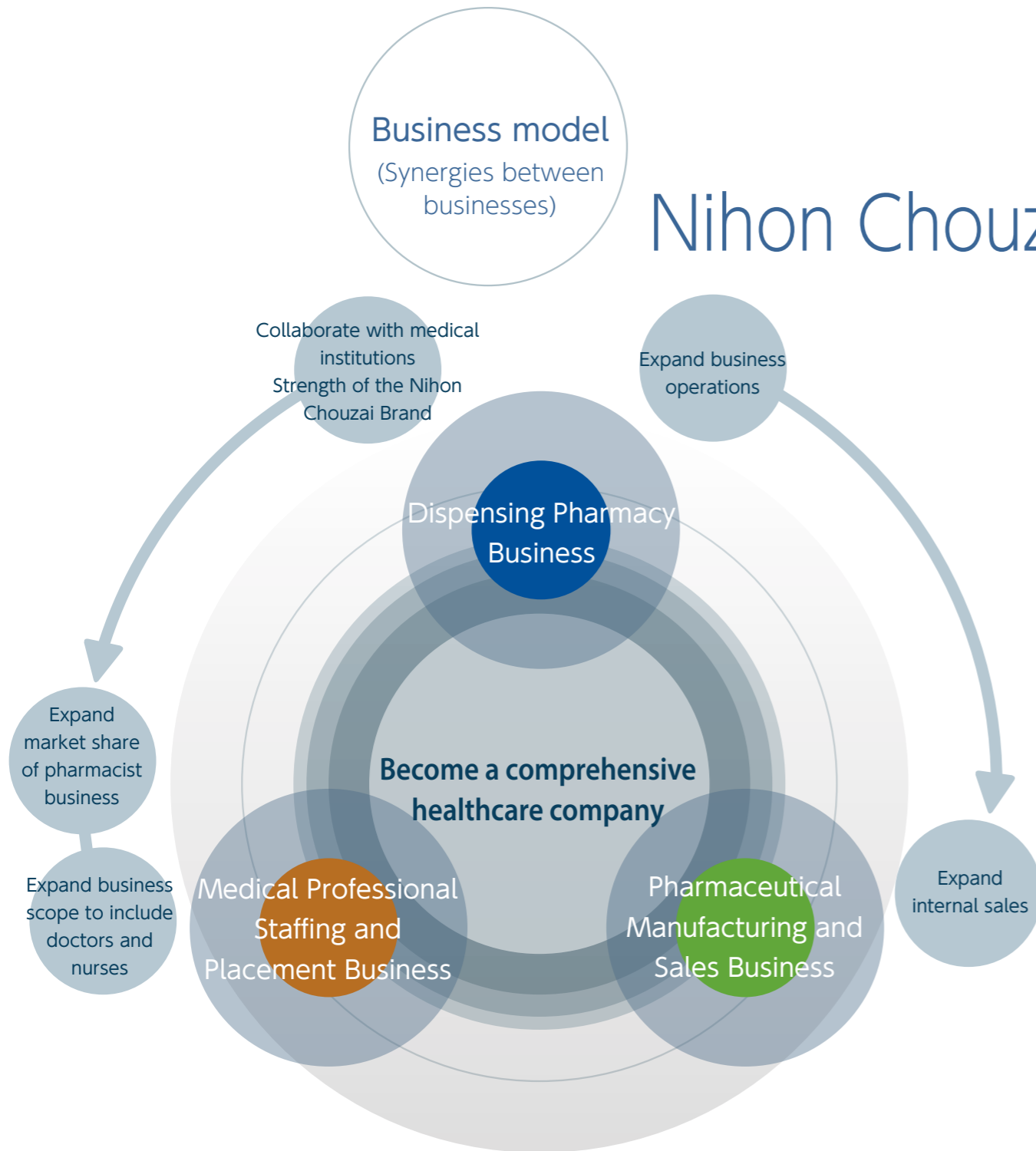


Nihon Chouzai Group

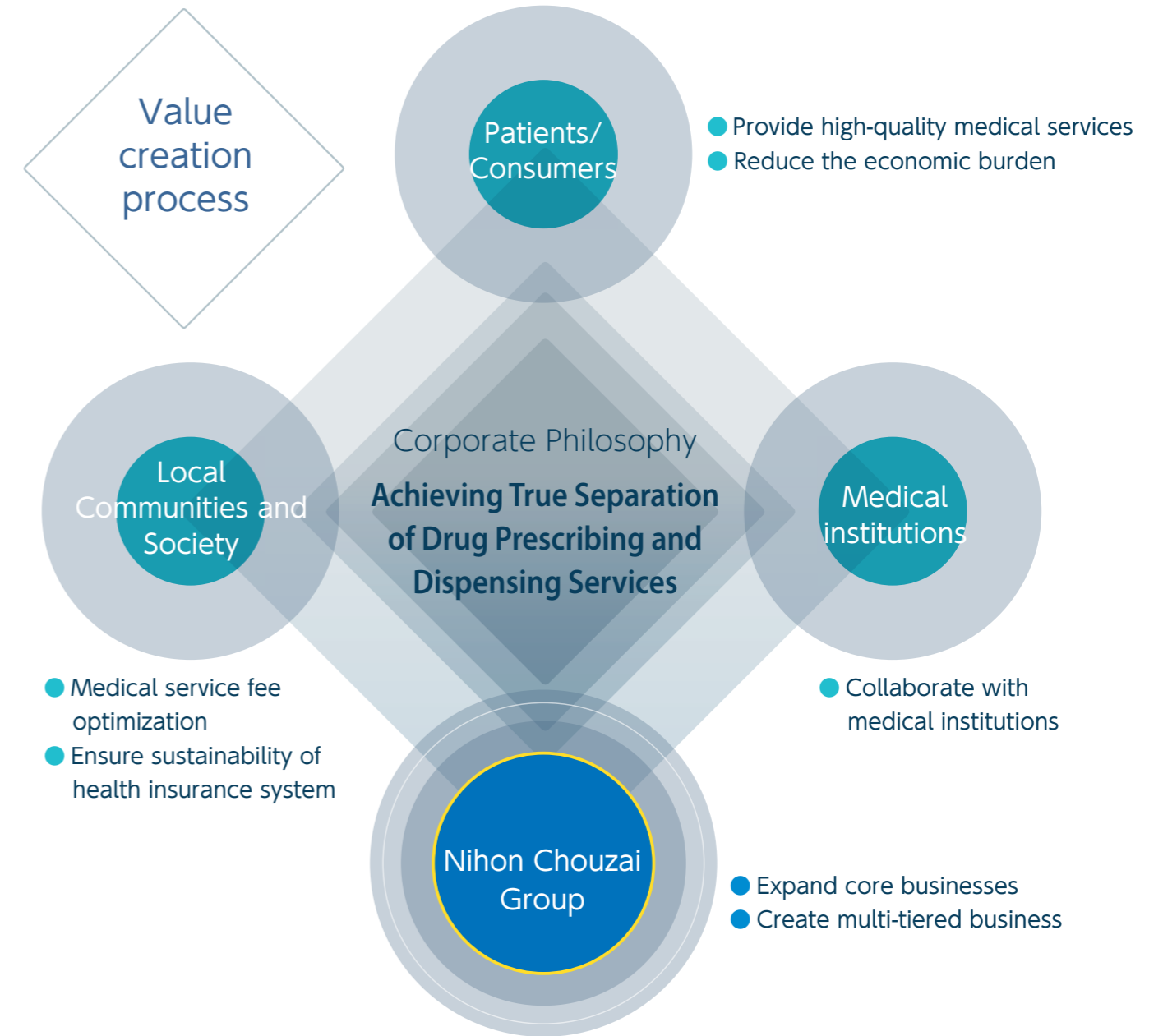


Business model (synergies between businesses)

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

Value creation process

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

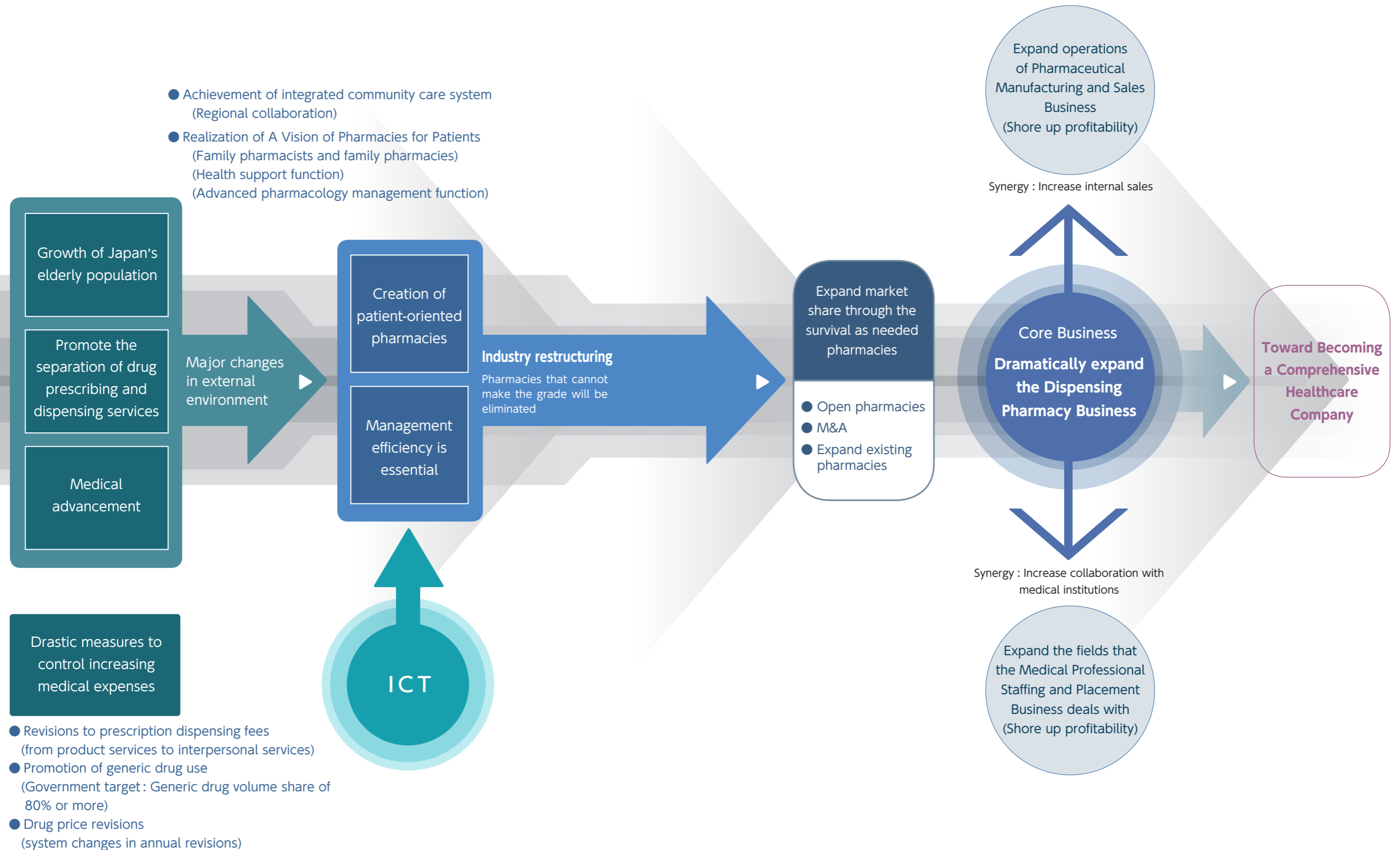


Raise corporate value

Raise social value

Long-Term Vision – On the Road to 2030 –

View of business environment changes and corporate growth by 2030



Long-Term Vision – On the Road to 2030 –

View of business environment changes and corporate growth by 2030

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

Figures are rounded up.

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

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4

Determining Degree of Importance

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

Editorial Policy

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

Notes Concerning Forward-Looking Statements

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



About the Cover

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

Growth towards achieving true separation of drug prescribing and dispensing services

1

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



Hiroshi Mitsuhashi, President & CEO

三津原 博

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Outlook for Fiscal 2018

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

>Dispensing Pharmacy Business

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

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

>Pharmaceutical Manufacturing and Sales Business

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

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

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

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

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

Supporting these long-term stable sales expansion

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

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

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

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

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

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

>Medical Professional Staffing and Placement Business

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

Long-Term Vision for 2030

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

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

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

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

Message from the President

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

We aim to enhance shareholder returns through productivity improvements.

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

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

The Year in Brief Nihon Chouzai Group

2017

2018

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

April 2017

Fujisawa Pharmacy becomes the first health support pharmacy



Health support pharmacy*

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

August 2017

Otemachi Pharmacy becomes health support pharmacy



April 2017

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



April 2017

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



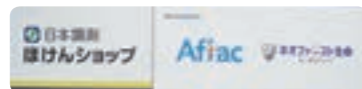
May 2017

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



May 2017

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



June 2017

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



June 2017

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



July 2017

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



August 2017

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



August 2017

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



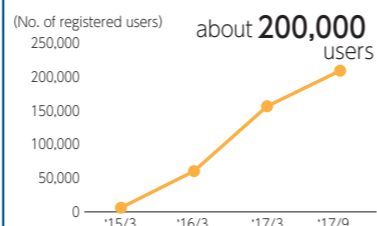
August 2017

Selected again for JPX-Nikkei Mid and Small Cap Index



September 2017

Okusuri Techo Plus, an electronic medication notebook app



October 2017

Takatori Pharmacy becomes a health support pharmacy



November 2017

Kushiro Pharmacy becomes a health support pharmacy



December 2017

Azabu Juban Pharmacy becomes a health support pharmacy



January 2018

Asahi Byoin-mae Pharmacy becomes a health support pharmacy



March 2018

Fukuoka Chuo Pharmacy and Fukuoka Tenjin Pharmacy become health support pharmacies



September - October 2017

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



October 2017

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



October 2017

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



December 2017

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



January 2018

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

January 2018

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



March 2018

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



February 2018

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



February 2018

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



March 2018

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



March 2018

Renewal of Excellent Job Placement Agency certification



Health support pharmacy

Dispensing Pharmacy Business

Pharmaceutical Manufacturing and Sales Business

Medical Professional Staffing and Placement Business

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

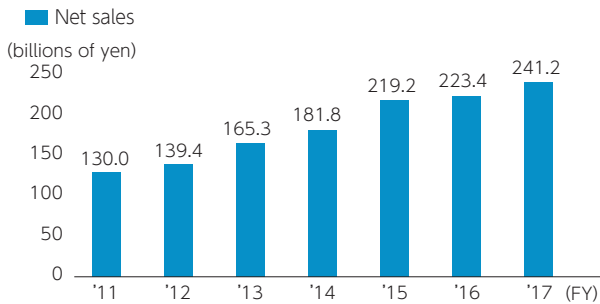
Base that supports Nihon Chouzai

Data section

Financial Highlights

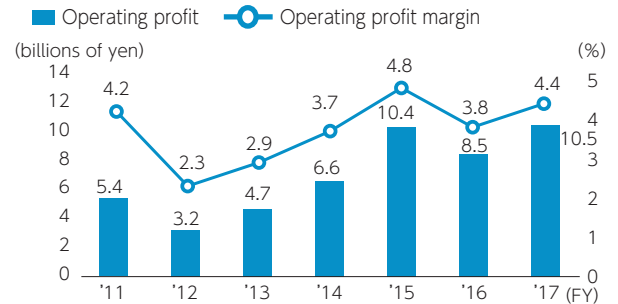
Net sales

241.2 billions of yen



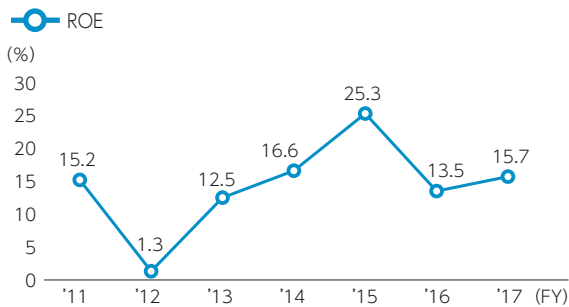
Operating profit/Operating profit margin

10.5 billions of yen **4.4** %



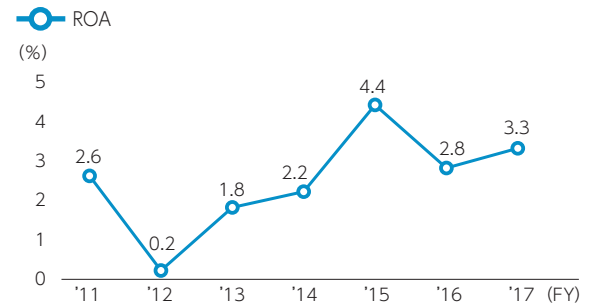
ROE

15.7 %



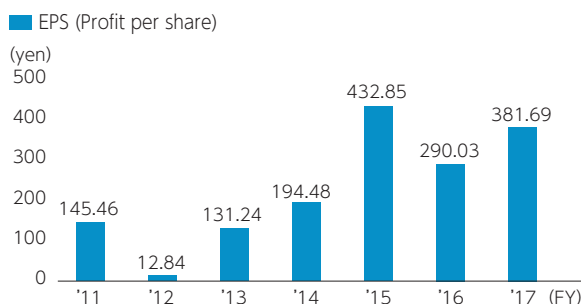
ROA

3.3 %



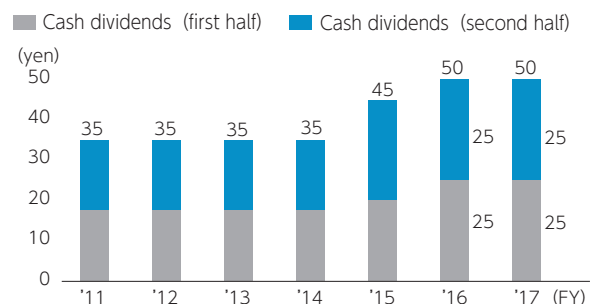
EPS (Profit per share)

381.69 yen



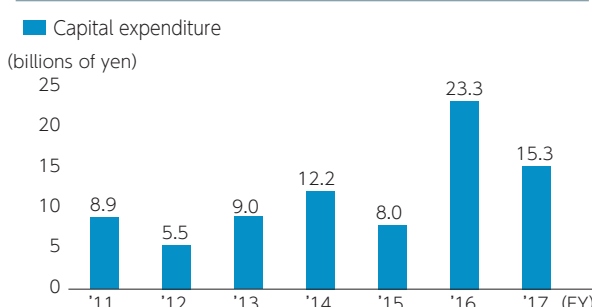
Cash dividends

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



Capital expenditure

Annual capital expenditure **15.3** billions of yen



R & D

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

