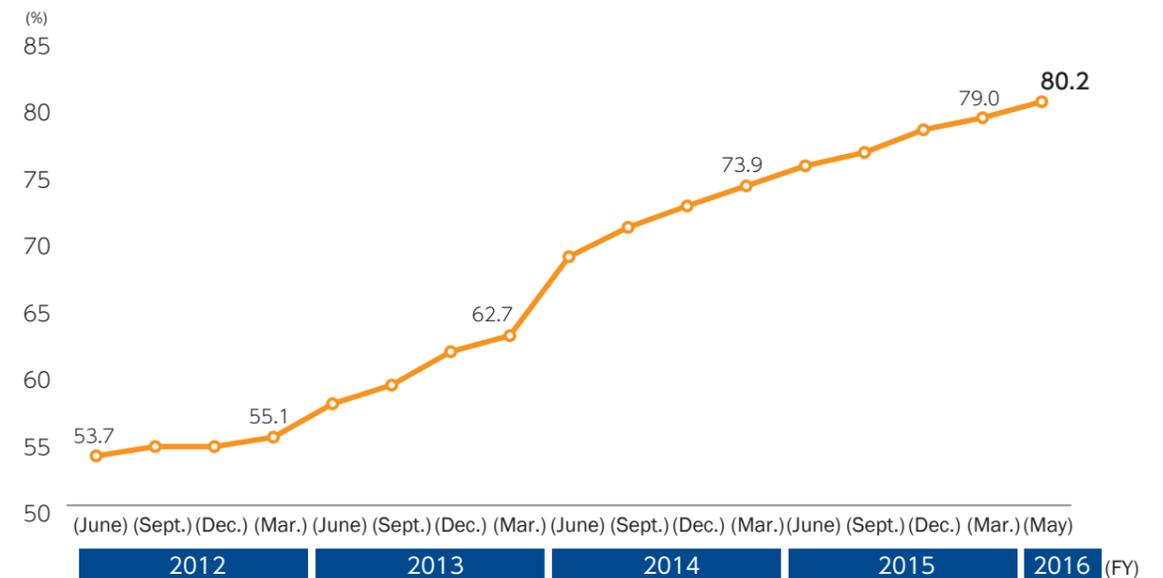
Rate of Generic Drug Use Exceeds 80%

In A Vision for Pharmacies that Put Customers First, from the standpoint of improving treatment safety with the drugs indicated in the government's Council for Regulatory Reform and improving the efficiency of public finance for health insurance, we have turned the PDCA cycle utilizing KPI and announced the implementation of monitoring through yearly policy evaluations.

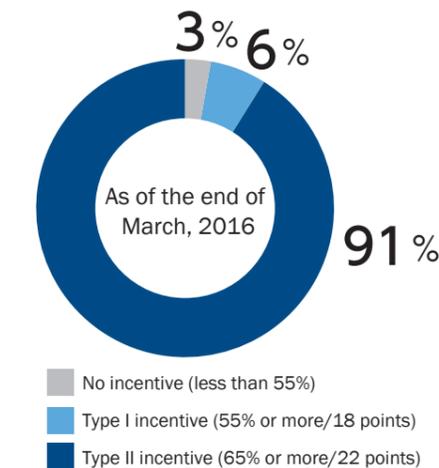
Nihon Chouzai began KPI evaluations before the spread of generic drugs, and by constantly providing explanations to patients and information to medical

institutions, it has achieved a generic drug use rate of over 80% more than two years ahead of the government's target. As a result, we have obtained a high premium for the generic drug dispensing system. On the other hand, the drug cost reduction effect for fiscal 2015 reached 18.8 billion yen. The Company will take steps to lighten the burden of patient medical expenses, control the increase in social security costs, and continue to provide value to society.

Group's Average Generic Drug Use Rate (Volume basis)



The Generic Pharmaceuticals Dispensing System Incentives (Estimated pharmacy ratio)



Reductions of Drug Expense through Changes to Generic Drugs



Source: Company data

Initiatives for a Vision for Pharmacies That Put Customers First

Initiatives for Community Pharmacies and Personal Care Pharmacists

In September 2015, Nihon Chouzai rolled out the Company-wide “Community Pharmacy Declaration” PR campaign so that people will understand the initiatives of a dispensing pharmacy company with a presence that contributes to the local community. The campaign is using TV commercials, billboards, in-store video displays and website.

Today, with the advent of a super-aged society, expectations of dispensing pharmacies and pharmacists’ presence as medical leaders in local communities are rising. The role of dispensing pharmacies as experts in medicine is increasing further, and we will firmly promote initiatives to make them community pharmacies of Japan.



Centralize Drug Use Data for Continuous Monitoring

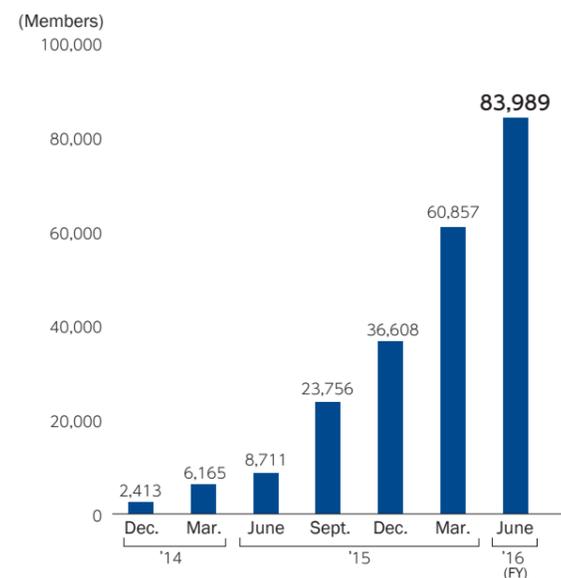
“Okusuri Techo Plus” Electronic Medication Notebook Users Surpass 80,000

The Company began to operate the “Okusuri Techo Plus” electronic medication notebook service in October 2014. Due to the dispensing fee revisions of April 2016, the electronic medication notebook can now be used in the same way as a conventional paper-based medication notebook. Because of its exceptional convenience whereby it automatically reflects prescription drug information, the number of registered users has surpassed 80,000 (as of May 31, 2016).

In addition, Nihon Chouzai has joined the Japan Pharmaceutical Association’s Electronic Medication Notebook Mutual Browsing Service, which now makes it possible to utilize the electronic medication notebook information of each pharmacy that uses this service.

This is an initiative that helps prevent adverse effects through the reduction of leftover drugs and drug interactions by centralizing patient drug use data for continuous monitoring.

“Okusuri Techo Plus” Membership



Initiative for 24-Hour Response and At-Home Medical Care

Pharmacies That Offer At-Home Medical Care Exceeds 95%

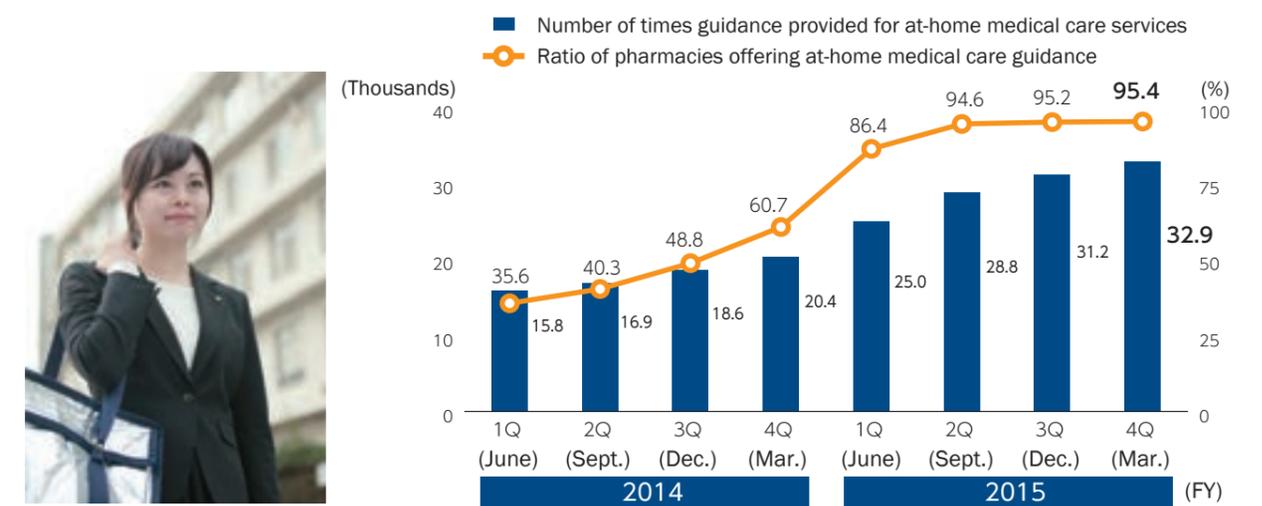
In the fiscal 2016 revisions to medical treatment fees, the “Promotion of high-quality at-home medical care” has been stipulated and, as key leaders that support local communities from the medical side, the roles of dispensing pharmacies and pharmacists have come under close scrutiny. Initiatives for at-home medical care are viewed as important functions of community pharmacies that contribute to communities.

management guidance fees,¹ which indicate the degree of at-home medical care achievement, are assessed at 95% or more of pharmacies and were recorded 100,000 times or more per year. Initiatives for at-home medical care actively help to reduce medical care costs through the transitioning from hospital to at-home medical care.

As a result of actively promoting at-home medical care, the Company estimates that home patient visit drug

1. Home patient visit drug management guidance fees: The numerical value of estimated items for dispensing fees includes at-home medical care, an estimated item for nursing-care insurance.

Ratio of Pharmacies Offering At-Home Medical Care and Number of Times Guidance Provided



At-Home Medical Care Support System

As an at-home medical care support system, at-home medical care group training is carried out to teach the special knowledge needed for at-home medical care and how to handle medical equipment. Aseptic dispensaries and clean benches have been installed to dispense the aseptic drugs needed for aseptic procedures. We will continue to quickly install this equipment in pharmacies that serve as community bases.



In April 2012, we also introduced a home communication system. The home communication system supports at-home medical care at external locations by using secure iPads. The system became fully operational in July 2012. The Company is also promoting an increase in pharmacists

that are dedicated to at-home care in order to provide a higher level of care and more specialized medical care at home.

Support System	Implementation Details
At-home medical care group training (FY2015 results)	Group training session locations: 15 venues, 18 locations nationwide Group training participants: 507 pharmacies, 576 people
Injection sterilization dispensing facility (End of FY2015)	Pharmacies with aseptic dispensing rooms installed ² : 8 Pharmacies with clean benches installed ² : 6
Development of home infrastructure (End of FY2015)	Home communication systems installed: 521 pharmacies

2. An aseptic dispensary is a facility where sterile rooms are maintained and high-calorie transfusions used in at-home medical care and injection drugs are dispensed. A clean bench is simple sterile facility where a person’s hands are put into a box-shaped device and an operation is performed.

Initiative for an Advanced Pharmacology Management Function

Actual Prescription Demand from Advanced Treatment Hospitals and Local Medical Support Hospitals / Education System to Support Responses to Advanced Medical Care

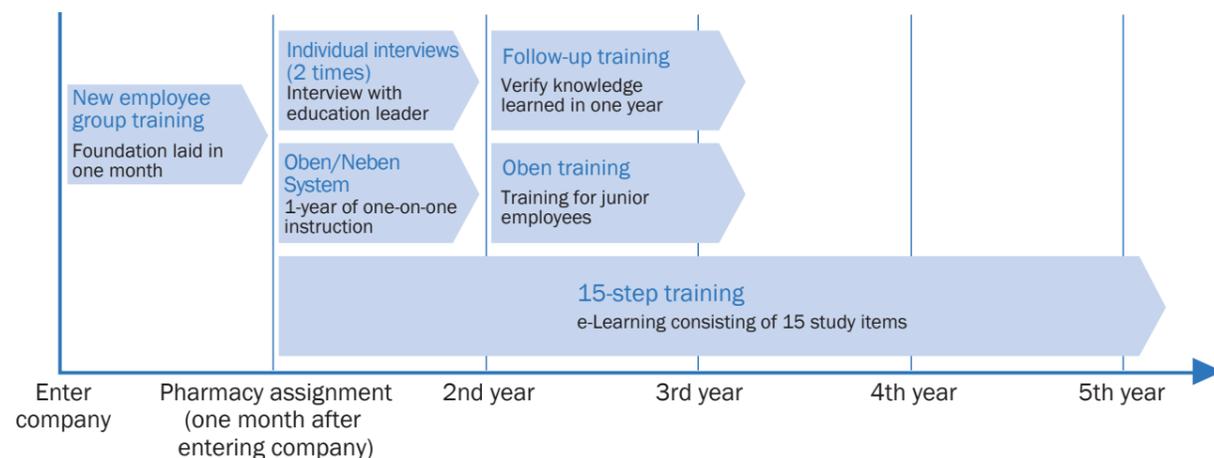
Our internal pharmacist education system gradually progresses into advanced subject areas taking into account the number of years of student experience. In addition, we have opened numerous pharmacies in front of advanced treatment hospitals and local medical support hospitals that provide advanced medical care, and we have always focused on pharmacist education in order to deal with a variety of prescriptions.

Specifically, we have implemented e-Learning tailored to pharmacist proficiency, pathology analysis and medication instruction workshops held by professional education staff all over Japan and performed tests (JP-CBT) to measure the amount of learning and knowledge of all pharmacists working at our pharmacies. Further, we have actively participated in hospital workshops and conferences and engaged in more highly specialized education that utilizes the practical training systems

of university hospitals. In at-home medical care, we assign a specialized pharmacist and conduct practical training in sterile dispensing procedures used for dispensing injection drugs.



Basic Training after Entering the Company



Continuous Training	
Excellent service training Reception skill improvement	Dispensing error prevention workshop Ongoing workshops offered
At-home medical care group training Devoted to physical assessment, enteral nutrition, etc.	Academic presentations Various academic conferences and internal academic congresses
Symptom analysis and drug use instruction workshop Workshop given by education leader	University hospital practical training program Training in hospital ward work and parenteral solution room work

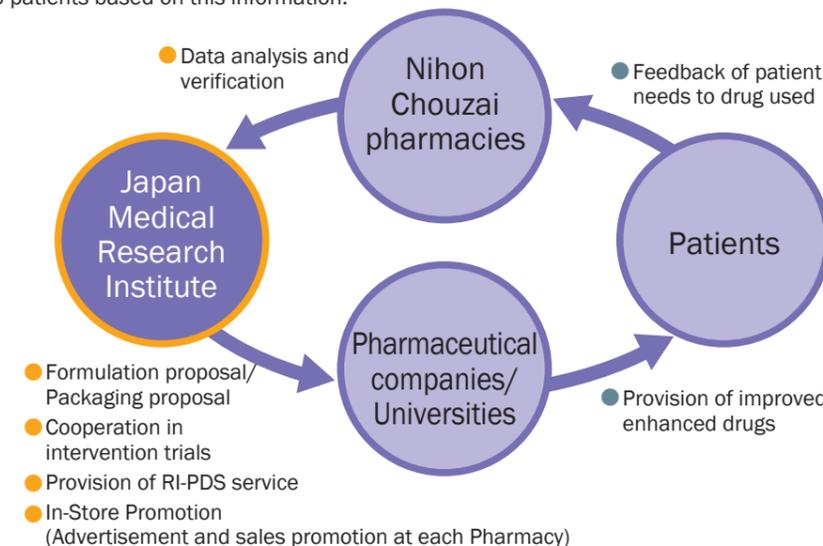
Content Material and Support System	
Q&A System Problems can be immediately questioned	Video Library Lecture-based workshops on diseases, drugs, etc.
Distribution of new drug information Distribution of latest information	Sign language and social-style learning 24/7 learning on company intranet
Support system for obtaining "Certified Pharmacist" certificate Full financial aid for training and registration fees	

Information Provision and Consulting Business (Data analysis and use)

Note: Sales figures for this business segment are included in the dispensing pharmacy business segment

Business Overview

The Japan Medical Research Institute, which has an information provision and consulting business, links patients, pharmaceutical companies, universities and Nihon Chouzai's dispensing pharmacies and provides information about prescription data analyzed from a variety of angles to pharmaceutical companies and universities. Ultimately, it works to provide value to patients based on this information.



Collaboration with Dispensing Pharmacy Business

The Japan Pharmaceutical Research Institute conducts surveys and studies based on information collected by roughly 3,000 pharmacists who work at Nihon Chouzai dispensing pharmacies. Information such as patient complaints about

drugs used and proposals for improvement undergo data analysis and verification at the Japan Pharmaceutical Research Institute, and it is then provided to pharmaceutical companies as useful data for formulation and packaging proposals.

Main Collaborative Activities with the Dispensing Pharmacy Business

- Proposed a study for an eye drop solution, and proposed a shape for eye drop packaging and a study of product visibility when stored
- Proposed the establishment of tablet standards when new drugs are released
- Proposed PTP packaging for bottled medicine sold by a foreign company in Japan
- Developed packaging paper effective for preventing the absorption of herbal medicine

Cooperation in Intervention Trials

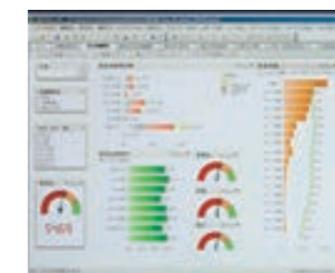
The Japan Pharmaceutical Research Institute cooperates in the intervention trials of pharmaceutical companies and universities and verifies improvement effects of the rate of medication discontinuation due to pharmacist intervention

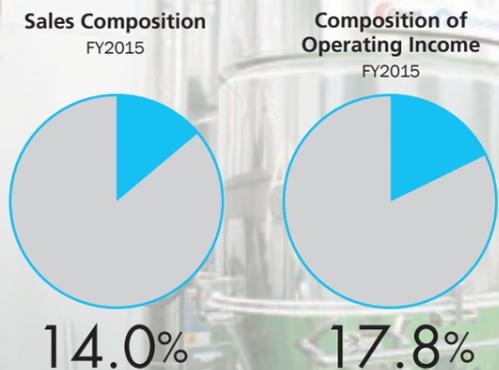
and the improvement effects of hospital data. Verified data is shared with pharmacies nationwide through academic conferences and research paper presentations, and it is also utilized for medication instruction.

RI-PDS (Daily latest market information service)

The Japan Pharmaceutical Research Institute provides the industry's first service that tracks product trends and changes for pharmaceutical companies on a daily basis.

Until now, the product sales status only tracked sales data from wholesale companies on a monthly basis, but this service enables the tracking of information on a daily basis. It has been highly rated as a very effective service for the investigation of influenza drugs, the status of hay fever drug use, and the start of new drug use.





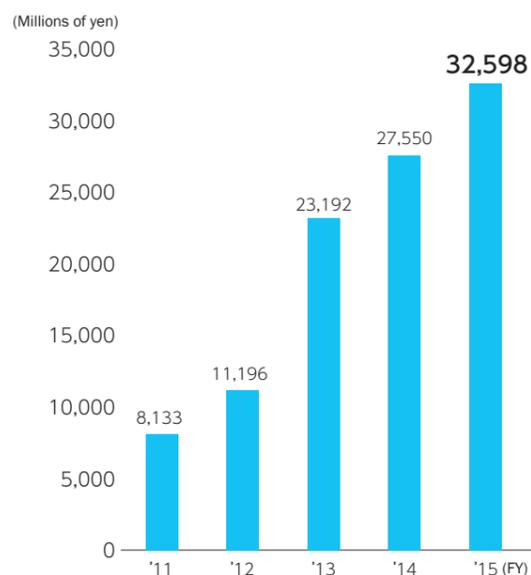
Review of Fiscal 2015

Expansion of Generic Drug Market and Development of Operations

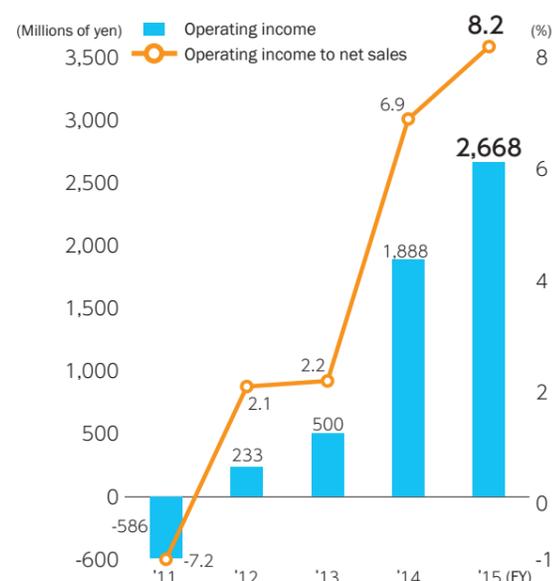
For the fiscal year ended March 31, 2016, net sales increased to 32,598 million yen (up 18.3% year on year). The Japanese government announced the target of raising to at least 80% the volume-based share of generic drugs, and the use of generic drugs by large hospitals and other medical institutions continued to increase. Operating income increased sharply by 41.3% to 2,668 million yen, while the operating income margin was 8.2%, exceeding that of the previous fiscal year. This was largely due to an

increase in profits from rising sales and the reduction of costs through the pursuit of greater operational efficiency and benefits of the restructuring of the marketing strategy. The composition of operating income of the Pharmaceutical Manufacturing and Sales Business was 17.8%, manifesting an effect that complements the impact of the medical service fee revisions on the dispensing pharmacy business.

Net sales



Operating income/Operating income to net sales



Challenges and Outlook for Fiscal 2016

Boost to Generic Drugs due to Medical Service Fee Revisions

In the medical service fee revisions of April 2016, various measures to promote the use of generic drugs were introduced. The revision also included a raise in the standard for calculating the incentives for the generic drug dispensing system at dispensing pharmacies.

The upper evaluation limit of generic drug indices at DPC (diagnosis, procedure, combination) hospitals was raised from 60% to 70%. At other hospitals, there was a revision in the basis for incentives for the generic pharmaceuticals dispensing system (changed from number of items used to actual volume used) at the time basic

hospitalization payments are calculated, and new criteria was added for higher incentives. There is also a new incentive for systems at clinics for the use of generic drugs for outpatient care and a review of incentives for prescriptions with no restriction on a drug's brand or supplier. These revisions manifest the policy to promote the use of generic drugs in the medical field. In light of these circumstances, Nihon Chouzai has expanded production and supply capacity and plans to expand operations, including the contracted production for other generic pharmaceutical manufacturers.

Measures to Promote the Use of Generic Drugs at Dispensing Pharmacies

Target	Before revision	After revision	Change
Dispensing pharmacies (Generic pharmaceuticals dispensing system incentives)	Type I (Dispensing volume ratio: 55%; 18 points) Type II (Dispensing volume ratio: 65%; 22 points)	Type I (Dispensing volume ratio: 65%; 18 points) Type II (Dispensing volume ratio: 75%; 22 points)	Raise

Measures to Promote the Use of Generic Drugs at Hospitals and Clinics

Target	Before revision	After revision	Change
DPC hospitals (review of generic drug indices)	Upper evaluation limit: 60%	Upper evaluation limit: 70%	Rise in standard
Hospitals (Review of indices for generic pharmaceuticals dispensing system incentives)	Rate of number of items used Type I (Old indices: 30% or more; 35 points) Type II (Old indices: 20% or more; 28 points)	Rate of volume used Type I (new indices: 70% or more; 42 points) Type II (new indices: 60% or more; 35 points) Type III (new indices: 50% or more; 28 points)	Change of indices
Clinics (Evaluation of indices for generic pharmaceuticals dispensing system incentives)	N/A	Rate of volume used Type I (70% or more; 4 points) Type II (60% or more; 3 points)	New indices established
Hospitals and clinics (Review of incentives for generic name prescriptions)	Type 1 (items for generic name prescription: 1 or more; 2 points)	Type 1 (items for generic name prescription: all items; 3 points) Type 2 (items for generic name prescription: 1 or more; 2 points)	A new criteria added

Source: "Fiscal 2016 Medical Service Fee Revision Explanatory Material," Ministry of Health, Labour and Welfare

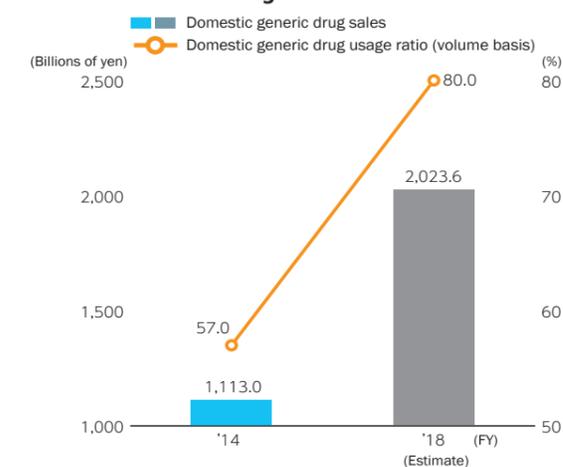
Market Environment

Seizing Market Expansion

The Basic Policy on Economic and Fiscal Management and Reform, approved by the Cabinet in June 2015, announced the Japanese government's target of raising the volume-based generic drug share to at least 80% sometime between fiscal 2018 and the end of fiscal 2020, preferably as soon as possible. The use of generic drugs is being promoted more concretely and forcefully than before. Consequently, the April 2016 revisions to medical service fees included various measures to promote the use of generic drugs in the medical field.

At the time the government's target of an 80% share in volume is met, it is expected that the generic drug market will reach 2 trillion yen in size. The potential market growth over the next several years in the generic drug market is about 1 trillion yen. Nihon Chouzai plans to seize the opportunities that this demand increase provides and expand its operations.

Domestic Generic Drug Market



Source: "Trends in Dispensing Medical Expenses, FY2014," Health Insurance Bureau, Ministry of Health, Labour and Welfare

Product Development

Increase in Number of Product Items and Number of Company-Owned, Approved Product Items

Products that are sold by Nihon Generic Co., Ltd. and Choseido Pharmaceutical Co., Ltd. consist of two groups: the company-owned, approved products and in-licensed products. The company-owned, approved products for which the license is owned by the Company comprise products that are manufactured in-house and those contracted outside the company. At the time of the Company's founding, the only products offered for sale were in-licensed products. However, by the end of FY2015, the company-owned, approved products increased to 388 items as a result of solid progress made in R&D activities.

Nihon Chouzai will continue to steadily increase new listed drugs resulting from original drug patent expirations and promote the switchover to its company-owned, approved products from products in-licensed from other generic manufacturers. This will enable the Company to

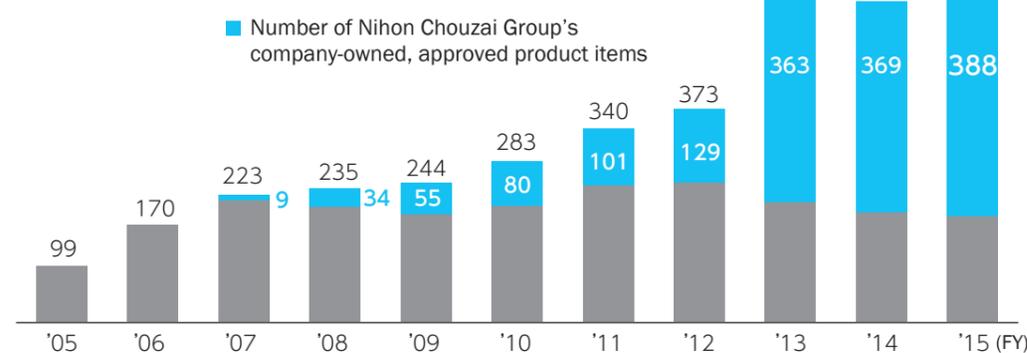
improve profitability and enhance its product lineup in responding to increased product demand from the market.

Nihon Chouzai collects patient feedback that has come from the Group's dispensing pharmacies and utilizes it in product development. We are developing products with the aim of delivering safe, high-quality drugs and increasing patient convenience.



Example: In response to complaints that tablet was difficult to use because of the small size, the tablet form was changed to one that is easier to use. To make identification easy, the drug name was printed on both sides of the tablet, with one side printed in a different color of text.

Number of Approved Product Items



Production System

Expansion of Maximum Production Capacity to Meet Increased Demand

In the wake of government policies and medical service fee revisions amid rising demand for generic drugs at medical institutions, Nihon Chouzai has been expanding existing facilities in phases to increase maximum production capacity to meet the sharp increase in demand and provide for the stable supply of drugs. In December 2015,

we began construction of Tsukuba Plant No. 2, whose annual maximum production capacity will be 10 billion tablets at the time of completion. When all plants are completed, the annual maximum production capacity of the Group as a whole will be 15.7 billion tablets, thus establishing a system to meet the increasing demand.



Artist's rendering of Tsukuba Plant No. 2

15.7 billion tablets
Group's annual maximum production capacity (planned)

Quality and Safety Initiatives

Production Facility Ensures High Quality and Safety

As a quality initiative, we have built a strictly hygienically controlled manufacturing area in order to supply safe, high-quality generic drugs to patients. State-of-the-art facilities and reliable technologies are used to establish a superior drug manufacturing process.

Inspection of the manufactured drugs, from acceptance testing of raw materials to product release testing, is conducted under a strict quality control system based on the Good Manufacturing Practice (GMP). We have reduced human intervention as much as possible to build a system that prevents errors and have implemented measures for total efficiency and automation throughout the manufacturing process. We have also conducted regular education and training based on GMP and raised the GMP level of the manufacturing and quality departments.



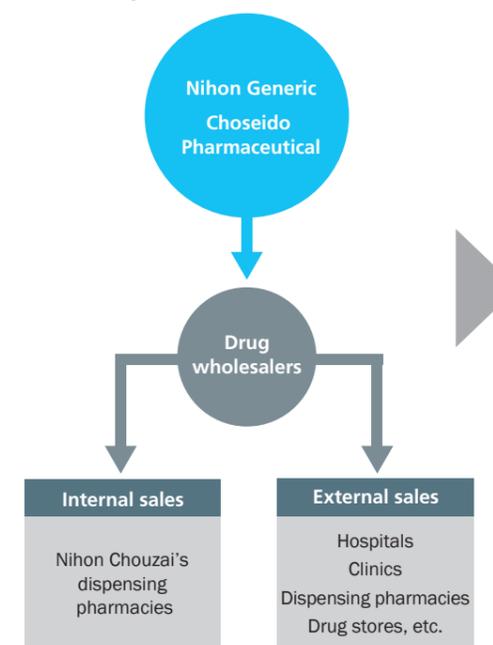
Sales System

Sales Strategy Based on Strong Collaboration with Drug Wholesalers

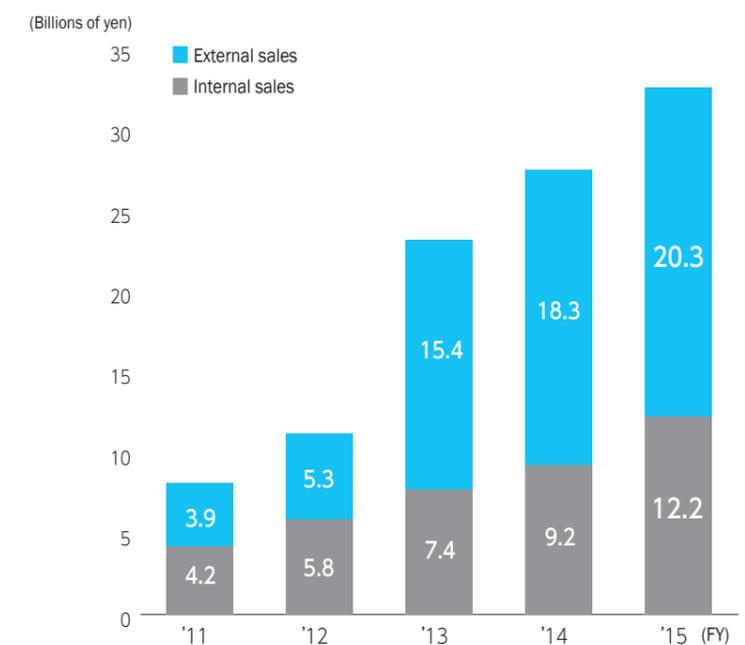
Generic drugs sold by Nihon Generic (including products manufactured by Choseido Pharmaceutical) are sold through wholesalers. Nihon Chouzai's strong relationship with wholesalers, which has been developed in the dispensing drug business since the Company's founding, is utilized in its generic drug sales strategy. We seek to

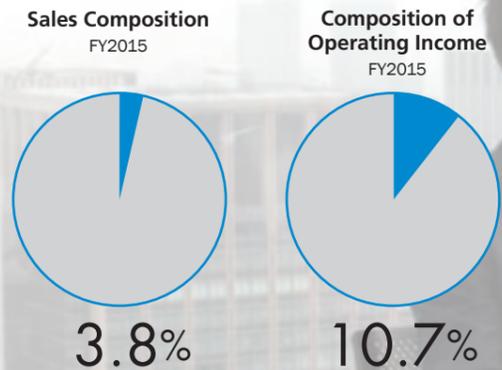
further expand operations through an increase in external sales, a far larger market than internal sales. Through these wholesalers, Nihon Chouzai has delivered its products to approximately 80% of the pharmacies and 30% of the hospitals and clinics in Japan.

Sales Strategy Based on Strong Collaboration with Drug Wholesalers



Internal Sales & External Sales



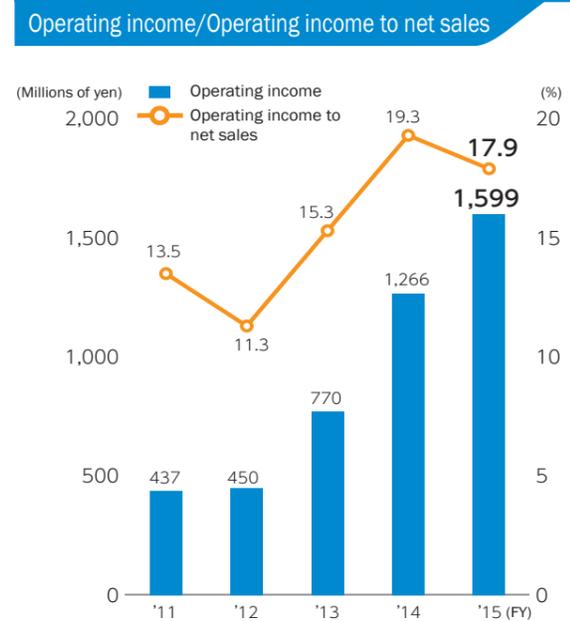
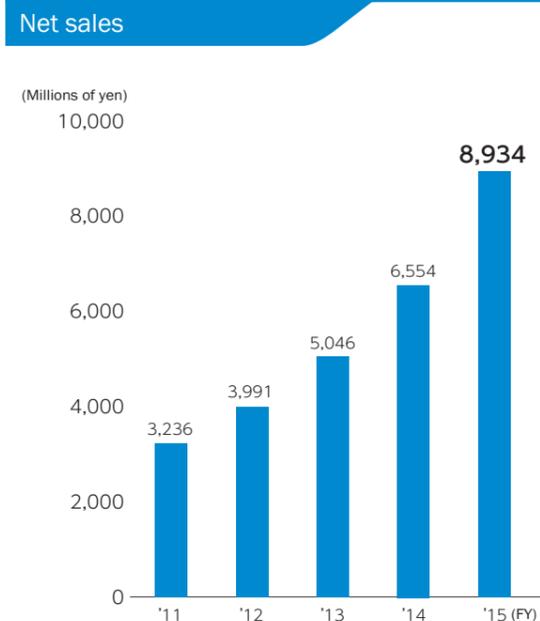


Review of Fiscal 2015

Strong Growth in Pharmacist Demand

The role of pharmacists was further expanded and strengthened by 2014 medical service fee revisions and the Ministry of Health, Labour and Welfare's "A Vision for Pharmacies That Put Customers First" policy of October 2015, and pharmacist demand increased due to the

promotion of at-home medical care services. Sales and profits remained high as a result of the strong promotion of efforts to increase the number of job offers and ensure the number of registered personnel.



Challenges and Outlook for Fiscal 2016

Rising Demand due to Expanded Role for Pharmacists

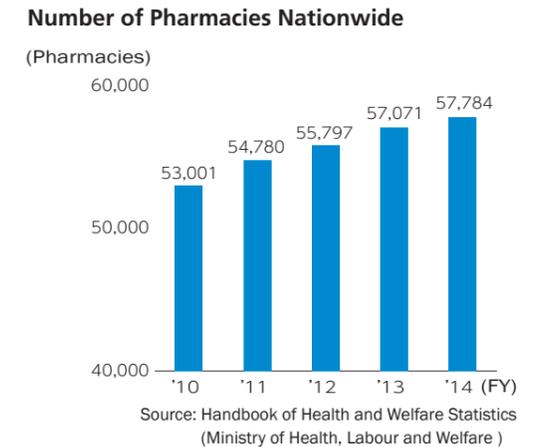
In the 2016 dispensing fee revisions, the role played by pharmacists has expanded, such as with personal care pharmacist and at-home medical care initiatives, and a further increase in demand is expected. We not only continue to increase the number of job offers by establishing relationships with more client companies and expanding

the number of pharmacists registered for placement, but we also educate pharmacists so they can meet their expanded roles, and we will seek to expand operations by staffing and placing pharmacists to meet the requirements of pharmacies.

Market Environment

Rising Demand Due to Expanded Role for Pharmacists

The number of people who pass the national exam for pharmacists has remained around 10,000 per year in recent years. In contrast, the number of dispensing pharmacies has increased at a rate of 1,000 pharmacies each year. As a backdrop, there are continued openings of major dispensing pharmacies and an increase in pharmacies that combine drugstore with dispensing activities. Furthermore, as a result of dispensing fee revisions, the promotion of at-home medical care and the personal care pharmacist system have begun, and demand is rising due to the expanded pharmacist role. An urgent state of affairs is expected to continue.



Basic Strategy

Initiatives for the Medical Professional Staffing and Placement Business

Medical Resources Business Points



VOICE

Feedback from Job Changers Who Used Medical Resources



Airi Kinoshita
Works in a Tokyo pharmacy

Because Medical Resources has branches nationwide, even if I moved, I thought I would be able to receive job change support, so I chose the company's services. Since there are no training programs for temporary staff, who are different from full-time employees, skill improvement becomes important. However, Medical Resources provides enhanced support, which allowed me to attend the company's workshops. In addition, I could tour the pharmacy before signing the contract and only a short time elapsed before I was working.



Sayaka Funaba
Works in a Tokyo pharmacy

I saw advertisements frequently when I searched for an employment agency when I wanted to change jobs, so I registered with Medical Resources because of the sense of security that the Nihon Chouzai Group gave me. I was nervous as this was my first job change to temporary employment, but the person in charge was empathetic and gave me advice, which was really helpful. Thankfully, I was able to find work effortlessly at a wonderful workplace with no trouble at all.

Corporate Governance

In order to appropriately respond to changes in the business environment, continually ensure the soundness of Company operations and further raise its corporate value, the Nihon Chouzai Group recognizes the necessity of increasing management transparency, clarifying management responsibility, exercising speedy decision-making, and strengthening the management oversight function to achieve business targets. 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 of 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.

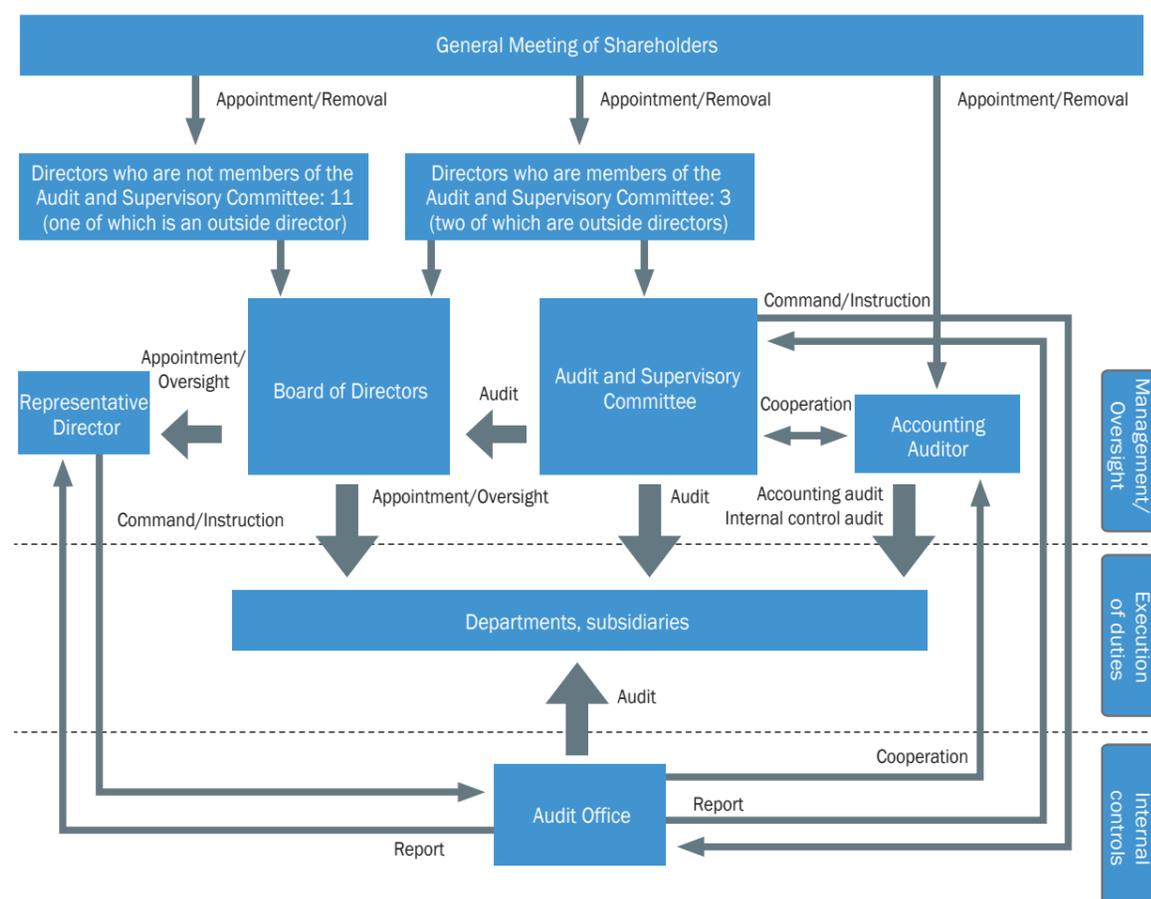
Corporate Governance Structure

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 and appointed 11 directors (excluding the Audit and Supervisory Committee members), one of which is an outside director, and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors.

The Board of Directors consists of these 14 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 to perform accounting audits to ensure proper accounting procedures and management transparency.



Development of Internal Control System

By dividing the necessary 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 the 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).

Internal Audit and Audit and Supervisory Committee Audit

The Audit Office has been established within the Company as an internal audit body that reports directly to the President. It conducts internal audits in line with the internal audit schedule for each fiscal year to monitor the effectiveness of the internal control systems. The office comprises two people, one office manager and one office worker, but based on internal audit regulations, a support system is in place to enable when necessary the assignment of personnel from another department to the internal audit

operations with the approval of the Representative Director.

The Audit and Supervisory Committee consists of three people, two of which are outside directors. The committee holds regular meetings once a month. Each person is a professional in the field of law or corporate auditing and conducts strict and meaningful oversight on the Board of Directors' execution of its duties from their own individual perspective.

Appointment of Outside Directors

The Company has three outside directors. At Nihon Chouzai, the function and role that outside directors play in corporate governance is to provide oversight of management decisions concerning the Company's execution of duties from an outside, objective standpoint. To ensure this independence, the Company recognizes that not having a vested interest in the Company is important.

Standards are in place to ensure the independence of

the outside directors to be appointed from companies that submit consolidated financial statements. When appointing outside directors, while meeting the Tokyo Stock Exchange's standards for independence, Nihon Chouzai appoints people who have excellent character and insight and can provide appropriate advice and oversight to the Company's management.

Board of Directors (As of June 29, 2016)



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



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
Yoshiki Kamada



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 General Affairs Department (to present)

Director
Yoshihisa Fujimoto



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 (to present)

Managing Director
Yosuke Mitsuhashi



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 Fukai



April 1992 Managing Director of The Dai-Ichi Kangyo Bank, Ltd. (Currently Mizuho Bank Ltd.)
 June 1994 Vice President and Representative Director of Orient Corporation
 June 1999 President and Representative Director of Orient Corporation
 Resigned the post
 June 2003 Director of the Company (to present)
 June 2015

Outside Director
Hisashi Kanai



April 2000 Joined the Company
 April 2000 Assistant Manager of Accounting Department
 April 2007 General Manager of Accounting Department
 May 2008 Auditor of Nihon Generic Co., Ltd. (to present)
 January 2012 Auditor of Japan Medical Research Institute Co., Ltd. (to present)
 June 2012 Auditor of Medical Resources Co., Ltd.
 May 2013 Auditor of Choseido Pharmaceutical Co., Ltd. (to present)
 June 2016 Director of the Company (Audit Committee member) (to present)

Director, Audit Committee member
Kingo Kimura



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

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 2016 Director of the Company (Audit Committee member) (to present)

Outside Director
 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 (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

Dialogue with Stakeholders

The Nihon Chouzai Group has emphasized the promotion of shareholder and investor understanding as it strives for sustainable growth and the creation of corporate value. It has constantly established accountability for the management strategy and performance of the Nihon Chouzai Group while proactively communicating with shareholders and investors.

Dialogue with Investors

Business Policy Briefing

This briefing was held on September 28 following the announcement on September 2015 of a new plant construction plan by Nihon Generic, a subsidiary. At that time, President & CEO Hiroshi Mitsuhashi explained about the expansion of Group operations, including new plant construction. Officers heading up each business segment were also in attendance and proactively interacted with the nearly 100 participants.



Business policy briefing

Tsukuba Plant Tour

At an excursion to the Tsukuba Plant on September 9, 2015, after describing the background of Nihon Generic and its manufacturing facility, a tour was conducted. At the Q&A session after the tour, two officers of Nihon Generic also attended, and many questions were posed about the medium-term management plan, the expansion of production capacity, and other topics.



Plant tour

Continuously carrying out the following communications initiatives:

- Company briefings for individual investors
- Results Briefings (for 2nd quarter and full year)
- Small meetings
- Individual interviews and teleconferences (domestic and overseas)

Dialogue with Shareholders

General Meeting of Shareholders

At the 35th General Meeting of Shareholders held on June 28, 2015, all five of the submitted proposals were approved. As a part of efforts to strengthen corporate governance, which is growing in importance, the appointment of a new outside director was approved.



General Meeting of Shareholders

The Nihon Chouzai Group seeks to be a Japanese “community pharmacy.” In order for it to become socially indispensable, it will continue to contribute to the health of everyone in the community, and on a broader scale, to medical treatment throughout Japan.

Dialogue with Society

Health Fair

The Nihon Chouzai “Health Fair” is an event for patients who visit our pharmacies and for people in the community. The event’s activities include: simple blood tests based on participants’ self-drawing of blood, the measurement of blood vessel age, personal stress level and bone density. It is held from time to time at Nihon Chouzai pharmacies nationwide to enhance people’s interest in health.



Health Fair

Medicine Class

We also continuously hold medicine classes and offer workplace experience that teach elementary and junior high school students about the work of pharmacists. We constantly conduct activities that communicate the importance of safely taking medicine.



Medicine class

Dementia Supporter Activities

By holding a Dementia Supporter Training Lecture and participating in the One-Million-Dementia-Supporter-Caravan-Promotion, the Nihon Chouzai Group has contributed to the creation of an environment in which dementia patients can live safely and securely. Currently, about 1,000 employees are actively participating as dementia supporters.



“Orange Ring” presented to dementia supporters

Conference Presentations

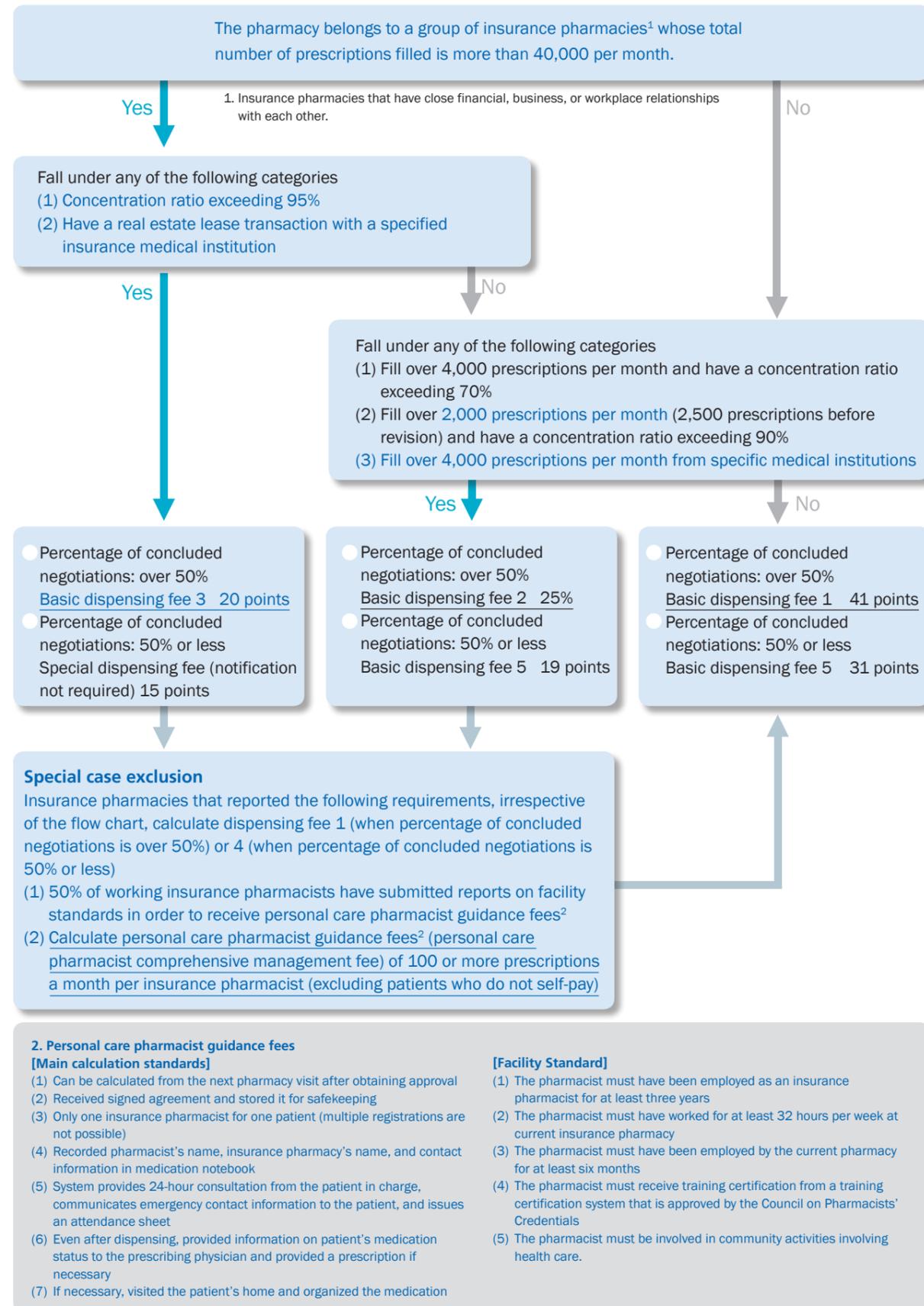
At the 59th Japan Pharmaceutical Society Kanto Area Regional Meeting (held September 12, 2015), Nihon Chouzai conducted joint research with Teikyo Heisei University and the Institute for Health Vigilance to analyze the infection patterns of influenza A and B strains using pharmacological data. In addition, we have attended nine academic conferences and have made presentations on 17 subjects including joint research.



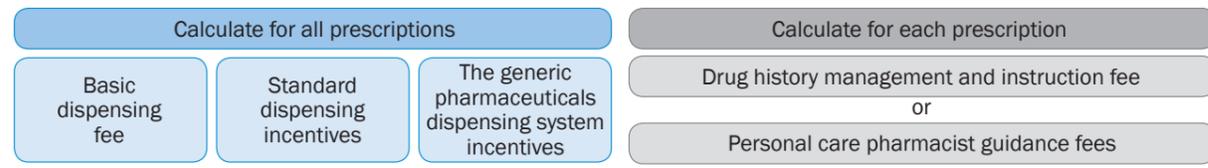
Presentation at conference

Reference: Flow chart for determining basic dispensing fees following the revision of medical service fees in FY2016

Blue text indicates additions and/or changes due to the revision



Reference: Main technical fees associated with revision of medical service fees in FY2016



Calculate for all prescriptions								
Classification	Basic dispensing fee		Special exemption		Standard prescription incentives³		The generic pharmaceuticals dispensing system incentives	
	Before revision	After revision	Before revision	After revision	Before revision	After revision	Before revision	After revision
Basic dispensing fee 1	41 points	41 points	—	—	12 points/36 points	32 points	Generic volume basis	Generic volume basis
Basic dispensing fee 2	25 points	25 points	For basic fee 1	For basic fee 1	12 points	—	55% or more 18 points	65% or more 18 points
Basic dispensing fee 3	—	20 points	—	—				
Basic dispensing fee 4 (Percentage of concluded negotiations for basic fee 1 is 50% or less)	31 points	31 points	—	—	—	—	65% or more 22 points	75% or more 22 points
Basic dispensing fee 5 (Percentage of concluded negotiations for basic fee 2 is 50% or less)	19 points	19 points						
Special basic dispensing fee 22 points (Percentage of concluded negotiations for basic fee 3 is 50% or less)	—	15 points	For basic fee 4	—	—	—	—	—

Calculate for each prescription				
Classification	Basic dispensing fee	Drug history management / instruction fee⁴		Personal care pharmacist guidance fees²
		Before revision	After revision	
Basic dispensing fee 1	41 points/34 points	38 points/50 points		70 points
Basic dispensing fee 2		50 points		
Basic dispensing fee 3	—	38 points/50 points		
Basic dispensing fee 4 (Percentage of concluded negotiations for basic fee 1 is 50% or less)	41 points/34 points	38 points/50 points		
Basic dispensing fee 5 (Percentage of concluded negotiations for basic fee 2 is 50% or less)		50 points		
Special basic dispensing fee 22 points (Percentage of concluded negotiations for basic fee 3 is 50% or less)	—	50 points		

3. Standard prescription incentives (main calculation requirements)

[Before revision] 12 points Basic fee 1, Basic fee 2
36 points Basic fee 1, and more than 10 at-home visits a year

[After revision] 32 points Basic fee 1, and more than one at-home visits per year

Management pharmacist is a requirement

- At least 5-years pharmacist working experience as an insurance pharmacist
- At least 32-hours per week working in current insurance pharmacy
- Employed for at least one year in current insurance pharmacy

4. Drug history management and instruction fee (main calculation requirements)

[Before revision] 41 points Record requirements in medication notebook
34 points Not recorded

[After revision] 38 points Visit pharmacy within 6 months and record needed information in medication notebook
50 points First pharmacy visit, or nothing recorded in medication notebook

In the case of other basic dispensing fees
50 points First pharmacy visit, same number of points regardless of medication notebook

Reference: Main technical fees associated with revision of medical service fees in FY2016

Main number of incentive points	Before revision	After revision
Incentive for Specific drugs management and instruction (high-risk drugs)	4 points	10 points
Incentive for drug administration guidance for infants	5 points	10 points
Incentive for preventing harmful drug interactions and duplicate prescriptions	20 points	30 points

Internal medicine dispensing fee [Before revision]	
If 7th day or before (per day)	5 points
If 8th day or after (per day)	4 points
If 15th day or after and 21st day or before	71 points
If 22nd day or after and 30th day or before	81 points
If 31 days or more	89 points

[After revision]	
If 7th day or before (per day)	5 points
If 8th day or after (per day)	4 points
If 15th day or after and 21st day or before	70 points
If 22nd day or after and 30th day or before	80 points
If 31 days or more	87 points

Single dose package incentives [Before revision]	
If 56 days or less, the number of points is obtained by adding 32 points each time the number of days of administration is seven or increases by a fraction thereof	290 points
If 57 days or more	290 points

[After revision]	
If 42 days or less, the number of points is obtained by adding 32 points each time the number of days of administration is seven or increases by a fraction thereof	220 points
If 43 days or more	220 points

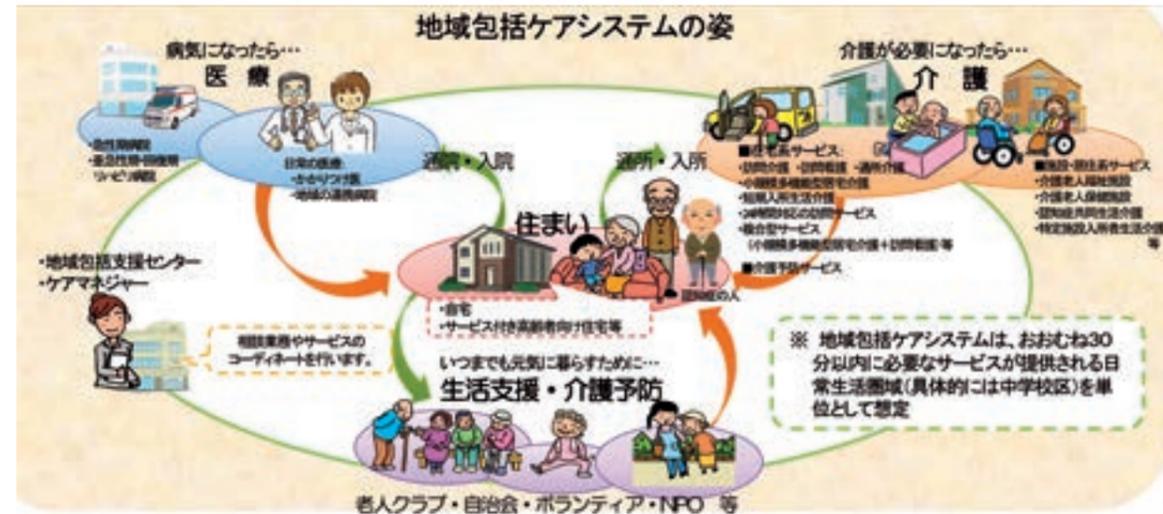
Provide and improve corporate value
Management vision and business performance
Base that supports Nihon Chouzai
Data section

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.



Source: FY2015 Ministry of Health, Labour and Welfare White Paper

Vision for Pharmacies That Put Customers First

The Ministry of Health, Labour and Welfare announced a "Vision for Pharmacies That Put Customers First" 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.

A Vision for Pharmacies That Put Customers First	Community pharmacies Personal care pharmacists	Providing Information about Drugs and Constantly Acquiring New Information about Drugs	<ul style="list-style-type: none"> ●Leverages information and communications technology (electronic medication notebook) to track the prescription information of all medical institutions that a patient has patronized ●Continuous verification of effects and side-effects ●Administration of multiple drugs and prevention of duplicate administration and interaction
		24-Hour Response and At-Home Response	<ul style="list-style-type: none"> ●Telephone consultations, even outside normal telephone exchange operating hours ●Dispensing at nighttime and on holidays ●Involved actively in at-home medical care as a part of comprehensive regional medical care
		Cooperation with Medical Institutions	<ul style="list-style-type: none"> ●Questions and prescription proposals for the prescribing physician, when necessary. ●After dispensing, monitor patient's status, provide feedback to the prescribing physician, and provide management of unused drugs and assistance in using drugs. ●Respond to patient inquiries and encourage them to see a doctor at a medical institution
	Advanced Pharmacology Management Function	<ul style="list-style-type: none"> ●Keep up with news about advanced pharmacology management including news dealing with the side-effects of anticancer drugs 	
	Health Support Function	<ul style="list-style-type: none"> ●Advice on selecting non-prescription drugs ●Health counseling and medical institution referral 	

Source: Ministry of Health, Labour and Welfare, "Vision for Pharmacies That Put Customers First"

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. 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 community 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 84 in June 2015.

Local Medical Support Hospital

A hospital that diagnoses and treats patients referred from a "primary care physician" so that treatment can be continued by the primary care 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 November 2015, there were 500 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 2016, the system applied to 1,667 hospitals and 490,000 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 community 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.

10-Year Summary of Financial and Non-financial Data

(Millions of yen)

Consolidated performance indicators	FY2006	FY2007	FY2008			FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made	○		○				○		○		○	
Business results (for the year)												
Net sales	65,788	79,801	85,891			98,260	112,128	130,041	139,466	165,347	181,844	219,239
Gross profit	10,420	13,126	13,702			16,283	19,182	22,038	21,494	25,623	31,929	39,068
Selling, general and administrative expenses	8,513	10,302	11,483			12,733	14,398	16,574	18,248	20,878	25,281	28,578
Operating income	1,906	2,823	2,218			3,549	4,784	5,464	3,245	4,744	6,647	10,489
EBITDA ¹	3,362	4,662	4,307			5,719	7,118	8,492	6,837	8,570	10,278	14,951
Ordinary income	1,761	2,568	1,802			3,098	4,358	4,941	2,855	4,188	6,003	9,878
Profit attributable to owners of parent	327	399	420			1,404	1,821	2,085	184	1,901	2,778	6,329
Cash flows (fiscal year)												
Cash flows from operating activities	1,785	2,943	852			3,833	6,723	7,127	2,885	6,243	5,831	19,327
Cash flows from investing activities	(4,714)	(5,803)	(10,124)			(5,338)	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)
Cash flows from financing activities	3,364	5,010	9,233			3,434	1,109	7,920	5,496	8,782	1,422	7,031
Financial position (at year-end)												
Total assets	38,617	46,445	57,077			64,678	72,701	86,615	95,140	117,295	130,141	157,609
Net assets	12,654	12,431	10,725			11,405	12,780	14,716	14,702	15,849	17,635	32,473
Cash and cash equivalents at year end	3,595	5,745	5,706			7,636	7,200	12,554	14,513	15,027	13,844	32,380
Merchandise and finished goods	3,891	4,006	5,150			5,231	8,595	8,419	11,908	12,165	15,911	15,328
Interest-bearing debts ²	11,208	16,756	27,981			32,190	33,891	42,279	48,281	62,037	68,329	66,794
Per share information												
Net assets per share ³ (yen)	800.05	800.68	732.93			796.64	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22
Net income per share ³ (yen)	21.12	25.33	28.48			96.13	127.57	145.46	12.84	131.24	194.48	432.85
Financial and non-financial data												
Sales growth rate (%)	11.5%	21.3%	7.6%			14.4%	14.1%	16.0%	7.2%	18.6%	10.0%	20.6%
Selling, general and administrative expenses ratio (%)	12.9%	12.9%	13.4%			13.0%	12.8%	12.7%	13.1%	12.6%	13.9%	13.0%
Operating margin (%)	2.9%	3.5%	2.6%			3.6%	4.3%	4.2%	2.3%	2.9%	3.7%	4.8%
ROA ⁴ (%)	0.9%	0.9%	0.8%			2.3%	2.7%	2.6%	0.2%	1.8%	2.2%	4.4%
ROE ⁵ (%)	2.9%	3.2%	3.6%			12.7%	15.1%	15.2%	1.3%	12.5%	16.6%	25.3%
Equity ratio ⁶ (%)	32.8%	26.8%	18.8%			17.6%	17.6%	17.0%	15.5%	13.5%	13.6%	20.6%
Interest coverage ratio ⁷ (times)	14.7	14.7	2.5			7.8	12.8	13.0	4.9	8.6	7.1	24.4
D/E ratio ⁸ (times)	0.9	1.3	2.6			2.8	2.7	2.9	3.3	3.9	3.8	2.1
Capital investments	4,492	6,000	10,283			5,885	7,885	8,961	5,566	9,069	12,279	8,073
Depreciation	1,455	1,839	2,088			2,169	2,333	3,028	3,591	3,825	3,631	4,461
R&D expenses	104	362	583			807	985	1,224	1,023	1,534	1,767	1,913
Number of employees ⁹	1,315	1,523	1,675			1,881	2,112	2,304	2,488	3,009	3,283	3,435

* 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 = profit/average of total assets at the beginning and end of the fiscal year

5. ROE = profit/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

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 this fiscal year (ended March 31, 2016) achieved strong growth in both sales and earnings compared with the previous fiscal year. National Health Insurance (NHI) drug price revisions were not implemented in this fiscal year. We steadily expanded our business together with each business segment and increased profit by over 20%, which resulted in the balanced growth. Additionally, this multi-layered profit structure minimized the effect of the biennial medical treatment fee revisions and NHI drug price revisions, and further improved the organization of business structure, which enabled recording stable profits.

Net Sales

Net sales totaled 219,239 million yen (up by 20.6%, 37,394 million yen year-on-year) and net sales exceeded the 200 billion yen mark for the first time. Of the final year target, 273.8 billion yen, of the new medium-term management plan, 40% of increased net sales amount during the period was achieved.

Cost of Sales, Selling, and General Administrative Expenses

Cost of sales totaled 180,171 million yen (up by 20.2%, 30,256 million yen). Various cost control measures steadily functioned and selling, general administrative expenses restrained the increase to 13.0% (3,296 million yen), which is significantly less than 20.6% of revenue growth rate.

Operating Income

Operating income totaled 10,489 million yen (up by 57.8%, 3,842 million yen). It exceeded 10 billion yen mark for the first time and sales and earnings rose to a record high for the second consecutive fiscal year. Additionally, as the result of increasing rate of pharmaceutical manufacturing and sales business, which had a high profit margin, and medical professional staffing and placement business, the operating margin increased from 3.7% to 4.8%. Of the final year target, 12.2 billion yen, of the new medium-term management plan, 68% of increased operating sales amount during the period was achieved.

Profit Attributable to Owners of Parent Company

Profit attributable to owners of parent company totaled 6,329 million yen (up by 127.8%, 3,551 million yen). The steady growth of the pharmaceutical manufacturing and sales business having been invested up front drove the rapid improvement of profitability, and net income per share was 432.85 yen, which was approximately 3 times larger than that of 4 years ago, and Return on Equity (ROE) was 25.3%.

Status of Each Business Segment

Dispensing Pharmacy Business

Net sales of this business totaled 190,874 million yen (up by 20.8% year on year). The major reasons for the net sales growth were openings of large-scale pharmacies, higher sales at existing pharmacies, and an increase in prescriptions for a hepatitis C drug.

There was a big increase in operating income, which was up 39.1% to 10,707 million yen. The major reasons for the strong earnings growth were higher earnings, along with sales growth, cost-cutting measures, and an increase in prescription dispensing fee income resulting from the promotion of the use of generic drugs and the strengthening of at-home medical care. Earnings also benefited from the absence of NHI drug price revisions in the fiscal year.

Pharmaceutical Manufacturing and Sales Business

The use of generic drugs by large hospitals and other medical institutions continued to increase. At the Nihon Chouzai Group, all companies worked even more closely together. Net sales of this segment rose 18.3% to 32,598 million yen. Operating income increased sharply by 41.3% to 2,668 million yen, in part because of the higher sales, a reduction of various costs by a number of measures to improve efficiency, and benefits of the restructuring of the marketing strategy.

The number of products sold increased by 13 during the fiscal year to 574 at the end of the fiscal year. This change includes new products and adjustments to eliminate overlapping items among in-licensed products and products of group companies.

Medical Professional Staffing and Placement Business

In A Vision for Pharmacies That Put Customers First, which was announced in October 2015 by the Ministry of Health, Labour and Welfare, one goal is expanding and strengthening the roles of pharmacists. In this business, this vision had the effect of increasing demand for temporary staffing and permanent placements of pharmacists who can provide at-home medical care.

As the demand for pharmacist staffing and placement services continues to grow, 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 and earnings growth rates in the fiscal year were maintained at a high level, as sales climbed 36.3% to 8,934 million yen and operating income rose 26.3% to 1,599 million yen.

Analysis of Financial Position

Assets

Total assets increased 27,468 million yen, or 21.1%, from 130,141 million yen at the end of the previous fiscal year to 157,609 million yen at the end of this fiscal year.

Current assets were 84,838 million yen, an increase of 24,742 million yen (41.2%), from 60,096 million yen at the end of the previous fiscal year. This was attributable mainly to increases of 18,432 million yen in cash and deposits and 5,838 million yen in accounts receivable-trade. Non-current assets increased 2,726 million yen (3.9%), from 70,044 million yen at the end of the previous fiscal year to 72,770 million yen. Opening of new pharmacies in the dispensing pharmacy business, and transfer of business and capital investments in the pharmaceutical manufacturing and sales business were mainly responsible for this increase.

Liabilities

Total liabilities increased 12,630 million yen (11.2%), from 112,505 million yen at the end of the previous fiscal year to 125,136 million yen at the end of this fiscal year.

Current liabilities increased 15,510 million yen (29.0%), from 53,474 million yen at the end of the previous fiscal year to 68,985 million yen. This was attributable mainly to a 10,683 million yen increase in accounts payable-trade. Non-current liabilities decreased 2,880 million yen (4.9%), from 59,031 million yen at the end of the previous fiscal year to 56,151 million yen. This was attributable mainly to a 7,000 million yen decrease in bonds payable following the transfer of the category to current liabilities.

Net Assets

Net assets increased 14,837 million yen (84.1%), from 17,635 million yen at the end of the previous fiscal year to 32,473 million yen. This was attributable mainly to increases of 5,803 million yen in retained earnings and 6,172 million yen in capital surplus due to the offering of treasury shares. As a result, equity ratio increased from 13.6% at the end of the previous fiscal year, to 20.6%.

Cash Flows

In the fiscal year, net cash provided by operating activities was 19,327 million yen, net cash used in investing activities 7,823 million yen, and net cash provided by financing activities 7,031 million yen.

As a result, there was a net increase of 18,535 million yen in cash and cash equivalents to 32,380 million yen at the end of March 2016. Each cash flow status is as follows.

Cash Flow from Operating Activities

Major sources of cash income were profit before income taxes of 9,681 million yen and a 11,212 million yen increase in notes and accounts payable-trade. The primary outflow of cash was a 5,339 million yen increase in notes and accounts receivable-trades and a 2,695 million yen in income tax paid.

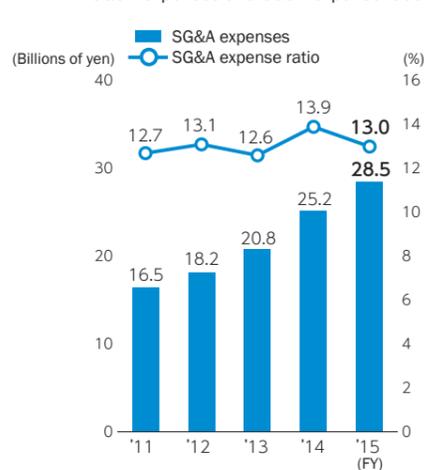
Cash Flow from Investing Activities

The primary uses of cash were payments of 6,880 million yen for the purchase of property, plant, and equipment incidental to new store opening in the dispensing pharmacy business and capital investments in the pharmaceutical manufacturing and sales business. There were also payments of 454 million yen for transfer of business.

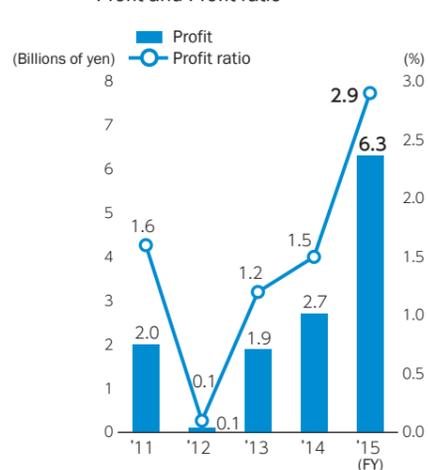
Cash Flow from Financing Activities

The primary source of cash inflow was proceeds of 10,400 million yen from long-term loans payable and 9,194 million yen from disposal of treasury shares. Cash was used mainly for the repayment of 6,069 million yen from long-term loans payable.

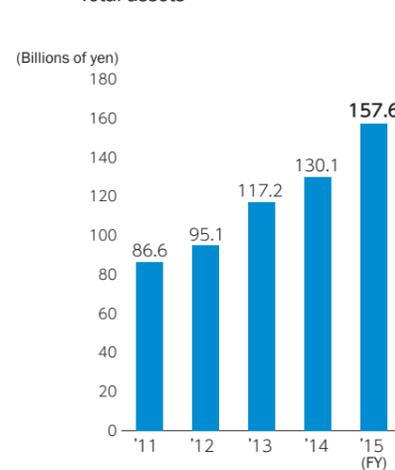
SG&A expenses and SG&A expense ratio



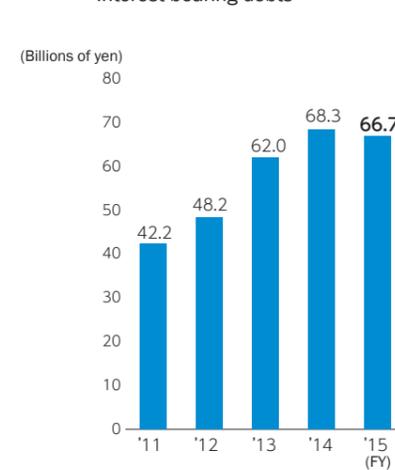
Profit and Profit ratio



Total assets

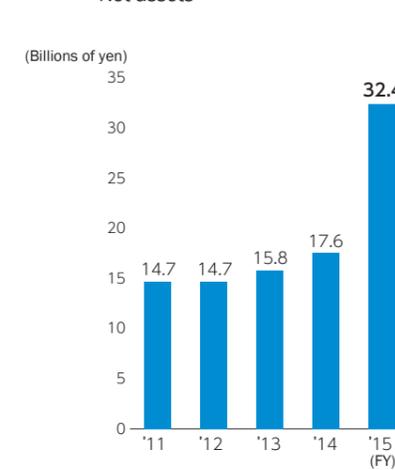


Interest-bearing debts

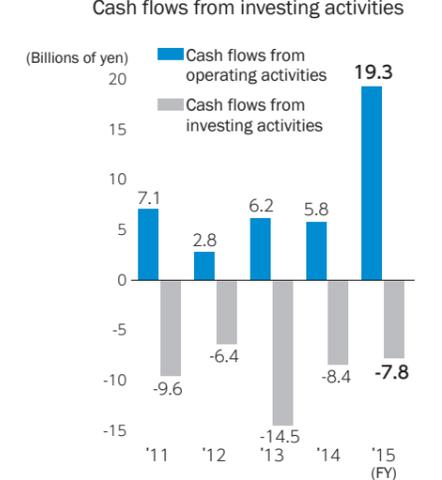


*Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable-installment purchase, and bonds.

Net assets



Cash flows from operating activities
Cash flows from investing activities



Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries
March 31, 2015 and 2016

(Millions of yen)

Assets	FY2014	FY2015
Current assets		
Cash and deposits	13,952	32,385
Notes receivable-trade	321	197
Accounts receivable-trade	20,001	25,839
Electronically recorded monetary claims-operating	1,091	774
Merchandise and finished goods	15,911	15,328
Work in process	1,377	1,993
Raw materials and supplies	3,778	4,695
Deferred tax assets	1,138	1,447
Other	2,534	2,187
Allowance for doubtful accounts	(10)	(10)
Total current assets	60,096	84,838
Non-current assets		
Property, plant and equipment		
Buildings and structures	32,136	36,733
Accumulated depreciation	(13,487)	(15,196)
Buildings and structures, net	18,648	21,537
Machinery, equipment and vehicles	6,405	7,862
Accumulated depreciation	(1,531)	(2,007)
Machinery, equipment and vehicles, net	4,874	5,855
Land	17,043	17,188
Leased assets	1,724	2,943
Accumulated depreciation	(871)	(1,233)
Leased assets, net	853	1,710
Construction in progress	4,798	2,807
Other	10,394	11,765
Accumulated depreciation	(7,792)	(8,867)
Other, net	2,601	2,898
Total property, plant and equipment	48,819	51,997
Intangible assets		
Goodwill	8,661	8,507
Other	1,714	1,615
Total intangible assets	10,376	10,122
Investments and other assets		
Investment securities	1,153	945
Long-term loans receivable	975	886
Lease and guarantee deposits	6,990	6,932
Deferred tax assets	495	647
Other	1,233	1,239
Total investments and other assets	10,848	10,650
Total non-current assets	70,044	72,770
Total assets	130,141	157,609

(Millions of yen)

Liabilities	FY2014	FY2015
Current liabilities		
Accounts payable-trade	31,306	41,989
Electronically recorded obligations-operating	2,086	2,664
Short-term loans payable	5,100	—
Current portion of bonds	—	7,000
Current portion of long-term loans payable	6,069	5,963
Lease obligations	421	400
Income taxes payable	1,625	2,745
Provision for bonuses	2,080	2,249
Provision for directors' bonuses	98	138
Provision for sales rebates	130	—
Asset retirement obligations	9	7
Other	4,546	5,826
Total current liabilities	53,474	68,985
Non-current liabilities		
Bonds payable	7,000	—
Long-term loans payable	46,184	50,621
Lease obligations	1,648	1,337
Long-term accounts payable-installment purchase	1,471	1,040
Provision for directors' retirement benefits	886	957
Net defined benefit liability	917	1,157
Asset retirement obligations	682	723
Other	240	312
Total non-current liabilities	59,031	56,151
Total liabilities	112,505	125,136
Net assets		
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	4,754	10,926
Retained earnings	11,868	17,672
Treasury shares	(3,059)	(44)
Total shareholders' equity	17,515	32,507
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	333	196
Remeasurements of defined benefit plans	(213)	(231)
Total accumulated other comprehensive income	119	(34)
Total net assets	17,635	32,473
Total liabilities and net assets	130,141	157,609

Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2015 and 2016

(Millions of yen)

	FY2014	FY2015
Net sales	181,844	219,239
Cost of sales	149,915	180,171
Gross profit	31,929	39,068
Selling, general and administrative expenses	25,281	28,578
Operating income	6,647	10,489
Non-operating income		
Interest income	3	6
Commission fee	122	137
Rent income	338	378
Compensation income	42	—
Other	186	217
Total non-operating income	693	740
Non-operating expenses		
Interest expenses	811	790
Commission fee	30	45
Rent expenses	243	294
Loss on retirement of non-current assets	55	35
Other	197	185
Total non-operating expenses	1,337	1,351
Ordinary income	6,003	9,878
Extraordinary income		
Gain on sales of non-current assets	5	22
Total extraordinary income	5	22
Extraordinary losses		
Impairment loss	239	219
Retirement benefit expenses	238	—
Total extraordinary losses	477	219
Profit before income taxes	5,531	9,681
Income taxes—current	2,705	3,720
Income taxes—deferred	47	(368)
Total income taxes	2,752	3,352
Profit	2,778	6,329
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	2,778	6,329

Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2015 and 2016

(Millions of yen)

	FY2014	FY2015
Profit	2,778	6,329
Other comprehensive income		
Valuation difference on available-for-sale securities	95	(136)
Remeasurements of defined benefit plans, net of tax	20	(17)
Total other comprehensive income	116	(153)
Comprehensive income	2,894	6,175
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	2,894	6,175
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statement of Changes in Equity

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, 2015									
Balance at beginning of current period	3,953	4,754	9,310	(2,171)	15,845	237	(234)	3	15,849
Cumulative effects of changes in accounting policies			283		283				283
Restated balance	3,953	4,754	9,594	(2,171)	16,129	237	(234)	3	16,132
Changes of items during period									
Dividends of surplus			(504)		(504)				(504)
Profit attributable to owners of parent			2,778		2,778				2,778
Purchase of treasury shares				(1,019)	(1,019)				(1,019)
Disposal of treasury shares				131	131				131
Net changes of items other than shareholders' equity						95	20	116	116
Total changes of items during period	—	—	2,273	(887)	1,386	95	20	116	1,502
Balance at end of current period	3,953	4,754	11,868	(3,059)	17,515	333	(213)	119	17,635

(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

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2015 and 2016

(Millions of yen)

	FY2014	FY2015
Cash flows from operating activities		
Profit before income taxes	5,531	9,681
Depreciation	3,631	4,461
Amortization of long-term prepaid expenses	106	107
Impairment loss	239	219
Amortization of goodwill	644	663
Increase (decrease) in allowance for doubtful accounts	1	(0)
Increase (decrease) in provision for bonuses	286	167
Increase (decrease) in provision for allowance for sales discount	28	(130)
Increase (decrease) in provision for directors' bonuses	23	40
Increase (decrease) in net defined benefit liability	490	223
Increase (decrease) in provision for directors' retirement benefits	(21)	70
Interest and dividend income	(24)	(27)
Interest expenses	811	790
Gain on sales of noncurrent assets	(5)	(22)
Decrease (increase) in notes and accounts receivable-trade	(2,748)	(5,339)
Decrease (increase) in inventories	(4,545)	(881)
Increase (decrease) in notes and accounts payable-trade	4,422	11,212
Decrease (increase) in prepaid expenses	(85)	(7)
Increase (decrease) in accrued expenses	219	265
Increase (decrease) in accounts payable-other	(547)	853
Other, net	761	441
Subtotal	9,220	22,787
Interest and dividend income received	24	27
Interest expenses paid	(822)	(792)
Income taxes paid	(2,591)	(2,695)
Net cash provided by (used in) operating activities	5,831	19,327
Cash flows from investing activities		
Payments into time deposits	—	(5)
Proceeds from withdrawal of time deposits	246	82
Purchase of property, plant and equipment	(5,808)	(6,880)
Proceeds from sales of property, plant and equipment	8	25
Purchase of intangible assets	(246)	(243)
Increase in long-term prepaid expenses	(162)	(104)
Payments for transfer of business	(2,330)	(454)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(226)
Payments for loans receivable	(121)	(16)
Collection of loans receivable	130	115
Payments for lease and guarantee deposits	(336)	(256)
Proceeds from collection of lease and guarantee deposits	149	160
Other, net	35	(19)
Net cash provided by (used in) investing activities	(8,437)	(7,823)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,650)	(5,100)
Proceeds from long-term loans payable	17,300	10,400
Repayments of long-term loans payable	(4,101)	(6,069)
Redemption of bonds	(7,000)	—
Repayments of lease obligations	(434)	(430)
Repayments of installment payables	(252)	(431)
Proceeds from sales of treasury shares	85	—
Proceeds from disposal of treasury shares	—	9,194
Purchase of treasury shares	(1,019)	(6)
Cash dividends paid	(504)	(524)
Net cash provided by (used in) financing activities	1,422	7,031
Net increase (decrease) in cash and cash equivalents	(1,183)	18,535
Cash and cash equivalents at beginning of period	15,027	13,844
Cash and cash equivalents at end of period	13,844	32,380

Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2016," 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, 2016, 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. In case disasters and other emergencies occur in these areas, 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, 2016.

(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 commenced manufacturing and sales of generic drugs that obtained our approval.

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. 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 sector of the manufacturing and sales for 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, 100-6737 Tokyo
+81-(0) 3-6810-0800 (general)

Capital

3,953.02 million yen

Consolidated Net Sales

219,200 million yen (FY2015)

Number of Employees

Regular employees: 2,689

Part-time employees and others: 677

* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion.
(As of March 31, 2016)

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

9,894 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

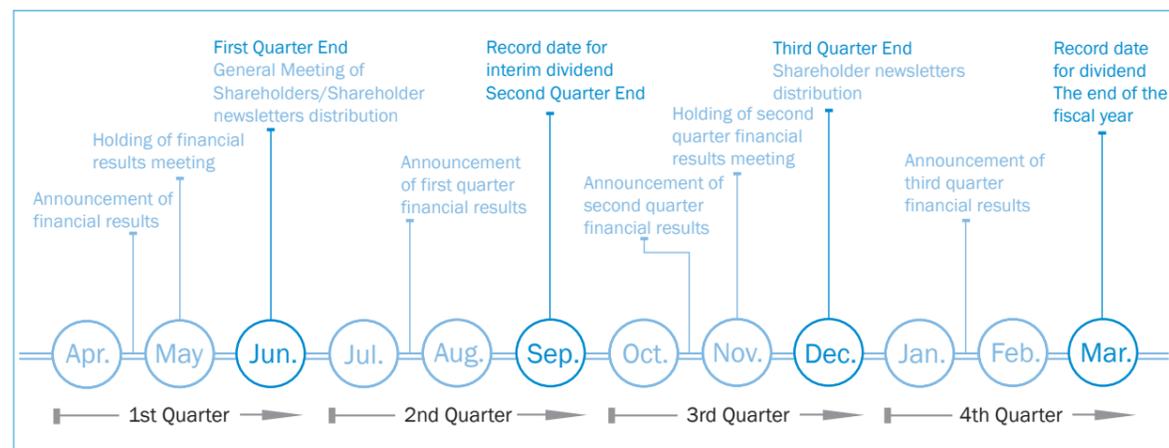
Securities Code

3341

Settlement Date

March 31

IR Calendar



History

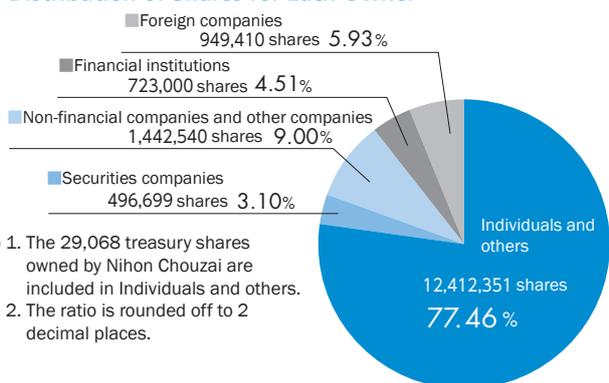
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy branch, 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.

The law amendment or system changes are written in blue.

Stock Information

(As of March 31, 2016)

Distribution of Shares for Each Owner



(Notes) 1. The 29,068 treasury shares owned by Nihon Chouzai are included in Individuals and others.
2. The ratio is rounded off to 2 decimal places.

Trend of Holding Stock Ratio

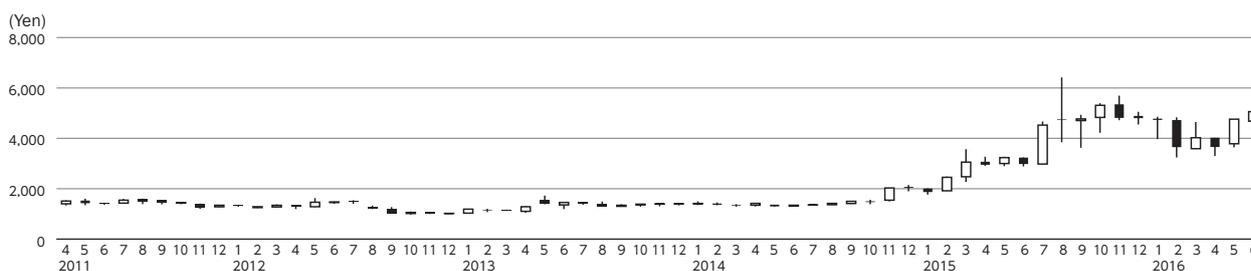
Ratio for Number of Shares	2015/3	2016/3
Individuals and others	81.63	77.46
Securities companies	0.87	3.10
Non-financial companies and other companies	8.22	9.00
Financial institutions	5.26	4.51
Foreign companies	4.02	5.93

Major Shareholders (Top 10 Shareholders)

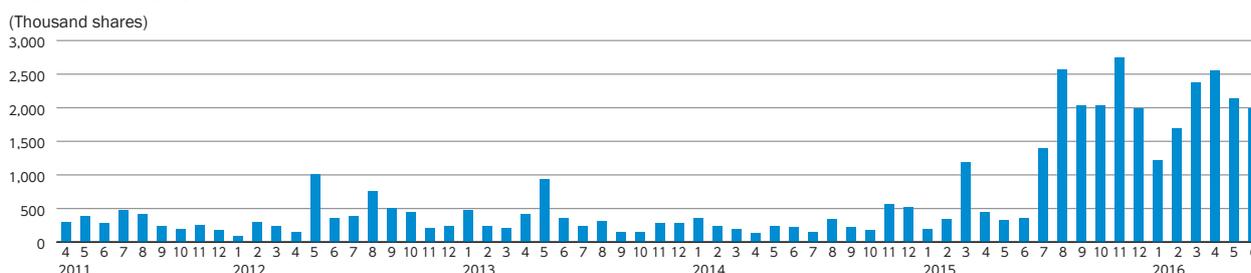
Names of the Shareholders	Number of Owned Shares (Shares)	Investment Ratio (%)
Hiroshi Mitsuahara	4,680,000	29.20
Yosuke Mitsuahara	3,320,000	20.71
Max Planning, Inc.	1,120,000	6.98
Nihon Chouzai Employee shareholding association	430,600	2.68
Yoko Mitsuahara	400,000	2.49
Keiko Mitsuahara	400,000	2.49
Japan Trustee Services Bank, Ltd. (Trust account)	207,400	1.29
MSCO CUSTOMER SECURITIES	177,300	1.10
CBNY OBERWEIS INTERNATIONAL OPPORTUNITIES FUND	153,800	0.95
Daiwa Securities Co. Ltd.	133,740	0.83

(Note) The investment ratio is rounded down to 2 decimal places.

Trend of Share Price



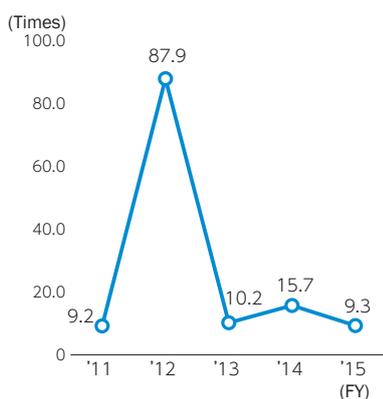
Trend of Turnover



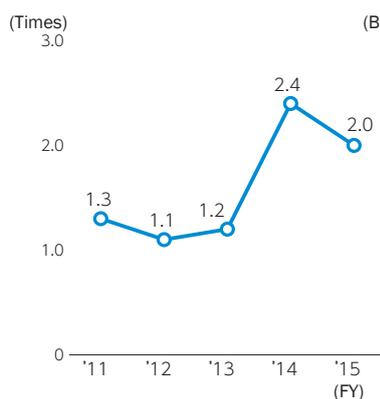
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2011.

Stock Price Index

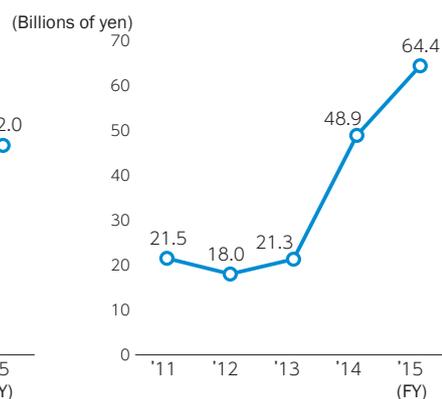
PER (Price earnings ratio)



PBR (Price-book value ratio)



Market capitalization





Q.

みなさん、自分の
「かかりつけ薬局」
ちゃんともっていますか？

いつでも相談できる「かかりつけ薬局」を
もつことは、日々の大きな安心に。

日本調剤は、薬の専門家として、
ジェネリック医薬品や
在宅医療への取り組みを推進し、
長い人生を支えています。

日本の
「かかりつけ薬局」
宣言

 日本調剤

 NIHON CHOUZAI Co.,Ltd.