



Corporate Report 2017



NIHON CHOUZAI Co.,Ltd.

Contents

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

- 03 Corporate Philosophy
Achieving True Separation of Drug Prescribing and Dispensing Services
- 05 Achieve Further Growth as a Comprehensive Healthcare Group
- 07 Growth that Perceives Change as an Opportunity
Chapter 1 Industry Change and Restructuring
Chapter 2 Nihon Chouzai Group's Flexible Investment and Initiative Roll-out
- 11 Message from the President
 - Q What kind of changes are you expecting in each industry as a result of the NHI price and medical service fee revisions in April 2018?
 - Q What preparations and initiatives is the Nihon Chouzai Group making in regard to this series of drug price revisions and industry changes?
 - Q What is your vision for the Nihon Chouzai Group, assuming that changes in the business environment progress?
- 17 The Year in Brief
Formed business partnership with The Dai-ichi Life Group
- 19 Financial and Non-financial Highlights

2 Business performance

- 23 Dispensing Pharmacy Business
Introducing our initiatives to realize A Vision of Pharmacies for Patients and pharmacy opening strategy
- 30 Information Provision and Consulting Business
Introducing our new service, RI-CORE
- 31 Pharmaceutical Manufacturing and Sales Business
Introducing our expansion of maximum production capacity to prepare for market expansion and increasing the number of product items we offer
- 35 Medical Professional Staffing and Placement Business
Introducing the business synergy between staffing and dispensing pharmacies

3 Base that supports Nihon Chouzai

- 39 ESG Management
- 43 Board of Directors
- 45 Corporate Governance

4 Data section

- 51 Explanation of Terminology (1)
- 53 Explanation of Terminology (2)
- 55 10-Year Summary of Financial and Non-financial Data
- 57 Report of Business Results and Financial Analysis
- 59 Consolidated Balance Sheet
- 61 Consolidated Statement of Income
- 62 Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Net Assets
- 63 Consolidated Statement of Cash Flows
- 64 Risk of Businesses
- 67 Corporate Profile
- 68 History
- 69 Stock Information



About the Cover

Since its founding, Nihon Chouzai has been engaged in business to contribute to the reform of Japan's social security system. Today, with the emergence of the "super-aging" society, we are in the midst of significant change with various initiatives designed to curb rising social security expenditures. The Nihon Chouzai Group views these changes as opportunities and strives to synergize its businesses with a special focus on the Dispensing Pharmacy Business, working toward strong growth as a comprehensive healthcare group.

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

- 03 Corporate Philosophy
Achieving True Separation of Drug Prescribing and Dispensing Services
- 05 Achieve Further Growth as a Comprehensive Healthcare Group
- 07 Growth that Perceives Change as an Opportunity Chapter 1
- 09 Growth that Perceives Change as an Opportunity Chapter 2
- 11 Message from the President
- 17 The Year in Brief
- 19 Financial and Non-financial Highlights

Develop Business That Contributes to Achieving True Separation of Drug Prescribing and Dispensing Services

Corporate Philosophy

Achieving True Separation of Drug Prescribing and Dispensing Services

From the time of its founding, Nihon Chouzai has pursued the separation of drug prescribing and dispensing services. The separation of these services that we pursue is not merely a perfunctory separation wherein drugs prescribed and dispensed in hospitals are dispensed in pharmacies outside of hospitals and handed over to patients. Providing medical care that's beneficial to patients through doctors and pharmacists that work independently, to ensure medical care safety, can achieve the true separation of drug prescribing and dispensing services that Nihon Chouzai seeks.

Prior to the Company's founding, President & CEO Hiroshi Mitsuhashi, witnessed multiple dosing being carried out in a medical setting as a medical representative (MR) for a major drug manufacturer. At that time in Japan, the prescription and dispensing of drugs was performed in hospitals, and multiple dosing and the side effects that accompanied it had turned into a social problem due to the large economic benefit of the drug. Given these social circumstances, with a strong sense of mission to solve this problem by shrinking the price margin included in the drug and separating prescription and the dispensing, we launched the dispensing pharmacy business to achieve a true separation of drug prescribing and dispensing services in Japan. The "Nihon Chouzai" company name literally means "Japan dispensing pharmacy," and the name includes the idea of expanding dispensing pharmacies throughout Japan and achieving the complete separation of drug prescribing and dispensing services.

The drug price, which is the official price of a drug, was reduced every time the NHI drug price was revised once every two years. However, the use of generic drugs was promoted by the government as a means of separating drug prescription and dispensing services. Nihon Chouzai has always been a social leader and has tried to spread and promote the use of generic drugs. Promoting the use of inexpensive generic drugs leads to a reduction in drug-price margins, and as a result, encourages a division of labor in medical institutions. In addition, we have been the first to focus on increasing the transparency of drug price negotiations, such as by eliminating uncertainty about prices, initiating transactions with unit price, and seeking to conclude price negotiations at an early stage.

We will continue to vigorously promote various kinds of business development and support Japan's social security platform by seizing various opportunities to achieve a true separation of drug prescribing and dispensing services.

The dispensing pharmacy business has consistently promoted the separation of drug prescribing and dispensing services since its founding in 1980, but no such separation exists in the true sense of the word. We provide high-quality medical care services with the aim of moving from a formal separation of drug prescribing and dispensing services toward achieving a true separation of those services. In promoting this separation, we will actively incorporate important business fields that contribute to it.



Achieve Further Growth as a Comprehensive Healthcare Group.

Dispensing Pharmacy Business (Nihon Chouzai Co., Ltd.)

In 1980, we established the Company and started business. We expanded business operations to achieve a true separation of drug prescribing and dispensing services, such as promoting the use of generic drugs and starting unit price transactions before other companies. Since our founding, we continue to expand our business through pharmacy openings focusing on the role of the pharmacy and the business scale.

Information Provision and Consulting Business (Japan Medical Research Institute Co., Ltd.)

We provide data analyzed from a variety of angles and consulting on general medical care. We help promote a separation of drug prescribing and dispensing services by proposing more efficient medical care.

(In officially released financial statements, financial figures for this business field are included in the dispensing pharmacy business segment.)

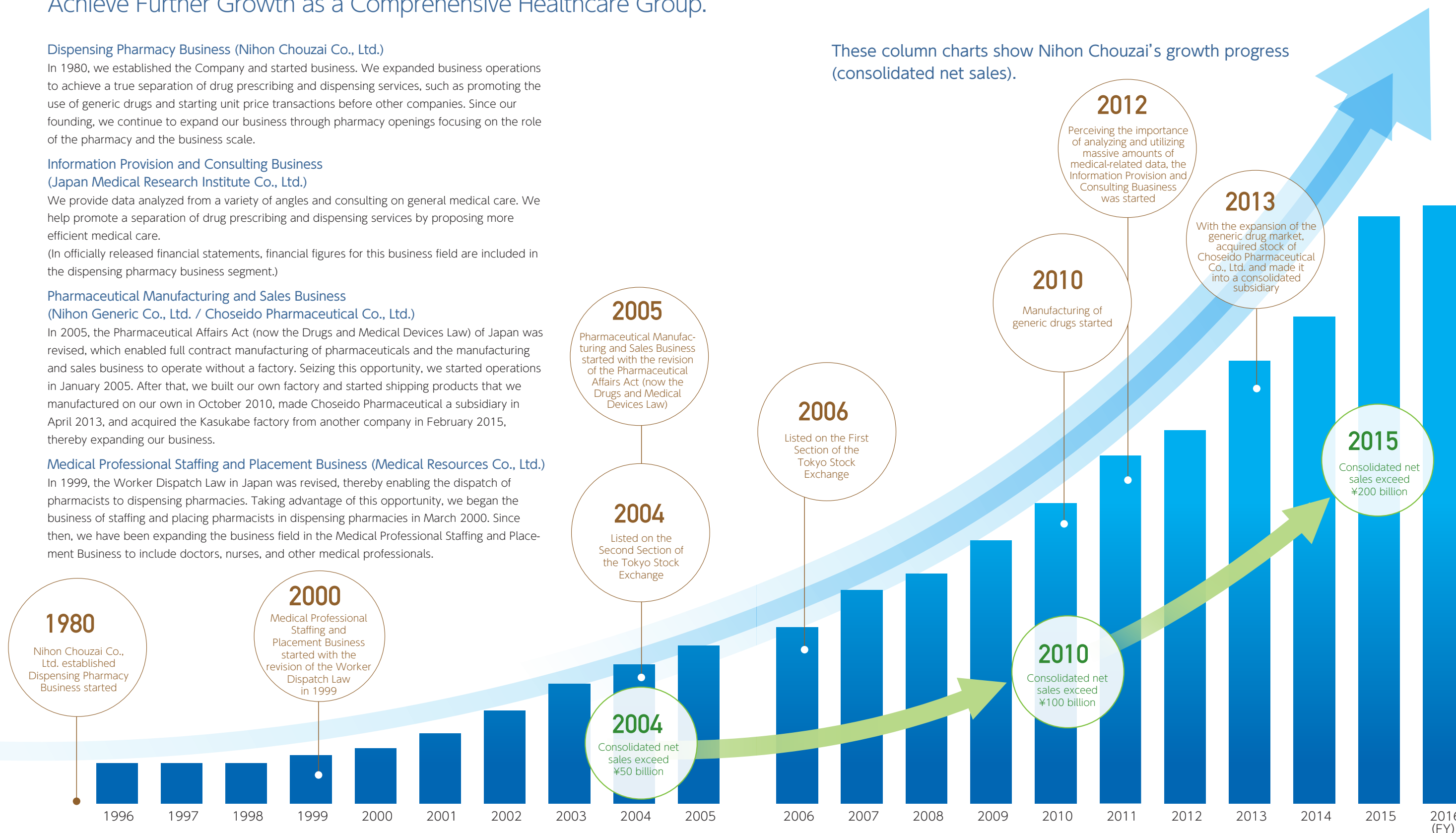
Pharmaceutical Manufacturing and Sales Business (Nihon Generic Co., Ltd. / Choseido Pharmaceutical Co., Ltd.)

In 2005, the Pharmaceutical Affairs Act (now the Drugs and Medical Devices Law) of Japan was revised, which enabled full contract manufacturing of pharmaceuticals and the manufacturing and sales business to operate without a factory. Seizing this opportunity, we started operations in January 2005. After that, we built our own factory and started shipping products that we manufactured on our own in October 2010, made Choseido Pharmaceutical a subsidiary in April 2013, and acquired the Kasukabe factory from another company in February 2015, thereby expanding our business.

Medical Professional Staffing and Placement Business (Medical Resources Co., Ltd.)

In 1999, the Worker Dispatch Law in Japan was revised, thereby enabling the dispatch of pharmacists to dispensing pharmacies. Taking advantage of this opportunity, we began the business of staffing and placing pharmacists in dispensing pharmacies in March 2000. Since then, we have been expanding the business field in the Medical Professional Staffing and Placement Business to include doctors, nurses, and other medical professionals.

These column charts show Nihon Chouzai's growth progress (consolidated net sales).



Major trends in related legislative bills and government policies

1974
● Medical service fee revisions
Raised prescription fee from ¥100 to ¥500
(first year of separation of drug prescribing and dispensing services)

1999
● Worker Dispatch Law revised

2005
● Pharmaceutical Affairs Act revised (now the Drugs and Medical Devices Law)

2007
● Action program for promoting the comfortable use of generics announced by the Ministry of Health, Labour and Welfare

2013
● Roadmap to further promote the use of generics announced by the Ministry of Health, Labour and Welfare

2015
● Basic Policy on Economic and Fiscal Management and Reform 2015 announced by the Cabinet Office, Setting target for generic drug usage ratio ahead of schedule

2015
● A Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare

Growth that Perceives Change as an Opportunity

The dispensing pharmacy and generic drug industries are approaching a period of unprecedented restructuring. Medical expenses, which have been increasing year after year as the population ages, are expected to increase dramatically in 2025 when the baby-boomer generation* reaches 75 years of age and older. The movement toward industry restructuring is gaining momentum with efforts to address system changes and medical expense revisions following a drastic re-examination of medical expenses by the government aimed at achieving fiscal soundness.

* Baby-boomer generation: The generation in which a large part of the population was born, between 1947 and 1949, when the baby boom occurred in Japan.

Chapter
1

Industry Change

Restructuring of Dispensing Pharmacy Industry

Restructuring

System changes for family pharmacists and family pharmacies

Consolidation toward pharmacies that can meet expectations to fulfill multiple functions and roles

Drastic re-examination of dispensing fees

Evaluation of pharmacies based on dispensing fees

Shift to value-added service evaluations for patients
Medical service fee optimization

Increase in customer services provided by pharmacists

October 2015
A Vision of Pharmacies for Patients announced by Ministry of Health, Labour and Welfare

Starting point for change in the dispensing pharmacy industry

Change

In October 2015, the Ministry of Health, Labour and Welfare announced A Vision of Pharmacies for Patients as the ideal required of next-generation dispensing pharmacies in 2025. Because the functions required of pharmacies heading into 2025 are clearly expressed, major changes are taking place in the pharmaceutical industry. While these moves to restructure the industry are directed at culling the pharmacy market, our goal is to survive by demonstrating our ability to respond to change, our superiority, and by taking flexible action that leverages our advantage of organizational strength.

and Restructuring

Restructuring of Generic Drug Manufacturers

Restructuring

Consolidation of generic drug prices

Consolidation toward manufacturers that can respond to stable supply and price reductions

Drastic re-examination of drug price system

Annual drug price revision, consolidation of generic drug prices

Expansion of the generic drug market

Response to a stable supply system

June 2015
Cabinet Office announced Government of Japan Basic Policy on Economic and Fiscal Management and Reform 2015.
Generic volume share target 80%

Starting point for change in the generic drug industry

Change

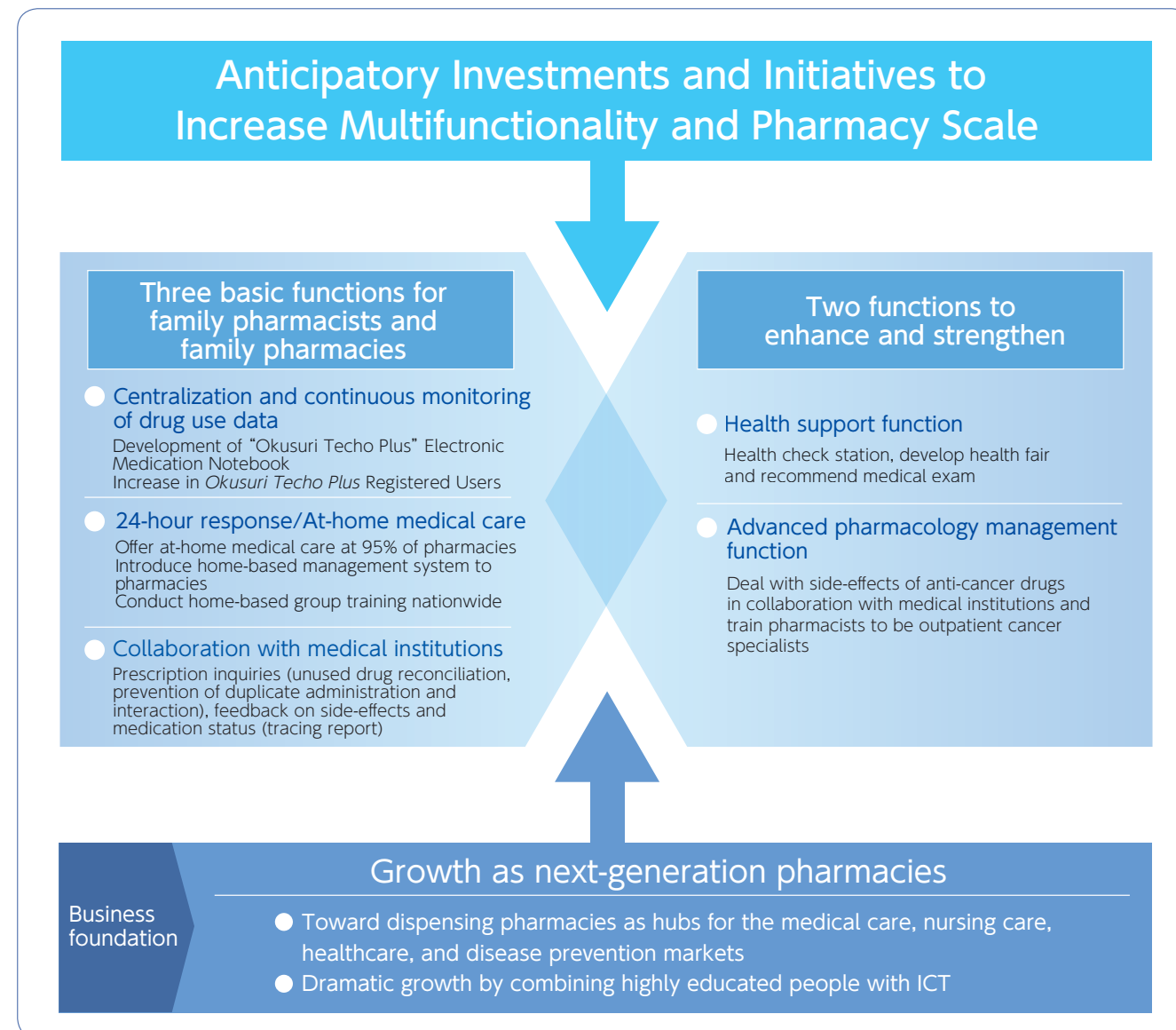
Growth that Perceives Change as an Opportunity

Chapter 2

Nihon Chouzai

Restructuring of the dispensing pharmacy industry

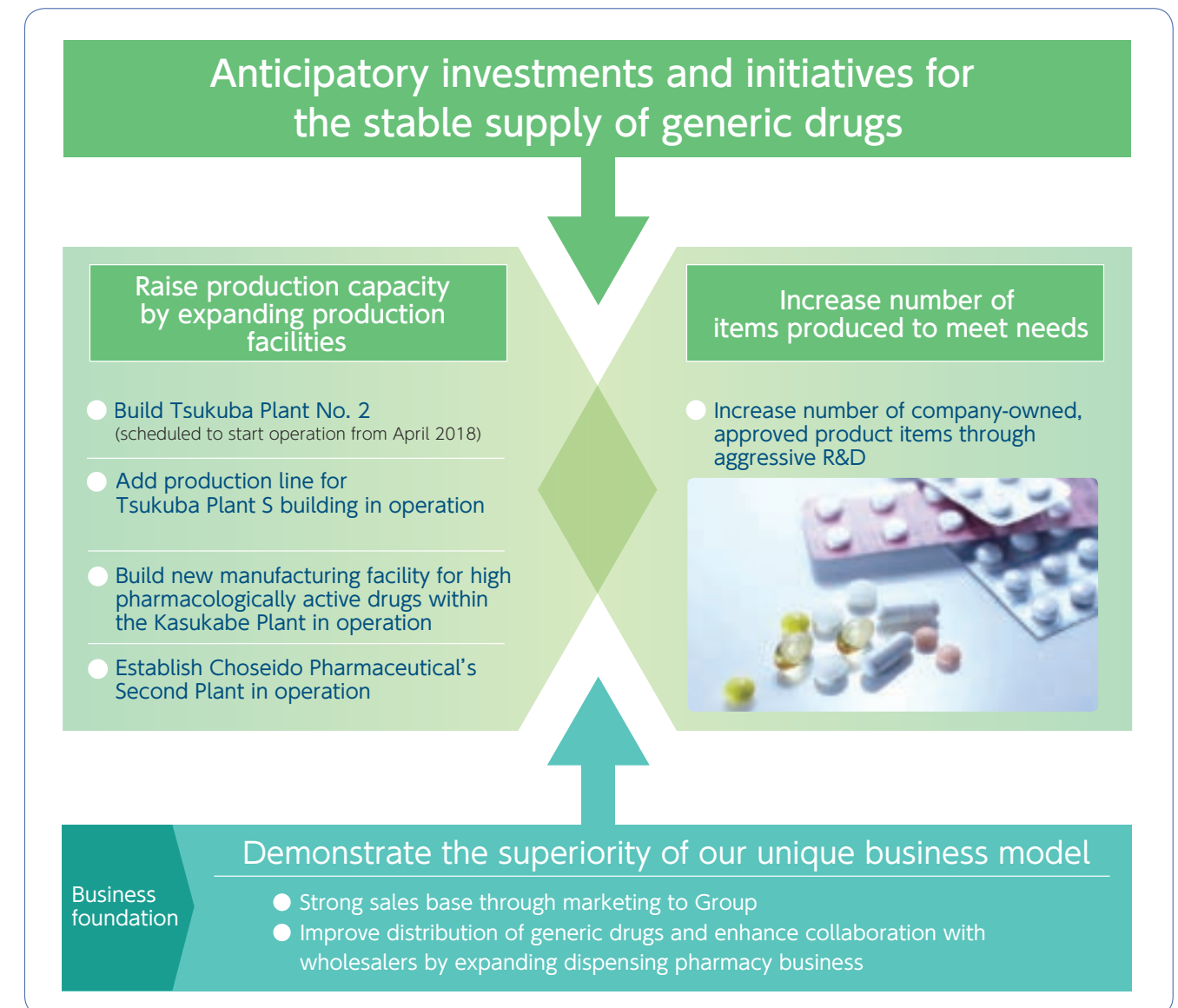
In the dispensing pharmacy business, we have focused on anticipatory investments to deal with the move to greater functionality and larger scale of dispensing pharmacies that is required in next-generation pharmacies, and on the education of high-quality pharmacists. Dispensing pharmacies are at the nexus of medical, nursing care, health care, and disease prevention, and they are the only entities that can perform a wide range of services. We will create new business value by combining highly skilled family pharmacists with information and communications technology (ICT).



Group's Flexible Investment and Initiative Roll-out

Restructuring of generic drug manufacturers

In the Pharmaceutical Manufacturing and Sales Business, we will invest capital in factories to ensure the stable supply of generic drugs, for which demand is expanding, and implement proactive R&D to increase the number of company-owned, approved high-margin products. We will expand internal sales, the basis for strong sales, by expanding the dispensing pharmacy business. In addition, expansion of external sales by leveraging our sales network through closer collaboration with wholesalers is planned.



Message from the President



Hiroshi Mitsuhashi, President & CEO

三津原 博

With dispensing pharmacies as our platform, we seek growth as a comprehensive healthcare group that is unprecedented in Japan's medical community

Q Starting with the dispensing pharmacy industry, what kind of changes are you expecting in each industry as a result of the NHI price and medical service fee revisions in April 2018?

The hurdle for the system of family pharmacists has risen, and pharmacies that cannot make the grade should expect to be culled and restructured.

First, as one of the major trends in the dispensing pharmacy industry, I can cite the family pharmacists system that began from the time of the previous Japanese national health insurance (NHI) price and medical service fee revisions of April 2016. In next year's revisions to medical service fees, it is expected that the hurdle of the calculation requirement of guidance fees for family pharmacists will rise even higher with the problem of too many pharmacies, with about half of them being pharmacies with only one pharmacist. As a result, about 58,000 pharmacies will be culled and restructured and the number of pharmacies reduced, and out of that will come consolidation.

Discussions about evaluation reviews of hospital-front pharmacies are expected to move forward. Within those discussions, the concentration ratio of prescriptions from specific medical institutions will become problematic, but since the concentration ratio has been fully solved at Nihon Chouzai, it is not considered to be much of a

problem. Moreover, at university hospitals and other institutions, we are seeing moves to attract dispensing pharmacies into hospitals. In this respect, let me add that we have many pharmacists whose performance has been highly rated, and for that reason, Nihon Chouzai has been on the receiving end of many preferential negotiations.

With respect to at-home medical care, in light of rapidly rising needs and the trend of simultaneous revision to medical and nursing care service fees during the next revision, we want pharmacists to go proactively to the patients and personally dispense drugs.

As for promoting the use of generic drugs, we can continue to expect a further raising of the standard for calculating generic drug dispensing system incentives, along with policy guidance from the Japanese government. As the Group's average generic drug use rate exceeds 82%, even if the hurdle to calculating generic drug dispensing system incentives rises during the next revision, we are capable of fully responding to that.

Q Then, how do you expect the generic drug industry's business environment to change?

We carefully monitor the unification of generic drug pricing and NHI drug price revisions yearly.

In the generic drug industry, we expect the unification of the cost structure to be a major change in the next revision. We are seeing that the problem of drug price reductions will converge and settle at a certain level through the unification of the current three-tier cost structure of generic drugs. As a subsequent major change, we are looking ahead to the implementation of annual NHI drug price revisions.

Regarding annual NHI drug price revisions, while I cannot say that we are unconcerned that some brake could be applied to our business expansion plan, it is not considered that large a risk. In the years ahead, it is

highly probable that the patient will pay the difference in price between long-listed drugs and generic drugs. When that happens, generic drug usage will naturally increase by roughly 50% from the current level. Then we can sufficiently cover profits through volume.

Marked by an environment where only new drugs and generic drugs will appear sooner or later, we need to continue to support medical care in Japan, especially through the lowest price generic drugs. I am confident that the government will not lower the price of such essential drugs to a point where it will not be profitable for pharmaceutical firms to manufacture them.

Message from the President

Q What do you think about changes in the business environment for the staffing and placement industry?

This business field will expand further with the lifting of the ban on the dispatching of pharmacists to hospitals.

We operate a temporary staffing company that specializes in medical care. If the liquidation of employers is inevitable due to restructuring of the dispensing pharmacy industry, as I previously explained, I think this is a massive business

opportunity. As for hospitals, if the dispatching of pharmacists to them is liberalized, then that segment will greatly expand.

Q What preparations and initiatives is the Nihon Chouzai Group making in regard to this series of drug price revisions and industry changes?

Seeing the explosive changes in the business environment as an opportunity, I hope to achieve major growth so that we can play an important role in supporting Japan's medical care system.

While Japan's health and medical care system must clearly undergo drastic changes, I can state firmly that the Nihon Chouzai Group's various preparations and the systems it has implemented, as well as its corporate strength, have put it in an excellent position. Dramatically changing times present opportunities for us. Turning this into a springboard to growth and expansion will serve as a foundation that firmly maintains and supports Japan's medical care system.

As a specific initiative to turn industry changes into opportunities for growth, we hope to develop various types of businesses and carry out pharmacy expansion in the dispensing pharmacy business under the keyword of "diversification." As business expansion, we are planning to move forward and prepare for prescription mail order and refill prescription operations. As pharmacy expansion,

in addition to entering the hospital pharmacy business, such as in university hospital premises, we will develop a variety of pharmacies as mentaio pharmacies that provide something extra, such as a clinic center with a mentaio pharmacy, a large hospital with a mentaio, or a large hospital with a clinic center.

In light of expected changes in the business environment surrounding dispensing pharmacies and the accompanying changes to the system, we are now in an era where pharmacies that meet only minimum requirements under the Pharmaceuticals Affairs Act cannot survive. While the government is pointing out the direction, namely, to shrink the number of pharmacies by nearly 30,000, what I want to do is to maintain growth while changing existing pharmacies, without thinking only of market share and economies of scale and simply retreating into M&A. As for pharmacies acquired through



M&A, we will support management and unify the core systems, but our policy is to have them retain their independence and manage them while maintaining their competitiveness.

Pharmacist education will become even more important as pharmacies expand and business diversifies. The time when the pharmacist could only dispense drugs has passed. I want pharmacists to visit doctors they don't know and describe to them the products of Nihon Generic Co., Ltd. to promote generic drug use, and perform

business activities for at-home medical care service. Or, I want them to introduce medical care facilities to patients and serviced homes for the elderly as facilities for patients transitioning to at-home medical care. We want to shift the pharmacists' role and the education required for that role to more interpersonal service skills.

For terminal care at home, we are thinking of actively offering opiates and other types of medical treatment to alleviate patient suffering.

1 Review of FY 2016

In April 2016, the pharmaceutical and dispensing pharmacy industries undertook prescription dispensing fee revisions. Along with drug price reductions, this was an extremely difficult situation for dispensing pharmacies. As a result, although consolidated net sales increased 1.9%, operating income declined 18.8% and profit attributable to owners of the parent decreased 26.7% compared to the previous fiscal year.

<Dispensing Pharmacy Business>

Nihon Chouzai opened 42 new pharmacies and closed 12 in fiscal 2016, for a total of 557 Nihon Chouzai Group pharmacies. Despite the effect of new store openings, including mergers and acquisitions, sales were down 0.8% year on year and operating income was down 10.7% year on year due to a lower-than-expected response to prescription demand.

Noteworthy in fiscal 2016 were our successful efforts to deal with family pharmacists and pharmacies.

The number of family pharmacists reached 1,085, the number of approvals obtained for family pharmacist guidance fees came to about 250,000 (cumulative result up to March 2017), and the calculated number of cases of family pharmacist guidance fees was roughly 850,000 (cumulative result up to March 2017), all steadily increasing.

<Pharmaceutical Manufacturing and Sales Business>

Due to the increasing use of generic drugs in medical institutions caused by revisions to medical service fees, net sales were up 13.0% year on year. Meanwhile, operating income declined 35.5% from the previous fiscal year due to the impact of low-price sales competition for long-listed drugs by original drug manufacturers.

<Medical Professional Staffing and Placement Business>

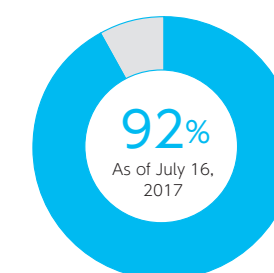
As demand for pharmacist staffing and placement services steadily grows, this business continued to increase job offers by adding new customers for staffing and placement

services and to maintain a large number of registered personnel. As a result, net sales climbed 17.5% compared to the previous fiscal year. Despite a slight decrease in profit margin due to sharply rising web advertising costs, operating income rose 7.0% year on year.

2 Outlook for Fiscal 2017

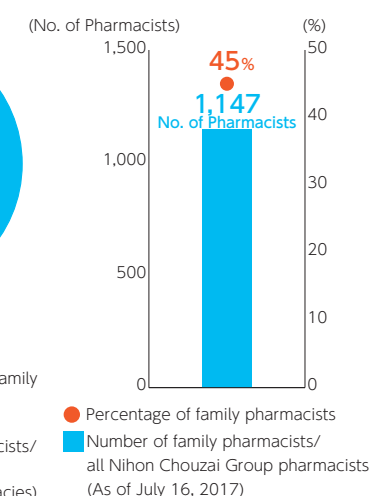
Although fiscal 2017 is a year in which dispensing fees will not be revised, the trend towards industry consolidation could accelerate further. Taking this as an opportunity to make a major and unprecedented change in the medical and pharmaceutical industries, the Nihon Chouzai Group reinforced efforts with family pharmacies and pharmacists, increased the efficiency of each business, and raised productivity. As a result, we are targeting consolidated net sales of 234,697 million yen (up 5.0% year on year), operating income of 10,105 million yen (up 18.6%), and profit attributable to owners of parent of 5,639 million yen (up 21.6%).

Percentage of Pharmacies with family Pharmacists



* Percentage of pharmacies with family pharmacists:
Number of pharmacies that meet facility standard of family pharmacists/all pharmacies (6 months after opening, excluding closed pharmacies)

Number of family Pharmacists, Ratio of family Pharmacists





Q What is your action plan for the generic drug business?

In anticipation of expanding generic drug use inside and outside hospitals, we will actively sell internal medicine and injection drugs to the hospital market.

The Pharmaceutical Manufacturing and Sales Business currently has a product lineup of more than 600 items, with about 40% of them manufactured at our plants. We are working diligently to raise the ratio of manufacturing at our plants to 80%. In addition, Tsukuba Plant No. 2 is scheduled for completion at the end of this fiscal year, giving us a total production capacity of 16.2 billion tablets, which is 10.0 billion tablets more than the 6.2 billion that we currently produce. By simple conversion, at 20 yen per tablet, that comes to 320 billion yen, so our plan is to further expand sales.

In addition, we are proactively planning to make the products that we use at medical sites. If we produce 1,000 kinds of drugs, Japan's medical care will lack almost

nothing, so with that in mind, we will further increase the number of products we sell.

By unifying the cost structure of generic drugs, the patient may have to pay the difference between long-listed drugs and generic drugs. In that case, the price of generic drugs inside and outside the hospital will be the reference price. They will be used jointly at a market share ratio of 70% generic drugs and 30% new drugs, and in the very early stage, long-listed drugs, without limit, should decrease to a level near zero. The use of generic medicine will be enhanced regardless of whether it's used inside or outside of hospitals, and we will proactively sell injection drugs and internal medicine to the hospital market.

Q What are your action plans for the Medical Professional Staffing and Placement Business and the Information Provision and Consulting Business?

We are planning to enter new areas in both businesses.

In the Medical Professional Staffing and Placement Business, which continues to perform well, we will take a more aggressive approach to business expansion, including pharmacy network expansion, while monitoring trends in market expansion such as regulation and liberalization of the business of introducing doctors and dispatching pharmacists to hospitals. If there are mergers and acquisitions of dispensing pharmacies or changes in business conditions, demand for pharmacists will also change. We want to strengthen our supply capacity so that we can respond to market changes and strengthen our position as the number-one company in the pharmacist staffing and placement industry.

The Information Provision and Consulting Business will be able to manage corporate health insurance data

and national health insurance data from the autumn of this year. Therefore, we plan to offer a new consulting service that leverages big data so that it contributes to municipalities' improvement of their management of national health insurance, mutual aid associations, and health insurance. With that in mind, we are sampling data from certain municipalities and have also started verification experiments with the aim of full-scale operation from around autumn. Moving forward, we would like to merge the IT division of Nihon Chouzai Co., Ltd. with Japan Medical Research Institute Co., Ltd., merge the IT and consulting businesses, and further expand the research institute business.

Q What is your vision for the Nihon Chouzai Group, assuming that changes in the business environment progress?

With dispensing pharmacies as our platform, we seek to grow even more as a comprehensive healthcare group.

We are comprehensively addressing the series of measures that I have explained so far and have set our sights on growth as a comprehensive healthcare group that is unprecedented in Japan's medical community. To consolidate that step, the Nihon Chouzai Group has launched the Generic Town Concept.

Under the Generic Town Concept, the Nihon Chouzai Group has secured a site of roughly 330,000 square meters within the Tsukuba Industrial Park in Tsukuba City, Ibaraki Prefecture. Within the park, Plant No. 1 has a total floor area of 26,400 square meters and has operated since 2010, while Plant No. 2 has a total floor area of 30,700 square meters and will be completed at the end of this fiscal year. In addition, a training center (total floor area of about 27,100 square meters) adjacent to Plant No. 2 is already active. We are planning to establish new No. 4 and No. 5 facilities, with the remainder of the site to be research facilities.

We began collaborating with the Dai-ichi Life Group from February 2017 in a new business field that will contribute to achieving a true separation of the roles of drug prescribing and dispensing services.

In 2009, we began selling cancer insurance as an agent for the Japan branch of the American Family Life Assurance Company of Columbus (AFLAC) and promoting trials for private medical insurance. We have actively searched for sustainable solutions for Japan's medical care so that it will not end up in bankruptcy. One of the things I found as answers to a solution to the issue was

the start of collaboration with the Dai-ichi Life Group. If we can steadily progress in collaboration with the Dai-ichi Life Group, and develop public and private medical insurance that can be seamlessly rolled out in the medical field, it could have a major positive impact on Japan's social security.

Some people may think that the medical insurance field is not very large as a market for Japan's social security. In fact, it is a massively huge market. If we include private medical insurance, it is a market of several tens of trillions of yen in scale. Moreover, if the dispensing pharmacy market moves toward true separation of the roles of drug prescribing and dispensing services, then the market would be nearly 10 trillion yen in size. As for the market for generic drugs, if the generic drug use rate increases to nearly 100%, this will also be on the scale of several trillion yen, and as job mobility for medical professionals further progresses, I expect the scale of that market to reach several hundreds of billions of yen in size.

With these related markets, centered on social security, the Nihon Chouzai Group, while working to organically promote the mutual collaboration of each business, will continue to single-mindedly push forward to achieve a true separation of the roles of drug prescribing and dispensing services in Japan. Thank you for your continued support of the Nihon Chouzai Group.

The Year in Brief

Nihon Chouzai Group

Dispensing Pharmacy Business

2016

March 2016

Collaborated with university hospital on training program. Introduced university hospital practical training program

June 2016

Held 1st Internal Academic Congress
About 400 people from across Japan attended and a total of 10 oral presentations were given by pharmacists who aim to contribute to the community.



July 2016

Japan Medical Research Institute Held Symposium 2016
Introduced newly developed RI-CORE



August 2016

Established at-home medical division to meet growing at-home medical needs promptly

October 2016

Started broadcasting TV commercial nationwide



October 2016

Exhibited at Digital Health Days 2016
Introduced latest ICT strategy



October 2016

Acquired equity interest in Mizuno Pharmacies Limited Liability Company (made into subsidiary), which operates Mizuno Pharmacies, known for being Japan's first health insurance-dispensing pharmacies

December 2016

Selected as a component stock of the JPX-Nikkei Mid and Small Cap Index



December 2016

Established Health Check Station to strengthen health support capabilities of the community. Contributed to the health of local residents



December 2016

Started collaborative research with the Graduate School of Medicine, University of Tokyo on diabetes patients and patients at risk of diabetes

January 2017

First health support pharmacy training implementation organization to be certified as a dispensing pharmacy company

January 2017

Participated in the "1st Insurance Pharmacy-Pharmacist Cancer Drug Therapy Training" conducted by the National Cancer Center Hospital East with the goal of developing pharmacists who respond to the needs presented by evolving cancer treatment

February 2017

Formed business partnership with The Dai-ichi Life Insurance Company, Limited and The Neo First Life Insurance Company, Limited



2017

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

Pharmaceutical Manufacturing and Sales Business

June 2016

Released 24 new drugs with 11 different active ingredients
Number of products offered: 599



June 2016

Tsukuba Plant No. 2
Conducted groundbreaking ceremony and started construction



October 2016

Established the Sapporo Logistics Center, the fourth such location after the East Japan, West Japan, and Kanto Logistics Centers

November 2016

Conducted ridgepole raising ceremony (all supporting pillars that form the building's structural material were installed) at Tsukuba Plant No. 2
Phase I construction completed in April 2018



December 2016

Released 12 new products with 7 different active ingredients
Number of new products offered: 611



February 2017

Acquired manufacturing and sales approval for 16 products with 7 different active ingredients to be released in June 2017

Medical Professional Staffing and Placement Business

March 2016

Designated an Excellent Temporary Work Agency by Japan's Ministry of Health, Labour and Welfare



April 2016

Began offering free career consulting to registrants



August 2016

Started business collaboration with Nihon M&A Center Inc. in support of the independent startup of pharmacists

October 2016

Expanded social insurance coverage for part-time workers by relaxing application requirements for social insurance
More temporary registrants applied for social insurance

January 2017

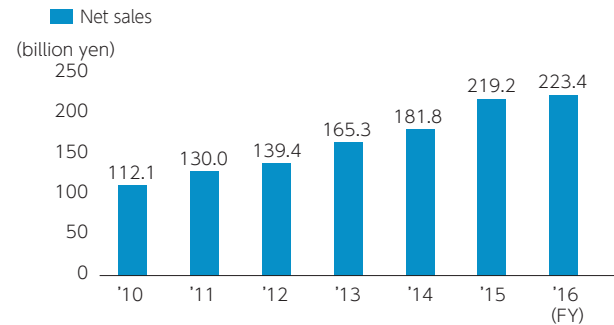
Responded to unit applications for Certified Pharmacist certification required by family pharmacists
Began sales of JP Learning II, a pharmaceutical learning application for pharmacists



Financial and Non-financial Highlights

Net sales

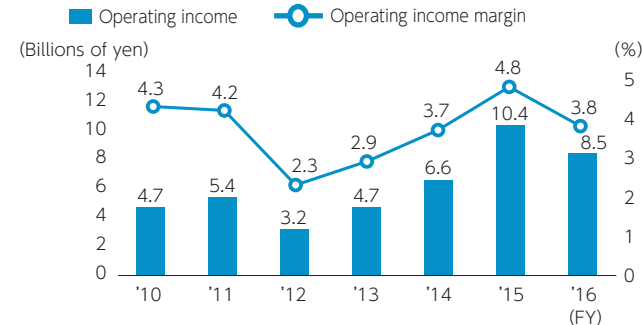
223.4 billion yen



Despite negative factors such as a decrease in sales of hepatitis C drugs, sales increased 1.9% year on year due to higher sales in the Pharmaceutical Manufacturing and Sales Business.

Operating income / Operating income margin

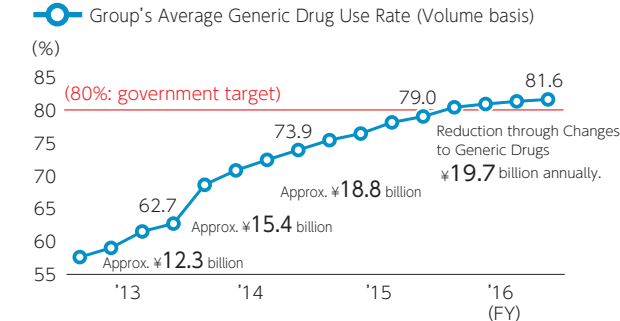
8.5 billion yen **3.8** %



Operating income declined 18.8% year on year due to reasons including lower-than-expected growth in prescriptions on revisions to medical service fees. However, a steady increase in profits was maintained compared to medical service fee revision years.

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

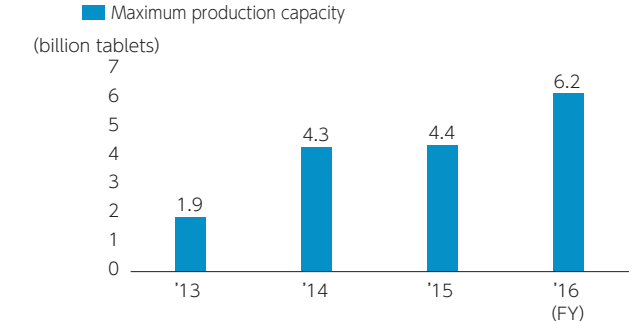
81.6 %



Generic drugs on a volume basis have already exceeded the government target of 80%. Medical expenses were reduced by about ¥19.7 billion annually.

Generic Drug Maximum Production Capacity

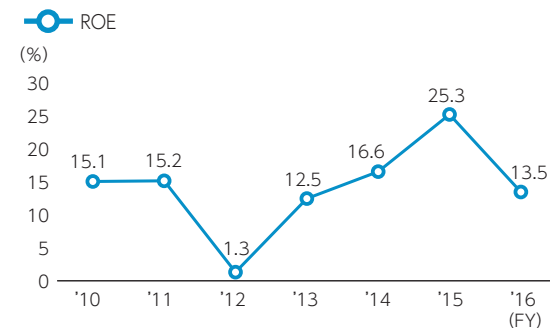
6.2 billion tablets



Aggressively carry out capital expenditure through market expansion. Raise maximum production capacity to 6.2 billion tablets.

ROE

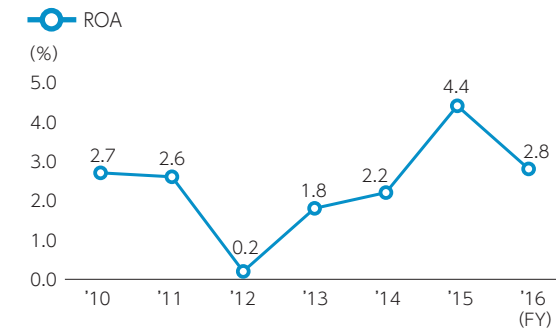
13.5 %



Profit declined year on year because of revisions to medical service fees, and ROE dropped to 13.5%

ROA

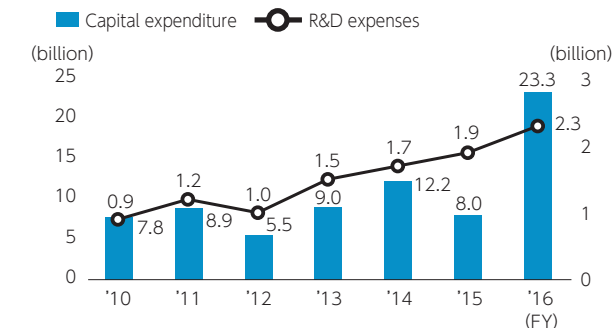
2.8 %



Profit declined year on year because of revisions to medical service fees, and ROA dropped to 2.8%

Capital expenditure / R&D expenses

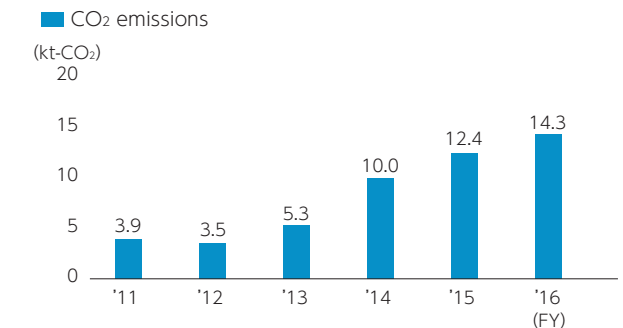
Annual capital expenditure **¥23.3** billion



Upgraded and expanded machinery and equipment to enhance the existing manufacturing facilities at three plants. Proactively conducted R&D to expand the number of products sold in this business.

CO₂ emissions

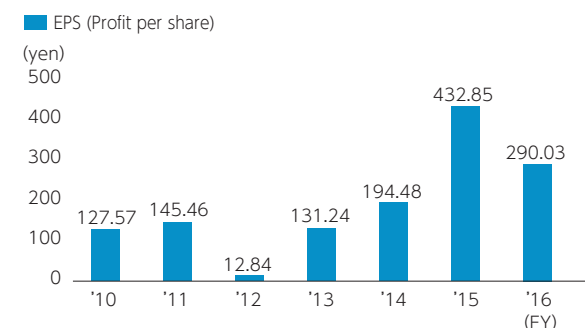
14.3 kt-CO₂



Maintained latest plant facilities that implement energy-saving measures and curbed the increase of CO2 emissions. The recent increase was due to expanded capacity of manufacturing plant equipment accompanying higher sales in the generic drug manufacturing and sales business.

EPS

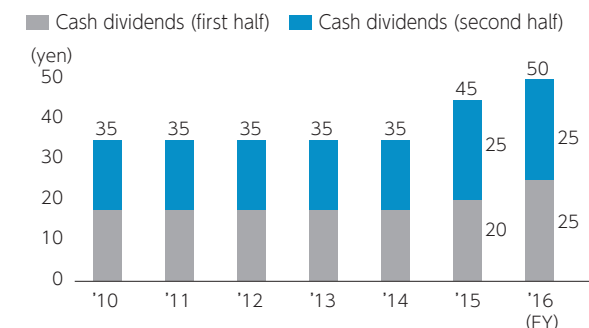
290.03 yen



Decreased year on year because it is a medical fee revision year, but steadily increased compared to other medical fee revision years

Cash dividends

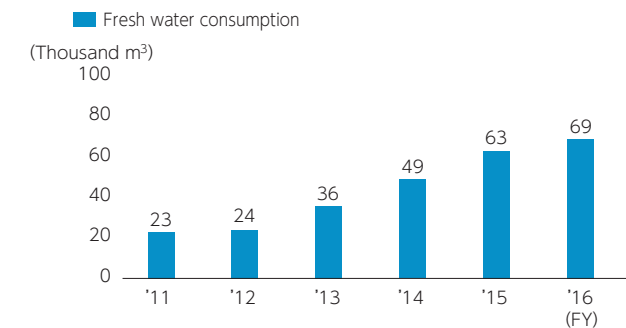
Annual dividend per share **50** yen (after split)



Emphasizing continuity and stability, the annual dividend was increased to 50 yen per share. The Company implemented a stock split in October 2015. Figures prior to fiscal 2015 are shown after price adjustments were made for the stock split.

Fresh water consumption

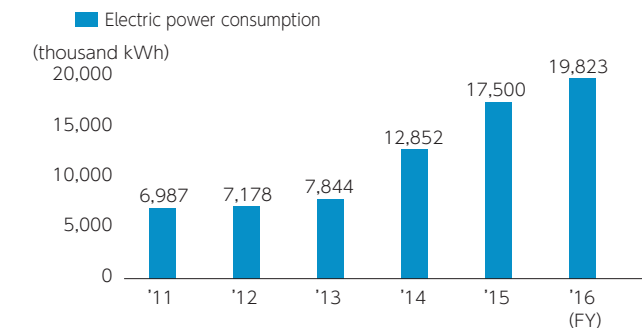
69,000 m³



The main factor behind the increase in fresh water consumption was the increased capacity of manufacturing equipment accompanying the sales increase.

Electric power consumption

19,823 thousand kWh



The main factor behind the increase in electric power consumption was the increased capacity of manufacturing equipment accompanying the sales increase.

Financial and Non-financial Highlights

Formulated an action plan* to create an environment where women can maximize their potential

* Formulated plan in March 2016. The current period for target achievement extends to March 31, 2019.

Target 1 At least double the number of women in the position of general manager over that of fiscal 2015.

Target 2 At least double the number of women in area manager and administrative department manager positions over that of fiscal 2015.

Initiative 1 Conduct awareness raising and training for subordinate development focusing on managers

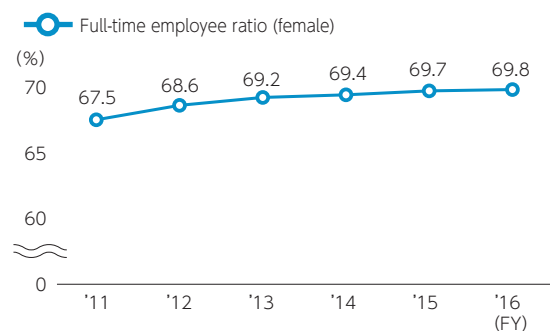
Initiative 2 Implement measures to support career development of female employees. Create career plan guidance and interview system for returnees after childcare leave

Initiative 3 To promote taking of paid holidays, consider introducing a scheduled allowance system and time unit allowance system

Initiative 4 Proactively assign women to departments where they were previously underrepresented and expand their sphere of work

Ratio of full-time female employees

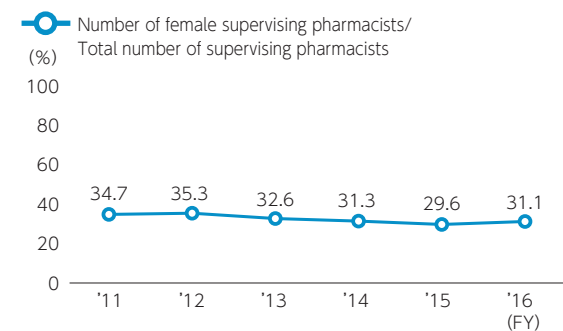
69.8 %



We are continuing efforts to improve the workplace environment and expand opportunities for women.

Female ratio of supervising pharmacists in pharmacies

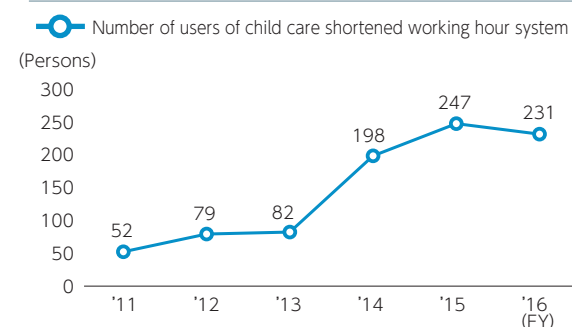
31.1 %



We have created educational opportunities and enhanced training for female supervising pharmacists. At the same time, we are working to improve the environment after employment.

Number of users of child care shortened working hour system

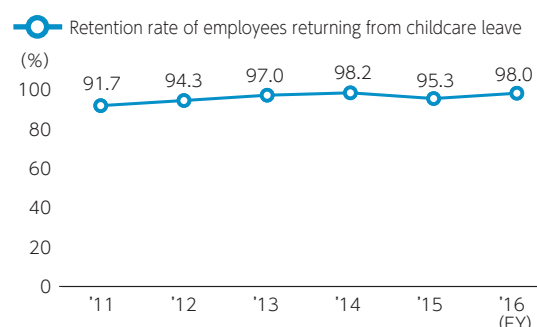
231



We have enhanced the shortened working-hour system for child care to alleviate the burden on working women. We have established an environment where women can raise children while working.

Retention rate of employees returning from childcare leave

98.0 %



Start in-house newsletter to help returnees smoothly readjust, improve the workplace environment and follow up during childcare leave with medical information that utilizes new drug information and provides drug administration guidance to pharmacists.

2 Business performance

- 23 Dispensing Pharmacy Business
- 30 Information Provision and Consulting Business
- 31 Pharmaceutical Manufacturing and Sales Business
- 35 Medical Professional Staffing and Placement Business

Dispensing Pharmacy Business

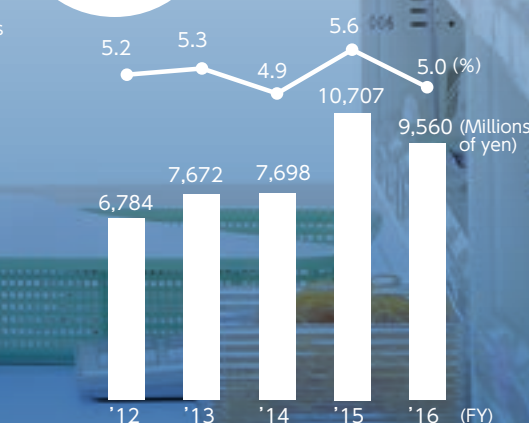
Operation and Opening of Dispensing Pharmacies

Sales Composition



Net sales ■

Composition of Operating Income



Operating income ■
Operating income to net sales —

Market Environment Analysis

Change in Market Environment: From 7 trillion yen to 9 trillion yen

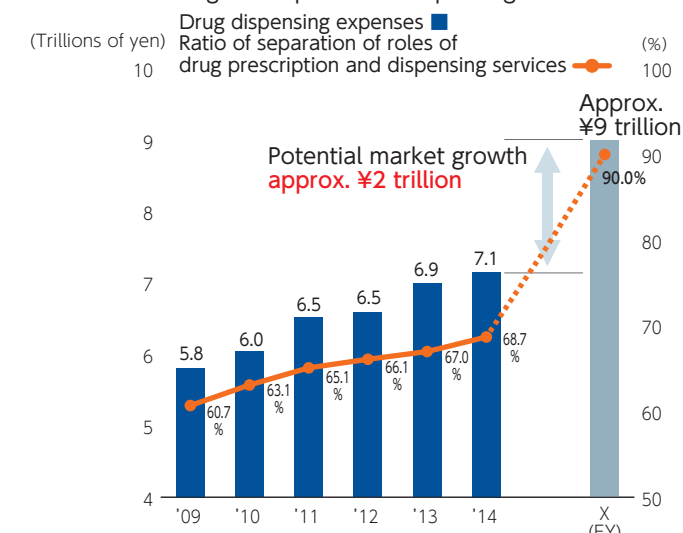
Since the separation of drug prescribing and dispensing services began, the separation ratio has been consistently rising for about 40 years and exceeded 70% in September 2015. The recent year-on-year growth rate reveals an upswing of 0.9% in fiscal 2013, 1.7% in fiscal 2014, and 3.4% in fiscal 2015. On the other hand, the growth rate of drug dispensing expenses was 5.9% in fiscal 2013, 2.3% in fiscal 2014, and 9.4% in fiscal 2015. In fiscal 2015, high-priced hepatitis C drugs and relatively high-priced original drugs have pushed up medical costs so that drug dispensing expenses exceeded 7 trillion yen.

Total medical costs including drug dispensing expenses are increasing as the percentage of the population that is 65 years or older increases, and should the ratio of the

separation of roles of drug prescription and dispensing services exceed 90%, a market of 9 trillion yen is expected. In 2025, the baby-boomer generation (those born between 1947-1949) will be 75 years or older and their medical expenses are expected to increase explosively.

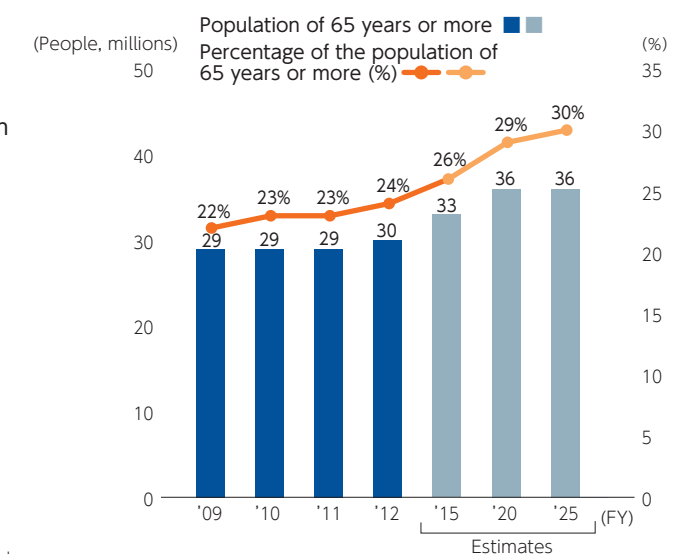
However, an increase in tax revenue is not expected due to a decrease in the workforce. Therefore, securing revenue to be set aside for social security expenses, including medical expenses, will be challenging. The government has therefore decided to drastically revise medical service fees and NHI drug prices. A major change is expected, such as a review of medical service fees or a change in the system to curb medical expense increases through greater medical care efficiency.

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

Changes for 2025

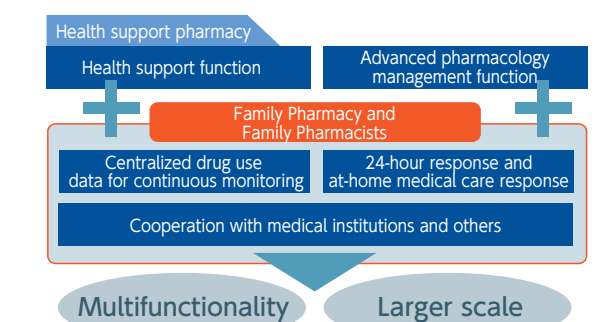
Reorganize all pharmacies into family pharmacies by 2025

A Vision of Pharmacies for Patients (announced in October 2015)

The starting point for major changes in the dispensing pharmacy industry is the Vision of Pharmacies for Patients, which was announced by the Ministry of Health, Labour and Welfare in October 2015. In this vision, the roles and functions required by pharmacies as they prepare for 2025 are clearly indicated. As shown in the figure on the right, multifunctionality is the function required of pharmacies, and since that is difficult for pharmacies with only one pharmacist, which account for half of the roughly 58,000 pharmacies, it is assumed that the industry will undergo a culling and restructuring process to address this issue.

The Ministry of Health, Labour and Welfare set a deadline and announced a policy to "reorganize all

A Vision of Pharmacies for Patients



Q & A

Although it is expected that drug prices will be reduced yearly from fiscal 2018, don't you think that dispensing pharmacy market growth is unlikely?

The yearly drug price reduction will have a negative impact on dispensing pharmacy market growth, but on the other hand, the growth of Japan's elderly population and growth associated with the evolving separation of roles of drug prescription and dispensing services is expected.

pharmacies into family pharmacies by 2025.” In the revision of medical service fees of April 2016, a revision of the system to enhance the family pharmacist and pharmacy functions, such as the establishment of a new “family pharmacist system,” was implemented. Discussions about system changes that are to be included after the next revision of medical service fees are ongoing.

The Vision of Pharmacies for Patients indicates the three basic functions of the family pharmacy and family pharmacists, and the two functions to enhance and strengthen them. A policy of carrying out quantitative

evaluations based on KPIs has been announced for each of these functions. With an eye on reducing fees, discussions are underway with pharmacies that are not addressing these measures. Since increasing experience and knowledge through pharmacist education and securing staff to perform at-home medical care are challenges, it will be difficult for pharmacies with few pharmacists to work toward this vision. Nihon Chouzai is taking the initiative over its competitors by aggressively investing to deal with the expansion of pharmacy scale and multifunctionality.

Impact caused by the revision of medical service fees in April 2016 in reaction to A Vision of Pharmacies for Patients

Because of introductions made between local medical support hospitals, the number of prescriptions showed a year-on-year decline at some existing pharmacies, but it achieved a roughly 5% year-on-year increase overall as a result of contributions from pharmacy openings, including those acquired through M&A.

Of the prescription unit price, the drug unit price declined substantially year on year due to a decrease in hepatitis C drug usage. In the first half of the fiscal year under review, except for hepatitis C drugs, drug prices decreased year on year because of NHI drug price revisions. However, in the second half, unit drug prices rose due to the adoption of new drugs at university hospitals and regional flagship hospitals, and it recovered to the previous fiscal year's level. As the prolongation of the number of drug administration days has slowed, the growth of unit drug prices reached a low level compared to the drug price revision of fiscal 2014.

The unit price of technical fees declined because of a reduction in service fee points due to a review of hospital-front pharmacies. The conditions for standard dispensing incentives and generic pharmaceuticals dispensing system incentives were changed, and raising the standard for calculating the incentives was also affected.

Because of Nihon Chouzai's response to A Vision of Pharmacies for Patients, the unit price of technical fees rebounded in the second half of the fiscal year under review, and in the fourth quarter exceeded the level of the year-earlier period. Because it took a fair amount of time for us to respond compared with the medical service fee revisions of fiscal 2014, we consider this to have been a very difficult revision. At other dispensing pharmacies, the technical fee unit price cannot be recovered, even over a one-year period, so the difference between pharmacies that can address A Vision of Pharmacies for Patients and those that cannot becomes clear.

Specific Policies and Achievements in Response to the Vision of Pharmacies for Patients

A Vision of Pharmacies for Patients is strongly reflected in medical service fee revisions, and the functions required of pharmacies have been evaluated. Our policy regarding this is to deal with securing pharmacy scale and multifunctionality to fulfill A Vision of Pharmacies for Patients.

The following is an explanation one of the required functions, using the example of at-home medical care. To perform at-home medical care, we need to secure pharmacists separately from those working at pharmacies. Since only five to ten patients can be visited in a day, more pharmacists will be needed as the number of patients increases. Because at-home medical care deals with transfusions and nutritional supplements, there needs to be some place to store them. Moreover, an aseptic

dispensary is needed at a local pharmacy, so there is no choice but to increase pharmacy size. In addition, if we consider things that are performed in alternate shifts, such as 24-hour counseling via mobile phone and dispensing in case of emergencies, one pharmacist cannot deal with this alone, so multiple pharmacists are required.

Therefore, our existing pharmacies are considering pharmacy consolidation or relocation to larger facilities, and we are beginning to address this change. We have also considered the opening of new pharmacies on a similar basis. Details of our pharmacy opening and M&A strategies are shown on the next page.

Policies and Initiatives for A Vision of Pharmacies for Patients

Policy	Specific Initiatives
Secure pharmacy scale	Consolidate/Relocate existing pharmacies Pharmacy opening and M&A strategies
Response to multifunctionality	Meet three basic functions of family pharmacies and family pharmacists <ul style="list-style-type: none"> ● Centralized drug use data for continuous monitoring utilizing information communication technology (ICT) ● 24-hour response and at-home medical care ● Cooperation with medical institutions and others Address two functions to enhance and strengthen <ul style="list-style-type: none"> ● Health support function ● Advanced pharmacology management function

Q & A It is cheaper to obtain drugs at the hospital or outside at a pharmacy. In that sense, isn't the separation of roles of drug prescription and dispensing services unnecessary for patients?

The separation of drug prescribing and dispensing services is progressing with the primary goal of ensuring the patient's safety in terms of drug therapies. Measures to improve patient convenience are being studied through medical system reforms, and so forth.

Pharmacy opening strategy: Secure pharmacy scale

Environmental Consciousness

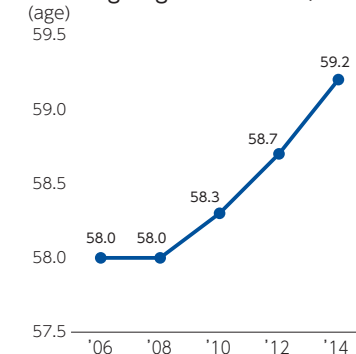
In the medical institutions that issue prescriptions, the average age of doctors working in clinics is rapidly aging and is now 59.2 years. at the same time, the percentage of doctors that are 50 years or older has reached 75.6% (both figures are as of the end of fiscal 2014). Although the population aged 75 years or older will increase as we head to 2025, business closure due to the aging of doctors who work at clinics is expected to become a major risk for pharmacy management. Managers are also aging at dispensing pharmacies, and the problem of replacing them has become evident. Pharmacies that cannot respond to medical service fee revisions are expected to face extremely difficult management circumstances.

Given these circumstances, mergers and acquisitions have intensified in the dispensing pharmacy industry, and the merger and/or acquisition of approximately 100 pharmacies by major dispensing pharmacy chains is underway, especially that of small dispensing pharmacies

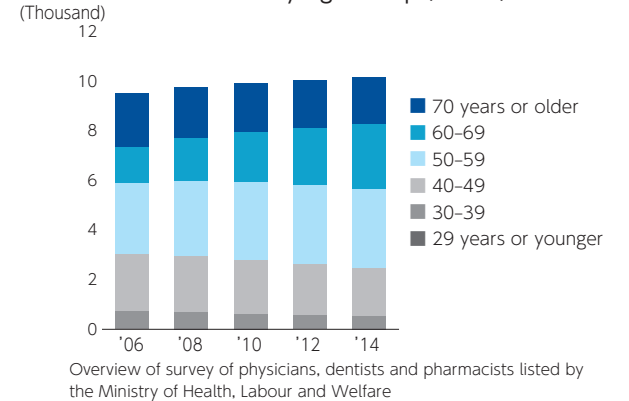
with annual sales of around 100 million yen. Meanwhile, the Social Security Working Group within the Council on Economic and Fiscal Policy, Cabinet Office, regularly takes up social security issues, and it discussed the problem of too many pharmacies because of too many drugs at their 19th Meeting and debated whether a certain level of consolidation was needed, since half of the roughly 58,000 pharmacies that exist today are pharmacies with one pharmacist and their family pharmacy function is weak.

The dispensing pharmacy industry has not become an oligopoly, and the share of sales of the four major companies to drug dispensing expenses has not reached 10%. In the future, the business environment will become even harsher with the substantial lowering of service fees that occurs every time medical service fees are revised. With the consolidation and closure of small pharmacies, the number of pharmacies is expected to decline.

Average Age of Doctors (Clinics)



Number of Doctors by Age Group (Clinics)



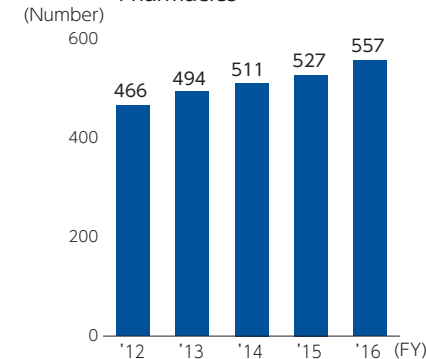
Pharmacy Opening and M&A Strategies Emphasizing Quality over Quantity

At Nihon Chouzai, because the future requires multifunctional and large-scale pharmacies, we are opening pharmacies and conducting mergers and acquisitions emphasizing pharmacy size and quality. Specifically, our M&A criteria are sales of 300 to 400 million yen per pharmacy and securing high-quality, educated pharmacists with the capabilities required in A Vision of Pharmacies for Patients. After conducting mergers and acquisitions, we are developing infrastructure including ICT and investing in pharmacy facilities so that we can centralize drug use data for continuous monitoring, address at-home medical care, and collaborate with medical institutions. In the fiscal year that ended in March 2017, we opened 42 pharmacies, of which 21, or half, were acquired.

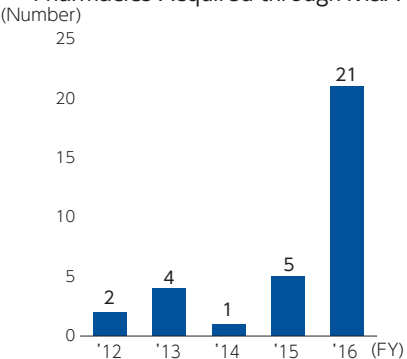
Although we have been aggressively conducting M&A from early on, the number of acquisitions that met our criteria increased in the fiscal year that ended in March 2017. The per-pharmacy annual sales of pharmacies acquired in fiscal 2017 was 430 million yen, which has impacted annual sales by more than 8 billion yen.

At Nihon Chouzai, it is difficult to conduct at-home medical care with annual sales of about 100 million yen per pharmacy (with monthly sales of around 8 million yen, about 800 prescriptions, and 1-2 pharmacists), and they cannot function as family pharmacies with family pharmacists. Our unconditional policy is to open pharmacies capable of surviving in a business environment that is growing ever more difficult.

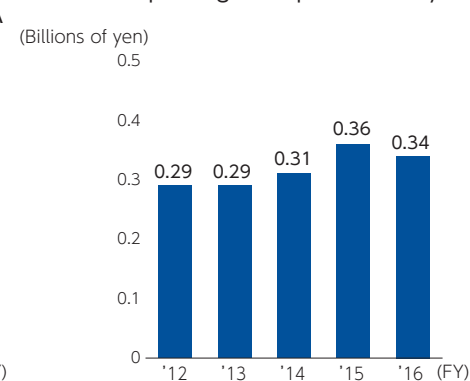
Change in the Number of Pharmacies



Change in the Number of Pharmacies Acquired through M&A



Dispensing Sales per Pharmacy



Responding to the Basic Role Required of Family Pharmacies and Family Pharmacists

Tracking Drug Use Data Utilizing ICT

Okusuri Techo Plus, an electronic medication notebook that started service in October 2014, has successfully improved user convenience with its automatic updating of prescription information, and it has enabled participation in the electronic medication notebook mutual browsing service with other companies' medication notebooks, bringing the number of registered users to over 180,000 (as of June 30, 2017). The Ministry of Health, Labour and Welfare is thinking about setting and evaluating the ratio

of pharmacies that have introduced the electronic medication notebook as a KPI related to family pharmacies and family pharmacists. Nihon Chouzai is taking measures aimed at pre-symptomatic diseases and prevention through Okusuri Techo Plus, such as using it not only as a medication notebook, but also for health management as a Personal Health Recorder (PHR) to record blood pressure and blood sugar levels and transmit epidemic information about influenza and infectious gastroenteritis.



Joint Research Utilizing ICT with the Graduate School of Medicine and Faculty of Medicine, The University of Tokyo

As an initiative that leverages Okusuri Techo Plus, Nihon Chouzai began joint research with the Graduate School of Medicine and Faculty of Medicine, The University of Tokyo on December 1, 2016. In collaboration between the self-management support application GlucoNote, which was developed by the university's Department of

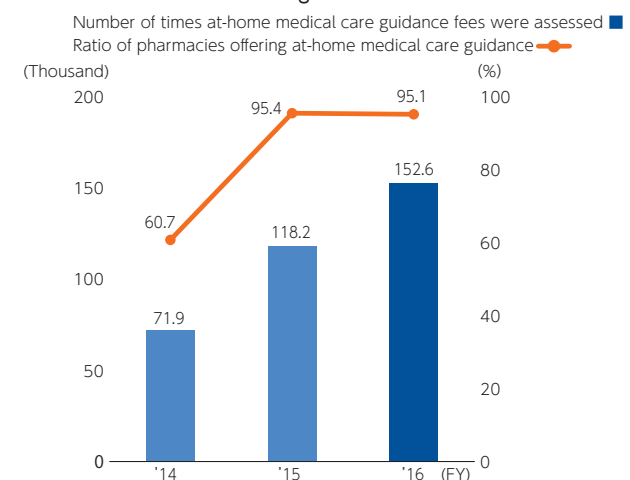
Ubiquitous Health Informatics for type 2 diabetes patients and pre-diabetic patients, and Okusuri Techo Plus, developed by us, we will work on new research challenges unparalleled in the world to verify the effects of added face-to-face pharmacist support on the application's use.

At-Home Medical Care

At the end of April 2015, the percentage of pharmacies with at-home medical care experience was 35.6%, but they have accumulated knowhow while gaining experience. Because we have introduced an at-home management system that utilizes the iPad, created an information infrastructure system, and steadily made improvements in pharmacological knowledge and technology, mainly for

pharmacists who are dedicated to at-home care, the percentage of pharmacies conducting at-home medical care at the end of March 2017 was 95.1%. Nearly all pharmacies are conducting at-home medical care, except for new ones. We continue to acquire the most advanced knowledge through frequent repetition of the yearly at-home medical care training.

Number of Times At-Home Medical Care Guidance Fees were Assessed and Ratio of Pharmacies Offering At-Home Medical Care Guidance



*At-home medical care guidance fees include home patient visit drug management guidance fees and at-home medical care management guidance fees.



Established At-Home Medical Care Division to Respond to Growing At-Home Medical Needs

As a measure to reinforce the structure for at-home medical care needs that grow year after year, we established an at-home medical care division within the department that oversees pharmacies. Until now, pharmacists dedicated to at-home medical care were responsible for individual at-home care, but we set up a system that meets at-home medical care needs nationwide by establishing base pharmacies for at-home medical care in each area and assigning a pharmacist dedicated to at-home medical care. Furthermore, we have created educational opportunities, with the leadership of pharmacists dedicated to at-home medical care, such as sharing sterile dispensing procedures and at-home medical care implementation knowhow with pharmacists working in pharmacies, and we have worked to improve the quality of pharmacists.



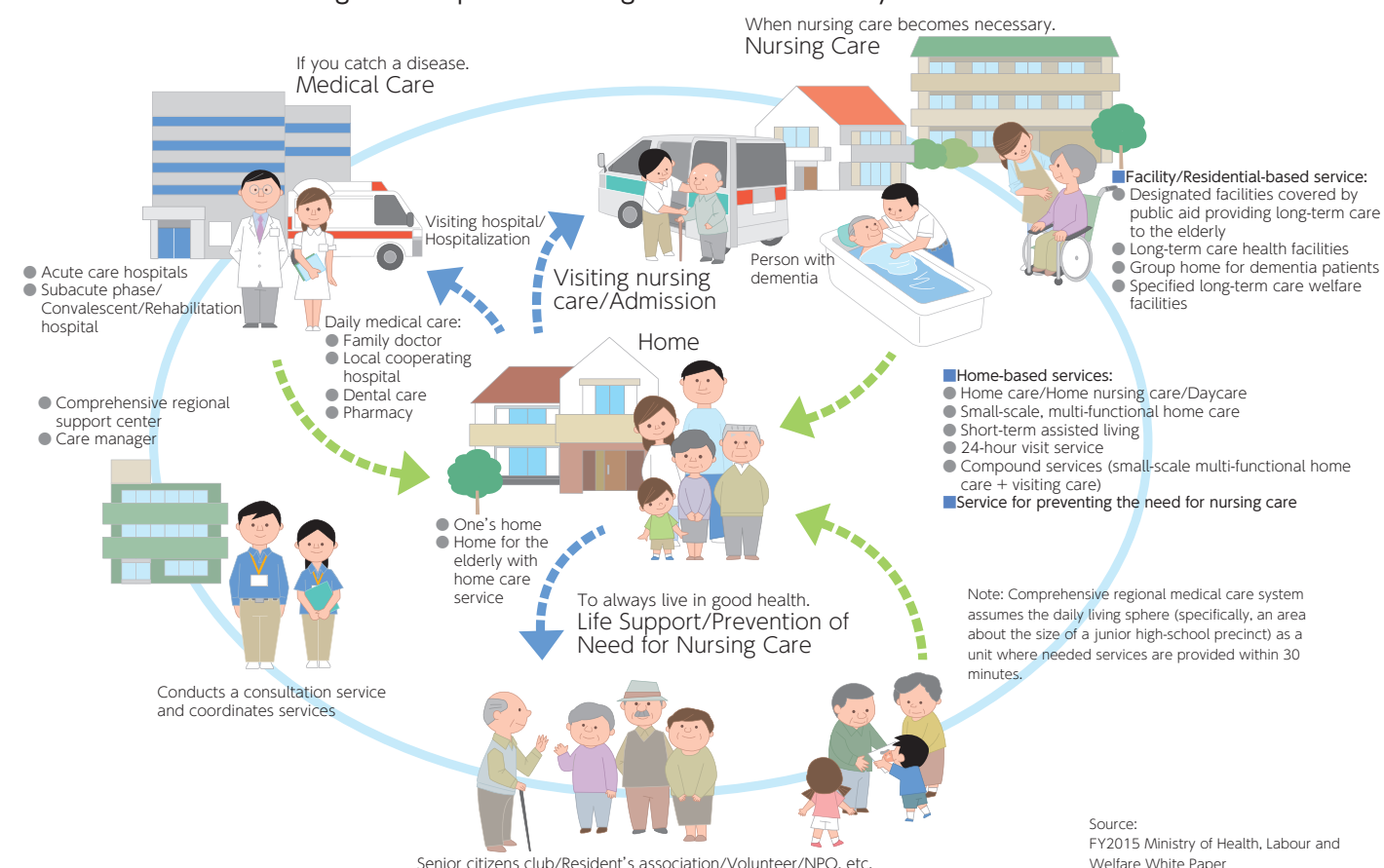
Collaboration with Related Institutions Including Medical Institutions

Nihon Chouzai has been proactively cooperating more closely with medical institutions by making prescription inquiries to doctors and offering workshops with hospitals. In recent years, opportunities to be asked by at-home medical care doctors to join on house calls have increased, as have opportunities to make prescription proposals, such as getting involved in the selection of drugs when designing the prescription. As a medical institution-pharmacy collaboration initiative, we are managing unused drugs utilizing tracing reports and

suggesting prescription contents.

In collaboration with university hospitals and cancer centers that perform advanced medical care, we monitor the side effects of patients under anti-cancer drug treatment and feed the information back to doctors using tracing reports. In at-home medical care, we have strengthened our efforts aimed at comprehensive regional medical care by attending regular meetings of doctors, nurses, caregivers, and care managers, and sharing information.

Image of Comprehensive Regional Medical Care System



Q & A

The approval rating of hospital-front pharmacies is falling. Will hospital-front pharmacies be needed in the future?

A Vision of Pharmacies for Patients (Ministry of Health, Labour and Welfare) of October 2015 specifies an "advanced pharmacology management function" as a way to enhance and strengthen personal care pharmacies, which is the vision held for dispensing pharmacies of the future. While the number of such pharmacies may change, the role that hospital-front pharmacies should fulfill as their function will grow increasingly important in the years ahead.

Q & A

Does Nihon Chouzai have a more passive approach to M&A than other chain pharmacies?

We are taking a more proactive approach to M&A than before. Our policy of emphasizing quality over quantity has not changed. We will aggressively increase the number of pharmacies that have the potential to fulfill multiple functions as family pharmacies.

Two Functions to Enhance and Strengthen

Health Support Function (Health Support Pharmacy)

We established the Health Support Pharmacy as a pharmacy that contributes to preventing people's diseases and supporting health. Designating 15,000 pharmacies as health support pharmacies has been cited as a future national goal.

Becoming a personal care pharmacy with a personal care pharmacist is a required condition for obtaining certification as a support pharmacy. There are many things to deal with to obtain certification, such as the addition of health support functions, and pharmacists that work at pharmacies must receive specific training and

report to public healthcare centers in each prefecture. As a concrete initiative, to support the maintenance and promotion of local residents' health, we perform medical counseling, recommend health screening, offer early detection of dementia, and nutritional counseling.

Nihon Chouzai has established Health Check Station facilities in pharmacies that have reinforced health support functions, especially local mentaio pharmacies and pharmacies in medical centers. We aim to develop 150 such pharmacies over the next three years.



Blood pressure measurement at Health Check Station

Advanced Pharmacology Management Function

Nihon Chouzai has opened pharmacies in around 40% of the university hospitals nationwide that conduct advanced medical care. We have also opened pharmacies in front of all national cancer center hospitals and developed pharmacies that deal with advanced pharmaceutical management. For many years, we have responded to prescription demand from hospitals that perform advanced medical care and have accumulated the experience and knowhow for dealing with it.

In recent years, we have also proactively carried out practical training for hospitals, and with the rising need for at-home medical care, we are preparing to deal effectively with dispensing, including required transfusions and injections. Further, we are steadily promoting initiatives aimed at advanced pharmacology management functions such as getting trained with hospital pharmacists in preparation for the placement of specialized pharmacists, including pharmacists who are outpatient cancer specialists.



Pharmacists' training at Asahikawa Medical University Hospital

Q & A

Why do you continue to promote the use of generic drugs even though the volume usage ratio exceeds 80%?

Our Company-wide efforts to promote generic drug use is considered an effective way of achieving a true separation of drug prescribing and dispensing services, which is our corporate philosophy. We are not doing it to simply obtain dispensing fees.

Information Provision and Consulting Business

Data Analysis and Use

Business Development

Japan Medical Research Institute Co., Ltd. was established with the goal of broadly contributing to society by helping the medical care and drug industry maximize the valuable information resources possessed by the Nihon Chouzai Group. Analyzing massive amounts of prescription data helps to improve patient adherence (medication

management) and is part of disease awareness-raising activities. We conduct surveys and research and provide information and consulting to drug manufacturers, medical institutions, health insurance associations, and local governments based on medical information resources.

Started RI-CORE Service

The RI-PDS service that we currently offer is the industry's first service capable of tracking seasonal influenza drugs, the status of hay fever drug treatment use, and the start of new drug use.

The new RI-CORE service, using the business intelligence (BI) tool Tableau, enables the visualization of information such as new drug use, continuation, switchover, drop-out, adherence, and parallel use, which had been difficult to compile with past analysis tools. We provide this monthly information the following month. The service rapidly analyzes products that the user wishes to know about and changes in product trends that the user wants to track by automatically generating graphs. It can create up to 71 months of data and provides detailed service that can be customized for each user.



Demonstration of RI-CORE service

New Trends in Drug Marketing (RI Symposium)



RI Symposium held on July 21, 2016

In recent years, a trend has emerged of moving from marketing based on drug sales data, which pharmaceutical companies had emphasized, to marketing that emphasizes prescription data. With that in mind, on July 21, 2016, Japan Medical Research Institute held a symposium in Tokyo entitled "Change is Opportunity! The Latest Pharmaceutical Marketing Strategy That Utilizes Prescription Data."

RI-CORE, which was developed by Japan Medical Research Institute, enables precision marketing without undue influence by other factors such as wholesaler and pharmacy inventories. RI-CORE does this by accurately tracking drugs for treating seasonal illnesses and changes in market share. It is possible to improve marketing precision by tracking the actual share of concomitant medication and to understand information by being able to perceive how a prescription changed due to drug switchover within a certain timeframe.

Initiatives for Data Health

Japan Medical Research Institute Co., Ltd. has helped create a mechanism to eliminate waste in preventive medical care and medical costs that is promoted by health insurance associations and municipalities to optimize medical costs.

Specifically, it keeps anonymized data from health insurance associations and municipalities and analyzes

and simulates it. Based on the results of analysis of preventive medical care, generic drug usage rates, medical examination rates, duplicate administration, and other factors, it comprehensively supports data health plans such as the drafting of business plans and judging the effectiveness of various activities through ongoing progress analysis.

Pharmaceutical Manufacturing and Sales Business

Manufacture and Sales of Generic Drugs

Market Environment Analysis

Market Changes Toward 2020

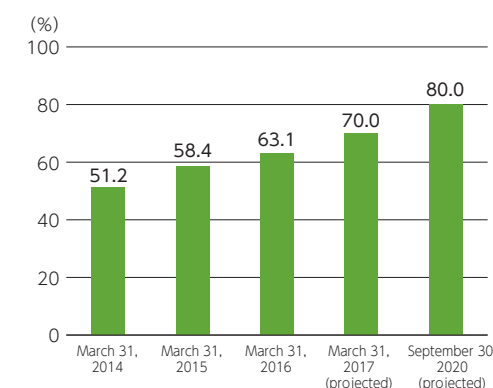
– Expansion of Market Size –

2020: **80%**

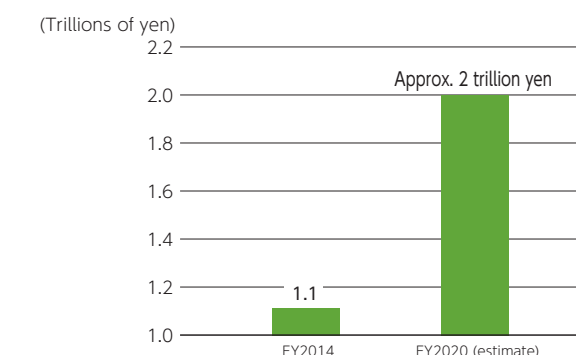
According to the Basic Policy on Economic and Fiscal Management and Reform 2015, the share by volume for generic drugs is set to be 70% or more in the middle of fiscal 2017, and the target is 80% or more set for as early as possible between fiscal 2018 and the end of fiscal 2020. Subsequently, the Council on Economic and Fiscal Policy conducted a review on May 23, 2017, and the achievement of a generic drug volume share target of 80% by September 2020 was set as the new target.

The size of the market for generic drugs in fiscal 2014 was 1.113 trillion yen (as of March 31, 2015; volume share 58.4%). With the arrival of the peak between fiscal 2015 and 2017 of patent expirations of original drugs with large sales volumes, if the 80% target is achieved in 2020, the market for generic drugs is expected to reach about 2 trillion yen in size.

Generic Drugs on a Volume Basis



Domestic Generic Drug Sales



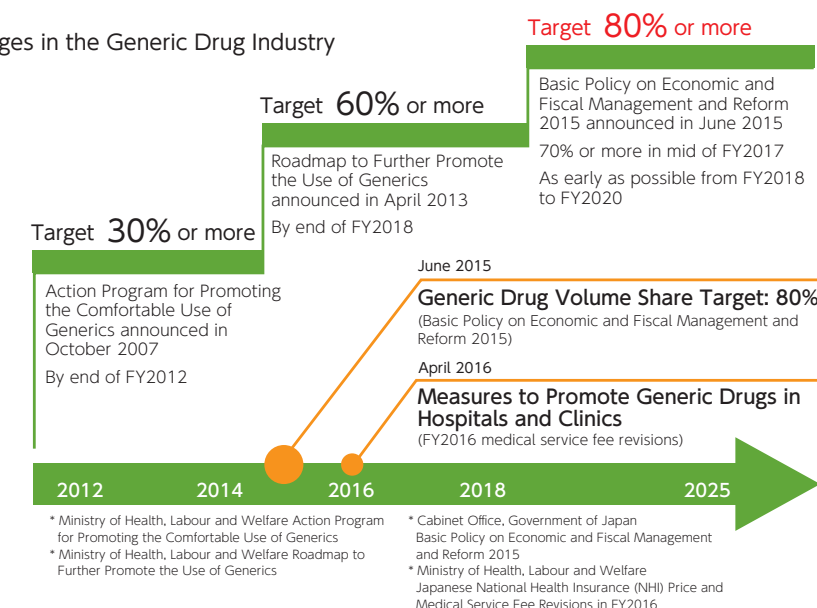
Measures to Promote Generic Drug Use through Medical Service Fee Revisions and Their Effects

In the medical service fee revisions of April 2016, the volume usage ratio target for generic drugs in dispensing pharmacies was raised from 55% to 65% or more (generic pharmaceuticals dispensing system incentives 1) and from 65% to 75% or more (generic pharmaceuticals dispensing system incentives 2). The volume usage ratio target in hospitals and clinics was raised, and promotional measures, such as service fee point increases, were presented in the revision. A roadmap was created in stages by a working group centered on the Ministry of Health, Labour

and Welfare, but the volume target was gradually raised due to Japan's financial situation, and the year for achieving that target has been steadily moved forward.

Based on these promotional measures, it was expected that market size would greatly expand in fiscal 2017, but generic drug use did not progress as expected due to aggressive sales of long-listed products of original drug manufacturers. Moreover, profitability declined sharply owing to intense price competition between generic drug manufacturers.

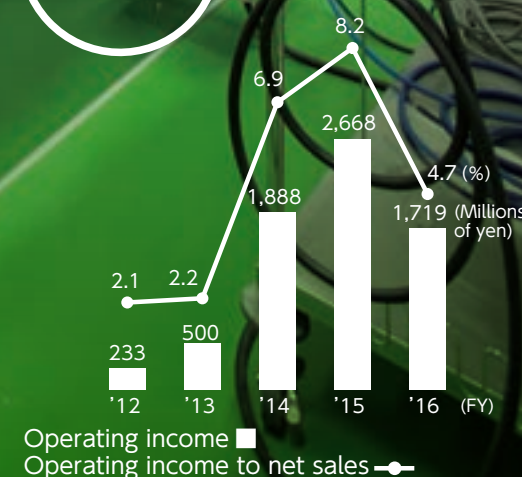
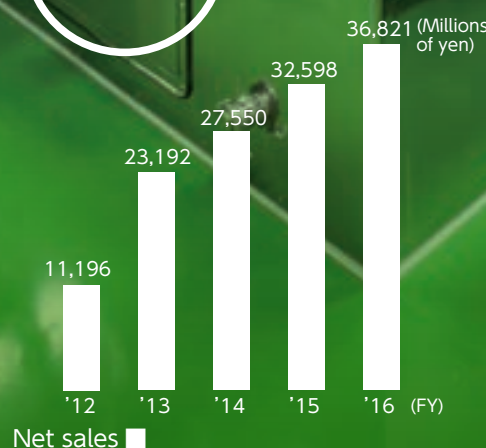
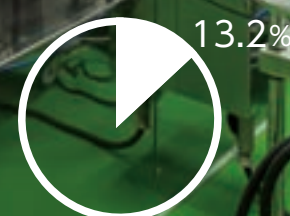
Changes in the Generic Drug Industry



Sales Composition



Composition of Operating Income



Impact of NHI Drug Price Revisions to be Annual

It has been decided that NHI drug price revisions, which had been conducted once every two years, will be conducted annually beginning from 2018. Discussions are now underway regarding the revision, and details have not been decided yet, but items with a high deviation between the drug price and market price are to be revised in odd-numbered years, while in even-numbered years, drug price revisions for all drugs are to be carried out as before.

The main targets of annual drug price revisions are long-listed items and generic drugs. Long-listed items are expected to accelerate price reductions due to drug price revisions. Generic drugs are also a target of price reductions and are expected to be carried out based on annual revisions. On the other hand, discussions, including those on the unification of generic drug prices, are expected to be carried out in parallel.

Seizing Change with Capital Expenditure

Expand Maximum Production Capacity 16.2 billion tablets

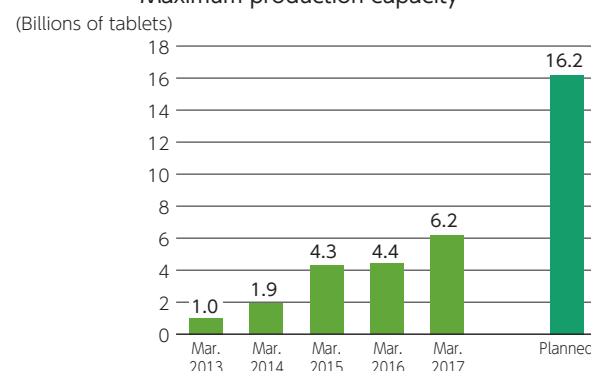
While the government's quantitative targets for generic drugs have been set and market expansion is imminent, the pharmaceutical manufacturing and sales business is seizing the opportunity to change and expand its maximum production capacity. In fiscal 2017, we aggressively expanded our production facilities.

At Nihon Generic Co., Ltd., we enhanced the production line in the Tsukuba Plant S building, added a manufacturing facility for high pharmacologically active drugs at the Kasukabe Plant, and began operation of the Headquarters' new Second Plant at Choseido Pharmaceutical Co., Ltd. As a result, maximum production capacity (as of March 31, 2017) increased from 4.4 billion tablets to 6.2 billion tablets in the Pharmaceutical Manufacturing and Sales

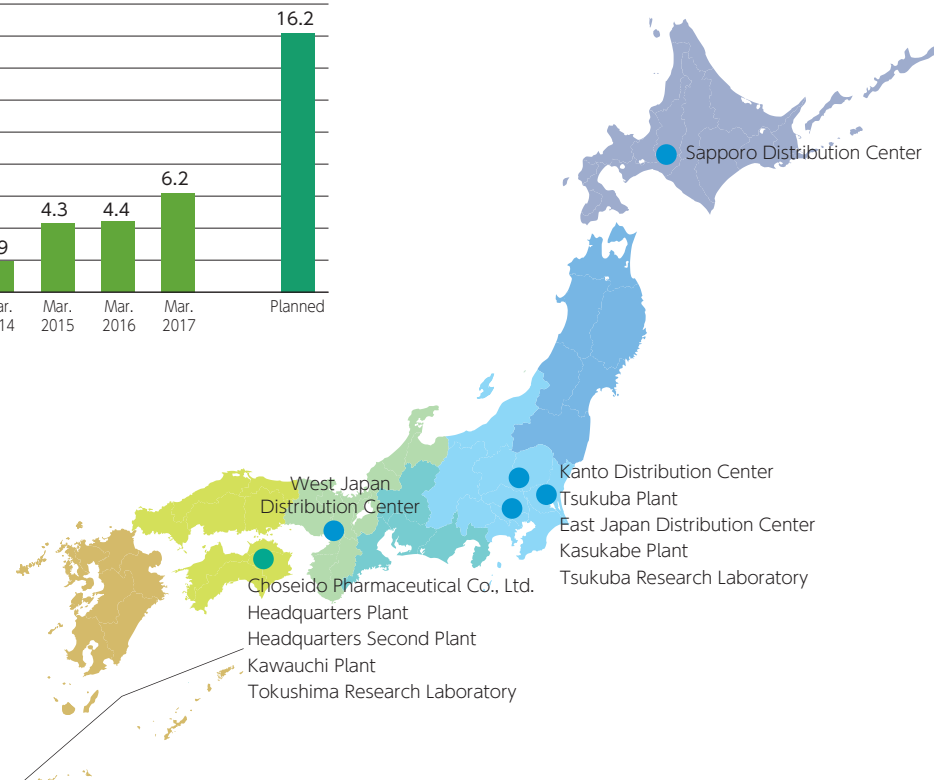
Business. Also, we took action to maintain and strengthen the logistics network by establishing the Sapporo Logistics Center.

In addition, the construction of Tsukuba Plant No. 2, scheduled to begin operation in April 2018, is going smoothly. Once all construction, from the first to the third phase, is completed, we will be able to produce a maximum of 10 billion tablets per year, and Group production capacity is expected to reach 16.2 billion tablets (phase one construction is scheduled to be completed in April 2018). We aim to improve the profit rate by increasing the sales amount of generic drugs and reducing production costs.

Maximum production capacity

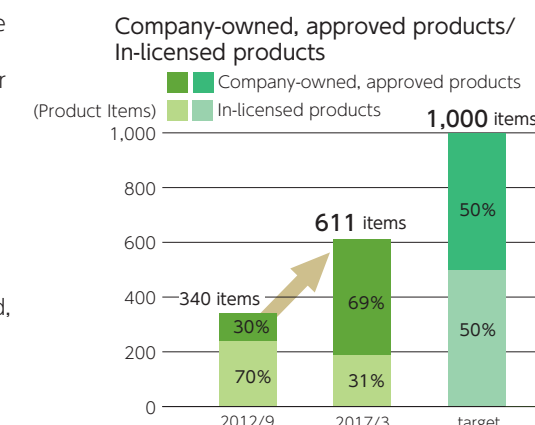


Tsukuba Plant No. 2 is under construction with operation scheduled to begin in April 2018 (Artist's rendering)



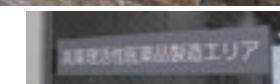
Toward an Increase in Products Offered: 611 product items

In anticipation of increasing the number of customers, we have focused on increasing the number of products that we offer so that we can meet a wide range of needs. Our immediate goal for product items offered is 1,000 items, and our plan is to proactively pursue R&D and efficiently increase the number of products that we sell. On the other hand, we are vigorously working to increase profitability by creating company-owned, approved generic drugs through aggressive R&D and switching over from products in-licensed from other companies to company-owned, approved products. The ratio of company-owned, approved products is 36%, but we will actively develop them to quickly reach 50%.



Construction of New Facility for High Pharmacologically Active Drugs

Thanks to the partial renovation of Japan Generic's Kasukabe Plant, a facility capable of manufacturing high pharmacologically active drugs have been in operation since October 2016. As a result, we are now able to manufacture and test drugs with high pharmacological activity such as anti-cancer drugs. The facility has independent air-conditioned areas and high anti-contaminant equipment such as isolators for worker safety and to avoid cross-contamination risks. As a manufacturing facility of generic drugs, such as anti-cancer drugs that have growth prospects, we will make further preparations to manufacture a wide range of formulations.



Approach to Quality – System that Manufactures High-Quality Products

To provide high-quality products to patients, we oversee everything from raw material acceptance to product shipment, and we manufacture under a control and quality control system based on GMP.*

In a strict hygienically controlled manufacturing area, we have installed a support system to prevent errors and control manufacturing at a high level and strive for greater efficiency through the automation of production facilities.

Further, from raw material acceptance to product shipment, we objectively conduct evaluations through testing and inspection carried out by the quality control division. We offer education and training on a routine basis for production employees to raise the level of our GMP.

* GMP: Standards for the manufacturing control and quality control of pharmaceuticals for the pharmaceutical manufacturing industry.

Research and Development

For major new drugs whose patents are about to expire, we aggressively conduct R&D so that we can release drugs at the precise moment their patent expires. At the same time, we create synergies by developing the dispensing pharmacy business within the Group and promote R&D centered on generic drugs that are frequently used and the switchover to our own high-margin products

As for the benefits gained from specific measures to create synergistic effects with the dispensing pharmacy

business, we can point to the creation of new formulations and the promotion of the manufacture and sales of value-added generic drugs utilizing patient feedback and pharmacist expertise provided to dispensing pharmacies. For example, we used laser printing on conventional generic drugs to improve print visibility, and the technique was subsequently adopted by many large hospitals. In this and other ways, we are creating synergies between businesses.

Q & A

With the lowering of generic drug prices amid the anticipated restructuring of the generic drug industry, isn't investment in production facility expansion excessive?

The generic drug market is expected to expand to a volume usage ratio of 80%, the target set by the Japanese government. Estimates indicate that the current production capacity of all generic drug makers is inadequate, so excessive investment is not a concern of ours.

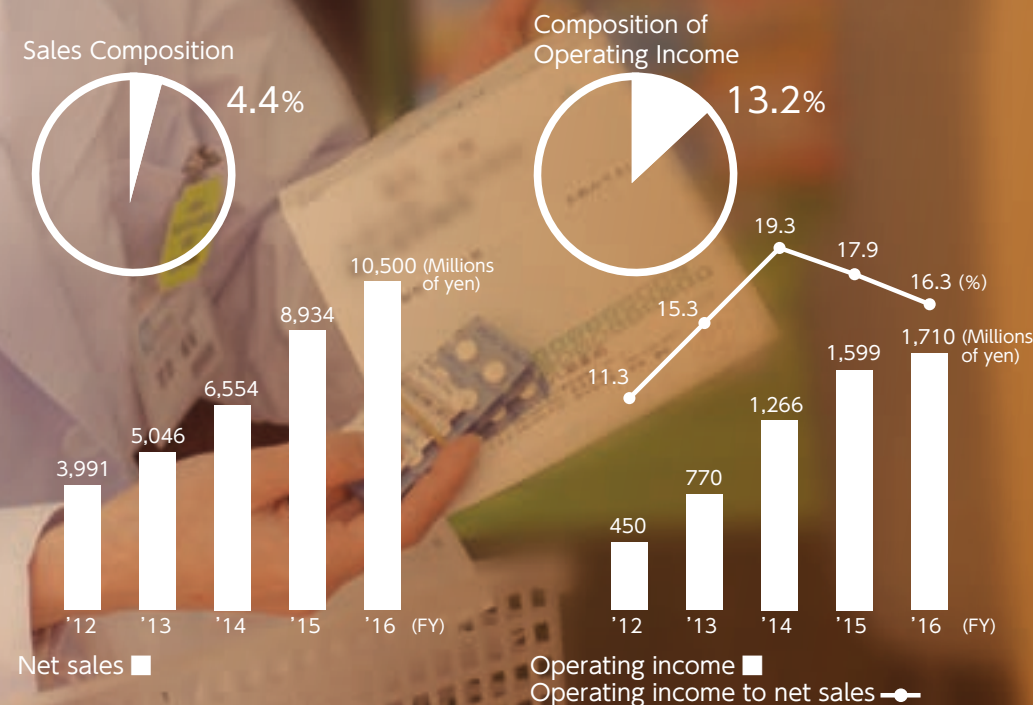
Q & A

Do you sell generic drugs used in Nihon Chouzai pharmacies through wholesalers?

Nihon Generic sells everything, including generic drugs for Nihon Chouzai pharmacies, through wholesalers. The Nihon Chouzai Group's business model maximizes the synergistic effects of managing generic drug manufacturers.

Medical Professional Staffing and Placement Business

Staffing and placement centered on pharmacists



Market Environment Analysis

Distinctive Features of the Nihon Chouzai Group's Staffing Business



The Medical Professional Staffing and Placement Business is engaged in the staffing and placement of pharmacists and the placement of doctors, nurses and other medical professionals. A distinctive feature is that it is a staffing-centered business, with 80% of the business devoted to staffing and 20% to placement. The principal reason that the percentage of staffing is higher is that providing a high-quality pharmacist education in the dispensing pharmacy business and dispatching excellent pharmacists to society contributes to realizing a true separation of the roles of drug prescribing and dispensing services, our corporate philosophy.

In addition to providing face-to-face training, registered pharmacists receive continuous online training, thereby allowing the dispatch of high-quality pharmacists. We also strive to continuously improve our educational content.

This generous educational system is something that distinguishes us. Because of this, we have earned a high degree of trust from the pharmacists we have dispatched and the dispensing pharmacies that hire them. In March 2015, we were designated an Excellent Job Placement Agency by the Ministry of Health, Labour and Welfare of Japan. In March 2016, we were designated an Excellent Temporary Work Agency by the same ministry and have continued to work hard to ensure quality.

Pharmacists' Work Placement and Dispensing Pharmacies

In a survey on the number of pharmacists conducted by the Ministry of Health, Labour and Welfare, from fiscal 2012 to 2014, the number of pharmacists who work at pharmacies increased by 5.3%, pharmacists who work at hospitals and clinics increased by 4.1%, and pharmacists who work at health administrative bodies and insurance and medical facilities increased by 2.1%. On the other hand, pharmacists who work at universities decreased by 2.8%, pharmacists who work at drug-related companies decreased by 3.3%, and pharmacists who work in other fields decreased by 4.3%. The total number of pharmacists increased by 2.9%. The main factor for this upswing was the increase in the number of pharmacists working in pharmacies, hospitals and clinics.

If we look only at the numbers, we can interpret this to mean that the pharmacist shortage is disappearing, but in fact, that has never occurred. The reason is that pharmacist education has shifted from a four-year to a six-year system. Pharmacist education at universities had traditionally been a four-year system, but it shifted to a

six-year system in 2006. As a result, the number of graduates of pharmaceutical colleges declined in fiscal 2010 and 2011, and the number of people who passed the national exam for pharmacists was 3,787 and 1,755, respectively. Although the number of people who passed the national exam for pharmacists in fiscal 2012 recovered to the former level of 8,641, it is still insufficient for replacement purposes and to eliminate the shortage.

The difficulty of recruiting pharmacists persists, especially at individual pharmacies and small- and medium-sized pharmacy chains. In areas where it is difficult to recruit, such as rural areas, the salaries of dispatched pharmacists have risen sharply so that various expenses, including advertising expenses associated with recruitment, have contributed to the increase. Also, among pharmacists working in pharmacies, the number who founded pharmacies and served as company representatives has decreased by 2.7% because they are getting old. For the above reasons, we can readily assume that high demand for dispatched pharmacists will continue.

Pharmacists' Work Placement and Dispensing Pharmacies

	Number of pharmacists in FY2014	Number of pharmacists in FY2012	Change
Pharmacy worker	161,198	153,012	8,186
Hospital/Clinic worker	54,879	52,704	2,175
University worker	5,103	5,249	(146)
Drug-related company worker	43,608	45,112	(1,504)
Health administrative body and insurance and medical facility worker	6,576	6,443	133
Other worker	16,766	17,517	(751)

Number of pharmacy founders and employees

	Number of pharmacists in FY2014	Number of pharmacists in FY2012	Change
Pharmacy founder or company representative	17,859	18,358	(499)
Pharmacy worker	143,339	134,654	8,685

Continuous Education Obligation for Dispatched Workers Based on Revised Worker Dispatch Law

On September 30, 2015, the Revised Worker Dispatch Law was passed and took effect. There were three main revisions to the law.

First, the distinction between the general worker dispatch business (approval system) and the specific worker dispatch business (notification system) was abolished, and all of the worker dispatch business came under the approval system to ensure the quality of the dispatching company.

Second, the obligation to dispatch workers was granted to stabilize the employment of dispatched workers and advance their careers. Specifically, in cases where the worker could be dispatched to the same organizational unit on a constant basis for three years, the dispatching company can request the company that hired the temporary worker to directly employ the worker, or ask

such company to employ the worker as an indefinite-term employee (for example, fixed-term contract employee or some contract other than temporary staff), or offer the worker another job. Furthermore, all temporary workers may receive systematic, step-by-step education and training and career counseling (if they so choose) from the dispatching agency to advance their careers.

Third is a review of the limit of the dispatch period, in principle one year, and a maximum three years. In principle, the period that a worker can be dispatched to the same organizational unit at an office or the office of the same company that hired the temporary worker is limited to three years.

Before these revisions take effect, we have started to establish and provide an educational system for temporary staff.

Q & A Does this business only dispatch pharmacists to Nihon Chouzai's pharmacies?

No. Nihon Chouzai accepts some pharmacists dispatched from the same agencies, but about 95% are pharmacists dispatched to pharmacies other than Nihon Chouzai.

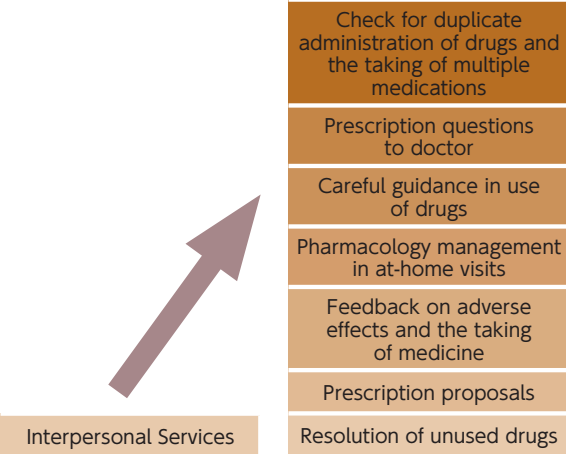
Q & A Do you only dispatch pharmacists that work at Nihon Chouzai?

No, pharmacists dispatched in this business are not ones for Nihon Chouzai pharmacies. After registering as a pharmacist at a subsidiary engaged in the Medical Professional Staffing and Placement Business and receiving an education, the pharmacist will be employed at the company they are dispatched to.

Change in the Role of Pharmacists based on A Vision of Pharmacies for Patients

A Vision of Pharmacies for Patients was announced by the Ministry of Health, Labour and Welfare of Japan in October 2015, and the work demanded and the number of pharmacists have changed significantly, from product services to interpersonal service skills.

Still, the shortage of pharmacists remains at a high level and has increased even further with the start of the family pharmacist system and the promotion of at-home medical care stemming from the revision of medical service fees in April 2016. In addition, the main requirement for interpersonal service skills is work experience at insurance pharmacies and possessing the latest knowledge. This suggests that continuous education at the dispensing agency is becoming more important than ever, and we believe that Nihon Chouzai can demonstrate even greater advantage as a company that can provide an education to meet that challenge.



Perceive Changes in Qualifications and Skills Required of Pharmacists

With the revision of medical service fees in April 2016, the family pharmacist system began, reflecting A Vision of Pharmacies for Patients. Obtaining certified pharmacist qualification was one of the necessary requirements for becoming a family pharmacist. This qualification enables the person to gain certification by obtaining a certain number of educational credits from the Council of Pharmacists Credentials (CPC). To maintain the certified

pharmacist qualification, the pharmacist must continuously receive training and earn credits.

It is difficult for other temporary work agencies to establish an educational system, and they do not provide this kind of training system. Because Nihon Chouzai has a dispensing pharmacy business within the Group, it has established and provides a superior training system and is therefore able to dispatch high-quality pharmacists.

Began Sales of Online Learning Software That Assists Certified Pharmacists



JP Learning, which we have been providing, was updated, and in January 2017 sales of JP Learning II began. JP Learning II is an online learning tool to help people obtain and maintain the qualification of certified pharmacist, which is essential for becoming a family pharmacist. Even pharmacists who are not registered with Nihon Chouzai can use this learning tool with content that meets the wide-ranging needs of family pharmacists.

Business Outlook

A Vision of Pharmacies for Patients is incorporated in the revision of medical service fees of April 2016, and the role required of pharmacists has grown with the start of the family pharmacist system. Although the cost, including advertising costs, of recruiting pharmacists remains high due to their shortage, very strong demand for pharmacists is expected to continue. The govern-

ment, which has set out to turn Japan into a country where every citizen plays an active role in society, has undertaken debate following regulatory reforms, and expansion of the professional staffing field is expected. Without missing the opportunity that deregulation provides, we will continue to develop a flexible business to expand operations as a company.

Q & A

Why do you dispatch to pharmacies other than Nihon Chouzai?

We believe that dispatching educated high-quality pharmacists to pharmacies around the world contributes to realizing true separation of the roles of drug prescribing and dispensing services, our corporate philosophy.

3 Base that supports Nihon Chouzai

- 39 ESG Management
- 43 Board of Directors
- 45 Corporate Governance

Base that supports Nihon Chouzai

ESG Management

At Nihon Chouzai, we are strengthening various initiatives directed at the Environment, Social, and Governance (ESG). In recent years, we have actively supported a variety of workstyles, realizing that people that support the Company are an important management resource.



	ESG Issue Initiatives		Reference Page
E	Environment	Greenhouse gas initiatives	P20
	Patients	Family pharmacist initiatives	P27-29
	Patients	Easing the burden of medical expenses through generic drug use	P20
	Local communities	Health support pharmacy initiatives	P29
S	Local communities	Health Check Stations	P40
	Local communities	Health Fair	P40
	Local communities	At-home medical care initiatives	P27
	Governments/ Administrations	Control increasing medical expenses through generic drug use	P20
	Medical institutions	Collaboration with medical institutions	P28
	Shareholders/ Investors	Continuous dialogue	P41
G	Governance	Corporate governance initiatives	P45-49
H	Investment in human resources	Initiatives to promote women's advancement in the workplace Provide diverse career plans Train personnel who will be responsible for at-home care	P21, P42

Social

Together with Local Communities

Health Check Stations

Health Check Stations opened within pharmacies from December 2016. The stations take the initiative to contribute to the health of local residents by providing advice on the appropriate use of over-the-counter drugs and health food products and health counseling. We will further promote the development of pharmacies that offer this kind of health support.

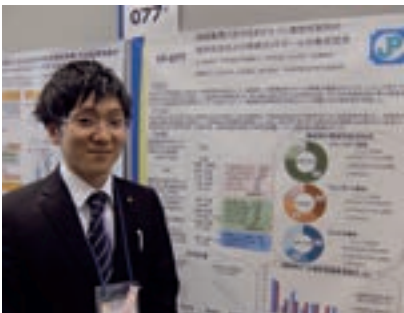


Health Fair

We are promoting health maintenance and disease prevention initiatives for local residents. We perform simple blood tests based on participants' self-drawing of blood, the measurement of blood vessel age, personal stress level, bone density, and body composition, and we recommend participants get checked at medical institutions, if necessary. For those concerned about their health or who have high test values, we offer nutritional counseling that includes dietary guidance by a dietician. For those who are already taking medicine for the treatment of a disease, we offer, as necessary, health and medication counseling by pharmacists at pharmacies nationwide.

Pharmacist Experience

Through workplace experiences, we are constantly communicating the importance of safely taking medicine and how pharmacists are contributing to maintaining the health of local residents. At the Yosano Pharmacy in Kyoto, more than 20 local children participated in experiencing that involved everything from dispensing to inspection and medication instruction. They experienced the work of a pharmacist by setting up dispensing equipment in the waiting room and dividing pieces of candy into dosage units while pretending it was medicine. We continue to offer activities that proactively create opportunities for deepening the understanding of pharmacists' work.



Conference Presentations

At the Annual Meeting of the Japanese Society of Pharmaceutical Oncology in 2017, Nihon Chouzai pharmacists presented a fact-finding survey on the usage conditions of opioid disintegrating tablets and pain control in insurance pharmacies. Treatment to control pain is being performed with opioid preparations to improve patients' quality of life, but in some patients, cases have been reported where pain counseling, such as advice to simply endure the pain, has proven to be inadequate. It is expected that pain assessment during medication instruction by pharmacists would lead to the proper use of opioid preparation.

Social

Together with Shareholders and Investors

General Meeting of Shareholders

The 36th General Meeting of Shareholders was held on June 28, 2016. Seven measures were submitted and all were approved at this general meeting. In addition, Nihon Chouzai changed over to a company with an audit and supervisory committee with the goal of achieving greater management transparency and improving management mobility. At the closing of the General Meeting of Shareholders, President & CEO Hiroshi Mitsuhashi addressed the attendees and explained the future of Nihon Chouzai's business expansion to shareholders.

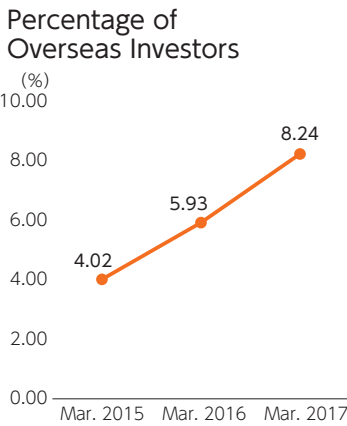


Results Briefing

A results briefing was held on May 11, 2016. Following the revision of medical service fees in April 2016 that occurred immediately before that, we explained at the briefing management's policy toward major changes in the dispensing pharmacy industry, such as the start of the family pharmacist system. Participants asked many questions about our response to the revision of medical service fees. Investors vigorously raised questions about that, especially about the Group's growth strategy, which embodies the state of initiatives and changes toward medical fee revisions.

Investor Relations for Overseas Investors

In recent years, interest from overseas investors has been increasing, and many questions have been asked about business models and growth strategies. In response, Nihon Chouzai conducted overseas investor relations (IR) activities in May 2016. In meetings with institutional investors held in Hong Kong and Singapore, we discussed our performance in fiscal 2015 and explained our response to system changes from April 2016 and the Group's future business strategy. Vigorous questioning ensued and investors came away with a full understanding. The percentage of overseas investors is rising, so we plan to proactively conduct IR activities for these investors, including participating in conference calls with groups of overseas investors.



- ▼ The initiatives below are implemented as needed
- Company briefings for individual investors
 - Small meetings
 - Individual meetings with investors (domestic and overseas)
 - Investor teleconferences (overseas)

Human

Investment in Human Resources

Initiatives to promote women's advancement in the workplace

Support for a smooth return from child rearing in partnership with childcare facilities

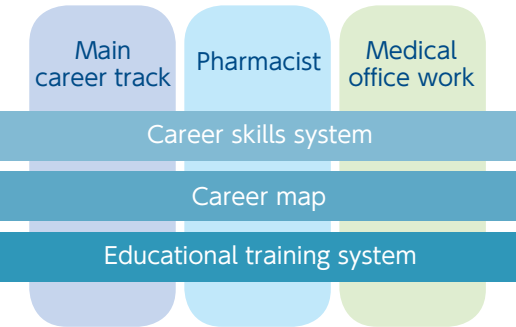
As part of supporting employees' work-home balance, we are partnering with outside childcare facilities and babysitting service companies. In cases where gaining admittance into a childcare facility is difficult, we have partnered with Task-Force Co., Ltd. and Nichiigakkan Co., Ltd. as outside childcare facilities that can be used as a temporary safety net.

Providing Diverse Career Plans

Instituting a career skills development plan

In December 2016, Nihon Chouzai instituted a career skills system, career map, and educational training system. We seek to develop human resources who contribute to society with a sense of awareness and duty as medical care leaders by responding to rising medical needs in a super-aged society.

Particularly, for pharmacists who will play a central role in the dispensing pharmacy business, we have positioned "knowledge of pharmacology," "knowledge of pharmacy management," and "knowledge of principles" as the three pillars of pharmacist education, and we focused on rigorously developing professionals who contribute to patients' health.



Developing Human Resources who are Responsible for At-Home Medical Care

Conduct at-home medical training nationwide

We are conducting training nationwide aimed at acquiring knowledge of at-home medical care. In fiscal 2016, we conducted this training a total of 21 times at 16 locations nationwide, and a total of about 600 people attended. At the training, a lecture was given on at-home palliative care, and participants actually practiced acquiring the skill.

The purpose of at-home palliative care is to improve the quality of life of patients, aiming for total pain care, including not only the patient's physical suffering, but also mental and psychological distress. With the need for at-home medical care rising, we are focusing on education in response.



Initiative for Advanced Pharmacology Management Capabilities

Participation in hospital training

We are proactively promoting participation in hospital training conducted at university hospitals and local core hospitals. We started by participating in the training at Asahikawa Medical University Hospital, and we have participated in 24 training sessions at eight hospitals as of June 1, 2017.

In addition, as an initiative leading to the advanced pharmacology management capabilities required for A Vision of Pharmacies for Patients, we also participated for three months in Accredited Pharmacist of Ambulatory Cancer Chemotherapy conducted by the National Cancer Center Japan. We are actively working to develop pharmacists who respond to evolving cancer treatments.



Board of Directors (As of June 29, 2017)



President and Representative Director
Hiroshi Mitsuhashi

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)



Senior Managing Director
Yosuke Mitsuhashi

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



Director
Kazunori Ogi

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
Yoshihisa Fujimoto

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



Managing Director
Yoshiki Kamada

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
Katsuhiko Fukai

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)



Director, Audit Committee member
Kingo Kimura

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. (to present)
May 2013 Auditor of Choseido Pharmaceutical Co., Ltd. (to present)
June 2016 Director of the Company (Audit Committee member) (to present)



Outside Director, Audit Committee member
Kotaro Usugane

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)



Managing Director
Naoto Kasai

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



Director
Noriaki Miyata

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



Outside Director
Committee member
Takashi Nagashima

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)



Director
Shigeo Suzuki

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



Director
Toshiyuki Koyanagi

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)

Corporate Governance

Basic Concept of Corporate Governance

The Nihon Chouzai Group considers that in order to appropriately respond to changes in the business environment, continually ensure the soundness of Company operations, and further raise its corporate value, increasing management transparency, clarifying management responsibility, exercising speedy decision-making, and strengthening the management oversight function to achieve business targets are necessary. Moreover, because the Group operates its business in a field that is strictly governed by various regulations, it is fully aware that the enhancement of corporate governance and the strengthening of compliance are extremely important matters, and it has implemented a wide range of measures based on this understanding.

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

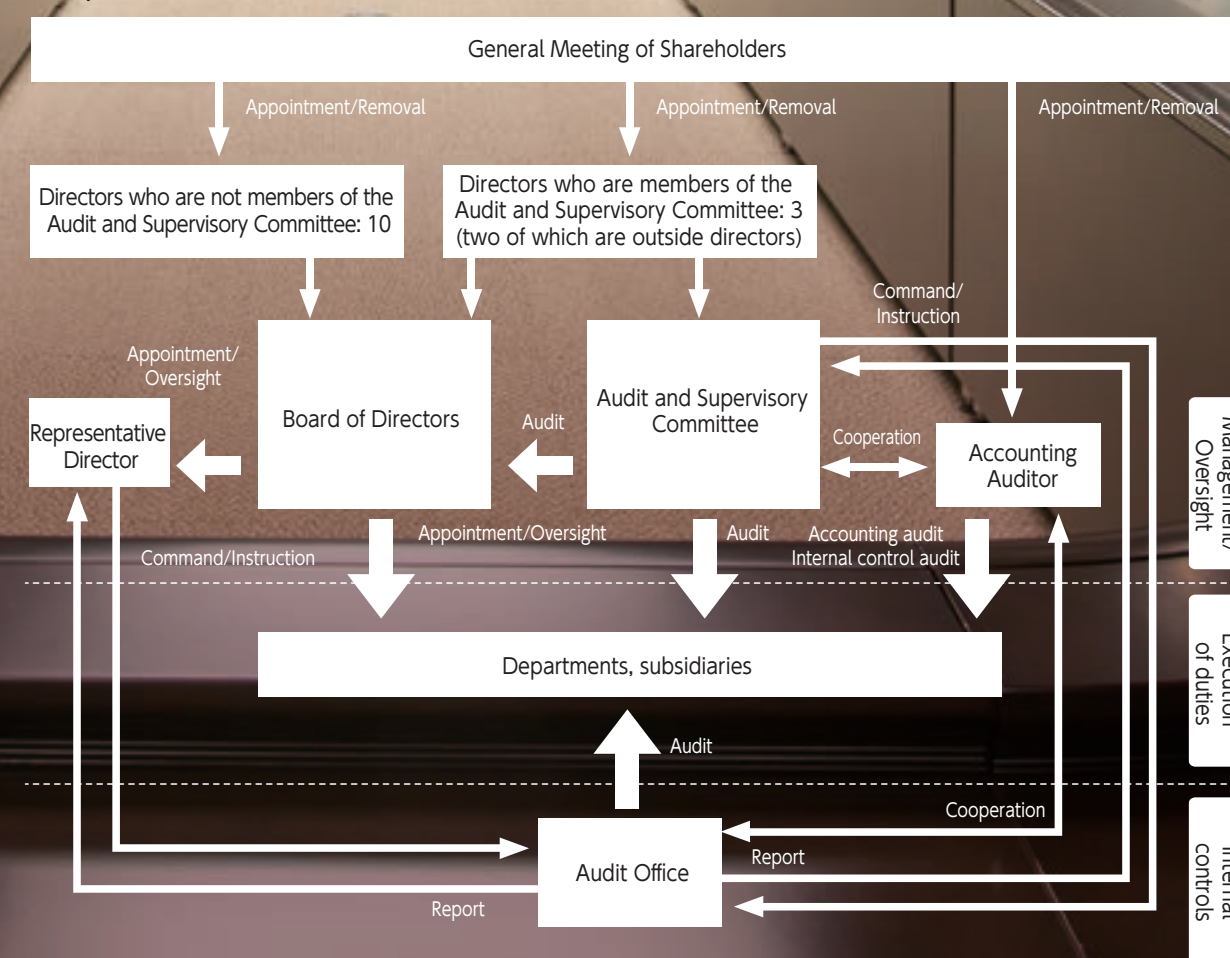
Corporate Governance Structure

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. The Board of Directors consists of 10 directors (excluding the Audit and Supervisory Committee members) and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

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

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

Corporate Governance Structure



*The photo is the Company board room

Disclosure Based on Each Principle of Corporate Governance Code

■ Strategic Shareholding

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

■ Transactions between the Parties Concerned

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

■ Improvement of Information Disclosure

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

The Nihon Chouzai Group's corporate philosophy, management strategy, and management plan are disclosed mainly on the Company's website with the following URL and transmitted by using mediums such as the Shareholder Report and Securities Report. Corporate Philosophy:
<http://www.nicho.co.jp/corporate/profile/>
 Management Strategy/Management Plan:
<http://www.nicho.co.jp/corporate/info/12390/>

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

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

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

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

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

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

The Company writes the reasons for choosing the candidates for the directors and directors who are the Audit and Supervisory Committee members in the notice of the General Meeting of Shareholders and discloses the said reasons on the website.

■ Role and Responsibility of the Board of Directors

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

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

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

■ Preconditions to Ensure the Effectiveness of the Board of Directors

In order to effectively fulfill the execution of duties and the management oversight function, the Company's Board of Directors consists of those who are familiar with and have a high level of competence for company management and the economic environment, those who have in-depth knowledge of and experience in the Company's business environment, and those who have knowledge of accounting, financial affairs, legal affairs, and personnel affairs, etc. and give consideration to the balance as a whole and diversity. In addition, the Board of Directors consists of 10 directors and three other directors that serve as the Audit and Supervisory Committee members.

■ Preconditions to Ensure the Effectiveness of the Board of Directors

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

■ Preconditions to Ensure the Effectiveness of the Board of Directors/Board of Corporate Auditors

The Company carried out a questionnaire survey on 20 items concerning the evaluation of the effectiveness of the Board of Directors such as the "Structure and Operation of the Board of Directors," etc. among all directors except the President who is a Chairman of the Board of Directors between May and June 2017 based on the opinions of the outside consultant and analyzed and evaluated the effectiveness of the entire Board of Directors in the Board of Directors meeting.

Outline of the results received good conclusions in the evaluation of all items and the effectiveness of the Board of Directors has been judged to be ensured. On the other hand, constructive opinions on the efforts in the aspect of operation in the Board of Directors were presented; therefore, the Company will continuously strive to improve the effectiveness of the entire Board of Directors based on the evaluation results in this time.

■ Directors' Training

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

■ Policy for Constructive Dialogues with Shareholders

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

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

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

(2) Measures to cooperate with the departments concerned

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

(3) Efforts other than individual interviews

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

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

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

(5) Measures to manage insider information

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

Basic Concept of Internal Control System and Its Development Status

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).

Based on the Companies Act, the Company's policies for the following 12 matters have been stipulated:

- (1) The structure concerning the storage and management of information on the directors' execution of their duties

(2) Regulations and other structure concerning the management of Nihon Chouzai Group's risk of loss

(3) The structure to ensure that the Group's directors' execution of their duties has been efficiently conducted

(4) The structure to ensure that the Group directors' and employees' execution of their duties has conformed to the laws and regulations as well as the Articles of Incorporation

(5) The structure to report matters concerning our subsidiary company directors' and others' execution of their duties to the Company

(6) Matters concerning the directors and employees who should assist the Audit and Supervisory Committee's duties
- (7) Matters concerning the securing of independence of the directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are the Audit and Supervisory Committee members) as well as the securing of the effectiveness of the instructions given to the said directors and employees

(8) The structure for the directors (excluding the directors who are the Audit and Supervisory Committee members) and employees to make a report to the Audit and Supervisory Committee and the structure for reports to the Audit and Supervisory Committee

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

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

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

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



4

Data section

51

Explanation of Terminology (1)

53

Explanation of Terminology (2)

55

10-Year Summary of Financial and Non-financial Data

57

Report of Business Results and Financial Analysis

59

Consolidated Balance Sheet

61

Consolidated Statement of Income

62

Consolidated Statement of Comprehensive Income

62

Consolidated Statement of Changes in Net Assets

63

Consolidated Statement of Cash Flows

64

Risks of Businesses

67

Company Profile

68

History

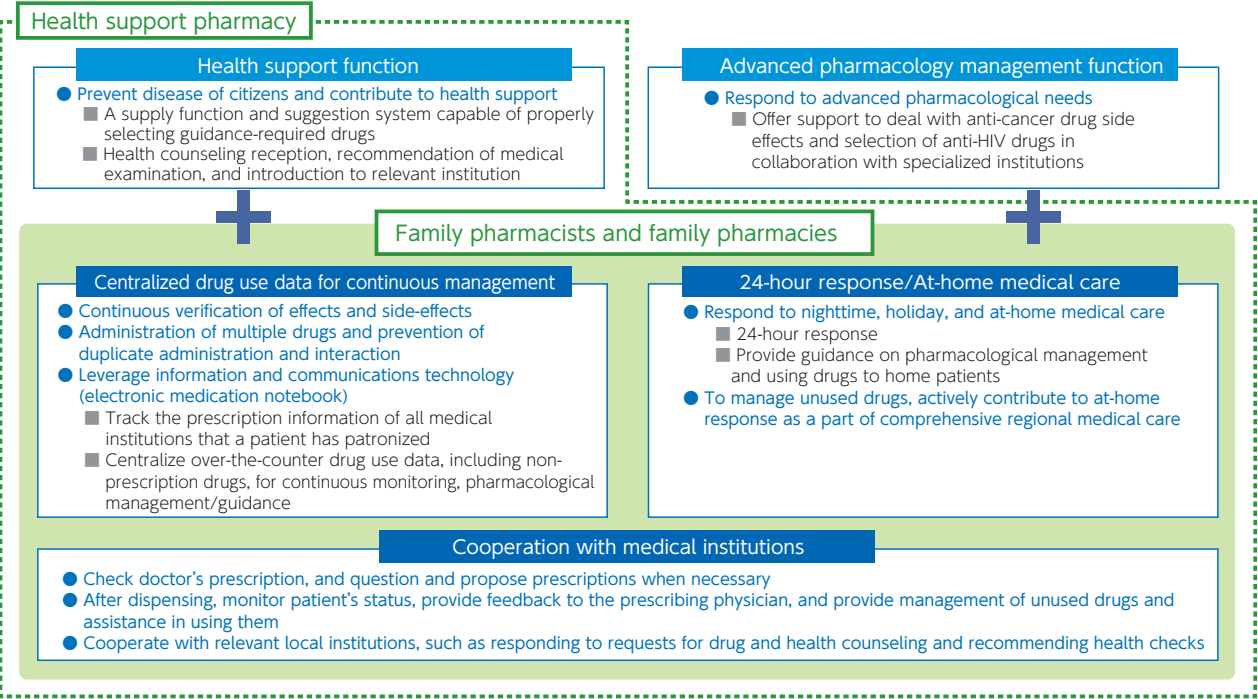
69

Stock Information

A Vision of Pharmacies for Patients

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

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



Family Pharmacist

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

(1) Pharmacist understands drugs collectively

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

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

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

(3) Nighttime/holiday response and counseling

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

Criteria

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

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

Family Pharmacy

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

Health Support Pharmacies

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

Criteria

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

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

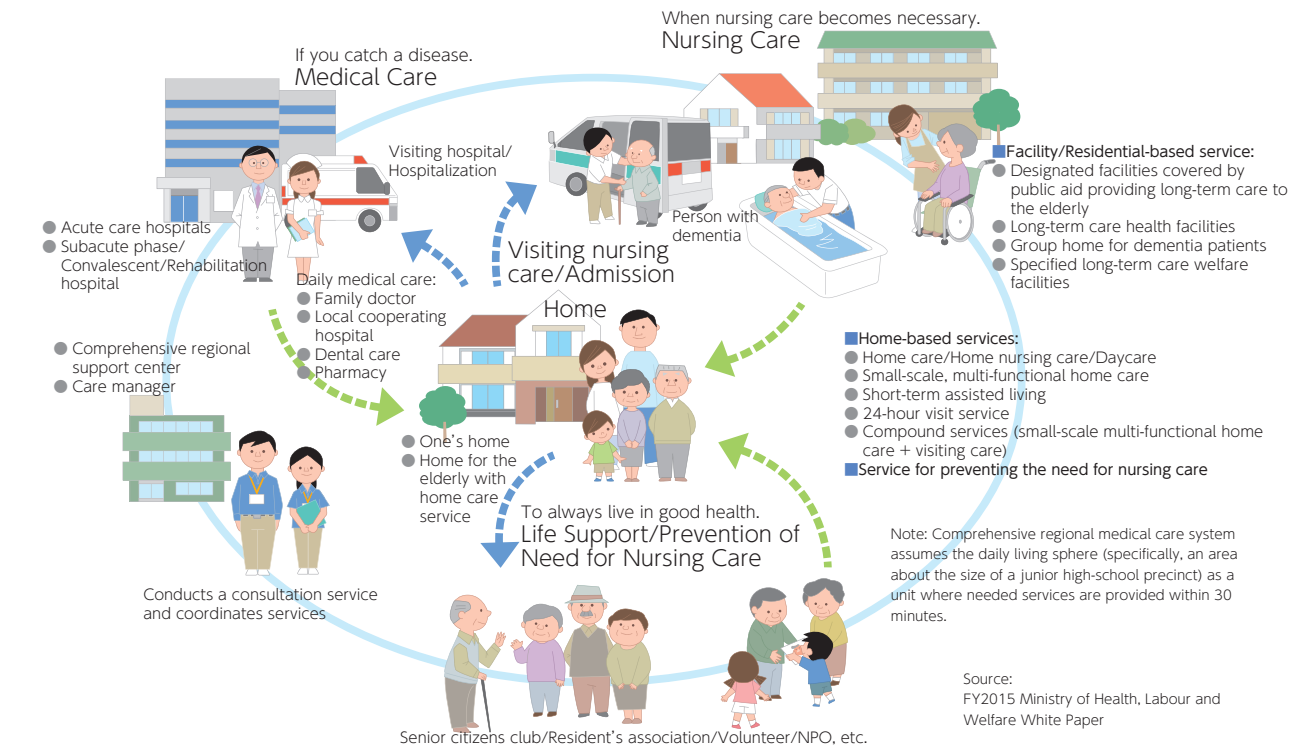
Comprehensive Regional Medical Care System

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

A system that provides at-home medical and nursing care through the integrated cooperation of various occupational

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

Image of Comprehensive Regional Medical Care System



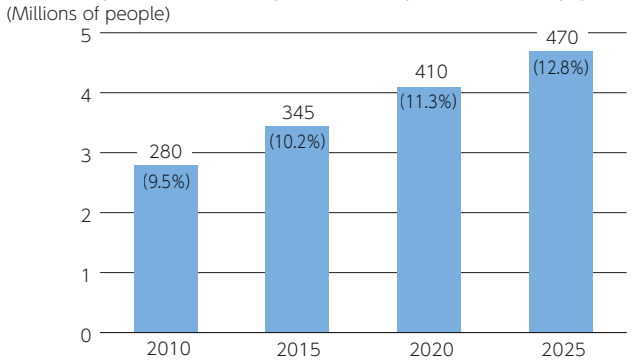
Review of elderly population

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

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

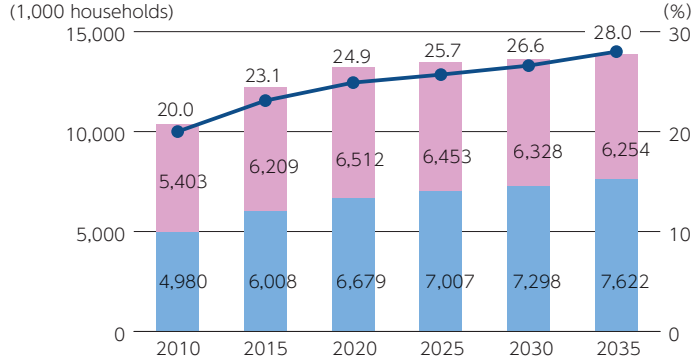
- 2 Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

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



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

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



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

Separation of Drug Prescribing and Dispensing

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

Generic Drugs

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

Medical Service Fee

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

Drug Prices

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

Basic Dispensing Fee

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

Premium for Generic Drug Dispensing System

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

At-Home Medical Care

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

Advanced Treatment Hospital

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

Local Medical Support Hospital

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

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

DPC System

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

DPC Hospitals

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

Hospital-front Pharmacies

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

MC Pharmacy

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

Mentaio Pharmacy

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

Okusuri Techo (Medication Notebook)

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

Electronic Okusuri Techo (Electronic Medication Notebook)

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

GMP

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

Dispatching Act

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

Health Insurance System Overview of Different Countries

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

Differences between Japanese and U.S. pharmacies

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

10-Year Summary of Financial and Non-financial Data

(Millions of yen)

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

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

Notes: 1. EBITDA = operating income + depreciation

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

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

Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of fiscal 2006.

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

5. ROE = net income attributable to the equity holders of the parent company/average equity at the beginning and end of the fiscal year

6. Equity ratio = shareholders' equity/total assets

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

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

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

Report of Business Results and Financial Analysis

The Nihon Chouzai Group's consolidated financial results in the fiscal year 2016 was greatly affected by the biennial prescription dispensing fee revisions and NHI drug price revisions, regarding both sales and profits in the dispensing pharmacy business and the pharmaceutical manufacturing and sales business. As the movement for the industry reorganization became clear in the dispensing pharmacy business and the pharmaceutical manufacturing and sales business, the business environment became very severe for the Group. In the long-term (10-year) trends, however, both net sales and operating profit achieved a double-digit compound annual growth rate in spite of varying operating income owing to the strong impact of revisions.

Status of Sales and Profits

Net Sales

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

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

Cost of Sales, Selling, and General Administrative Expenses

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

Operating Income

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

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

Profit Attributable to Owners of Parent Company

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

Status of Each Business Segment

Dispensing Pharmacy Business

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

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

Pharmaceutical Manufacturing and Sales Business

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

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

Medical Professional Staffing and Placement Business

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

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

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

Analysis of Financial Position

Assets

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

Current assets were 82,327 million yen, a decrease of 2,511 million yen (3.0%), from 84,838 million yen at the end of the previous fiscal year. This was attributable mainly to a decrease of 11,185 million yen in cash and deposits. Non-current assets increased by 23,248 million yen (31.9%) from 72,770 million yen at the end of the previous year to 96,019 million yen. Opening of new pharmacies in the dispensing pharmacy business, transfer of business, increase in goodwill through aggressive M&A in this business, and capital investments in the pharmaceutical manufacturing and sales business were mainly responsible for this increase.

Liabilities

Total liabilities increased by 16,763 million yen (13.4%), from 125,136 million yen at the end of the previous fiscal year to 141,900 million yen at the end of this fiscal year.

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

Net Assets

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

Status of Cash Flows

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

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

Cash Flows from Operating Activities

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

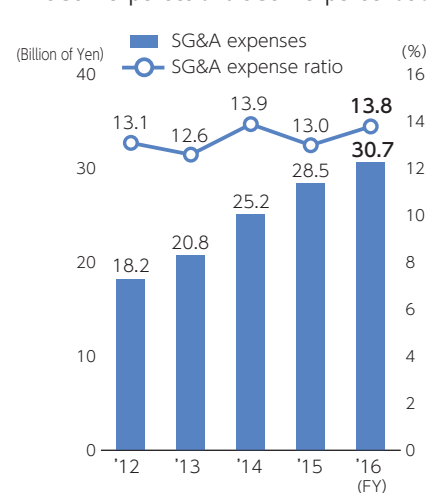
Cash Flows from Investing Activities

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

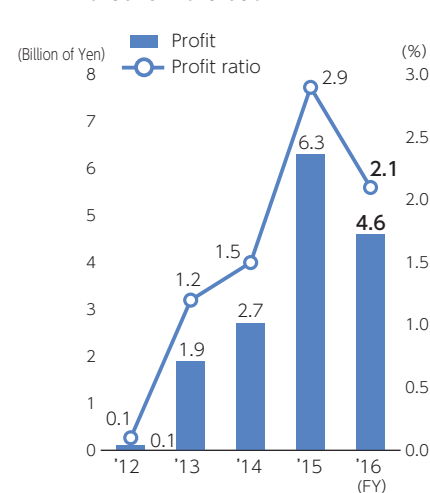
Cash Flows from Financing Activities

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

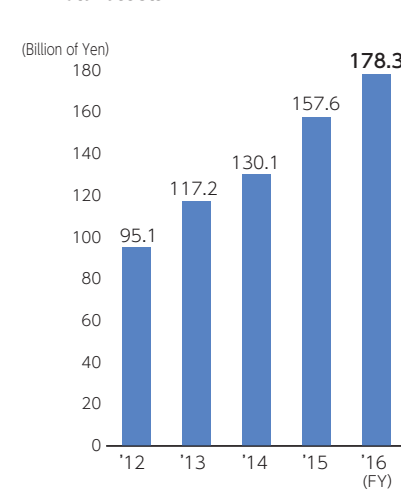
SG&A expenses and SG&A expense ratio



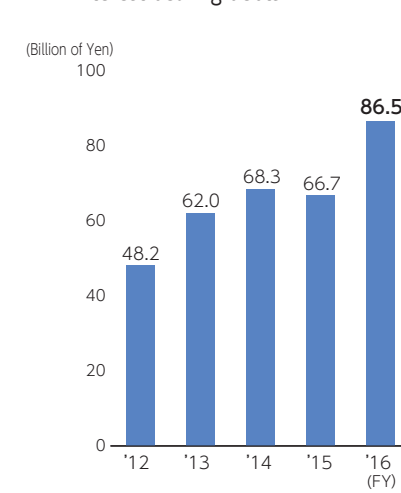
Profit and Profit ratio



Total assets

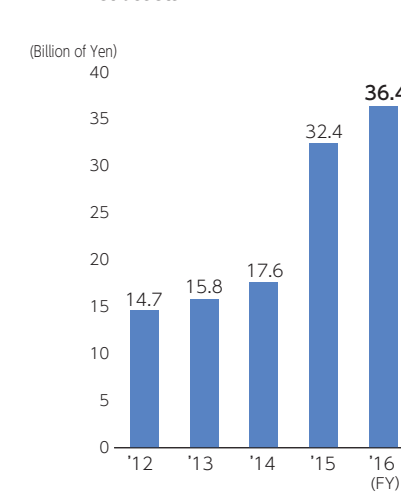


Interest-bearing debts

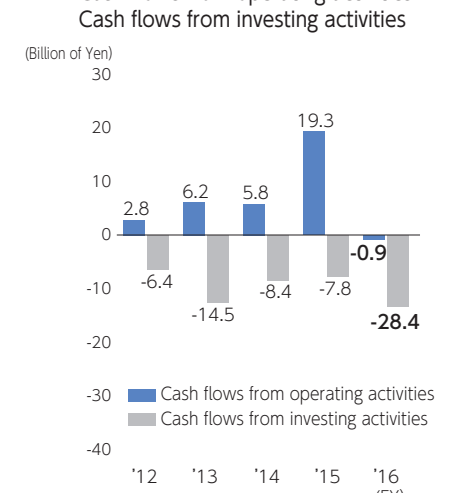


*Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable—installment purchase, and bonds.

Net assets



Cash flows from operating activities
Cash flows from investing activities



Consolidated Balance Sheet

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

(Millions of yen)

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

(Millions of yen)

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

Consolidated Statement of Income

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

(Millions of yen)

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

Consolidated Statement of Comprehensive Income

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

(Millions of yen)

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

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(Millions of yen)

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

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

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries

For the years ended March 31, 2016 and 2017

(Millions of yen)

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

Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2017," the matters that may have a significant impact on investors' decisions are described below. The Nihon Chouzai Group recognizes these risks and we have a policy to appropriately handle the risks in case the risks materialize; however, the decision for investment should be made after carefully considering this section and contents other than this section in this document. The matters about the future described below are decided by the Group as of June 29, 2017, and the matters may differ from actual results due to various factors.

I. Matters About Each Business Segment

1. Dependency on Interest-Bearing Debts

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

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

2. Personal Information Management

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

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

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

3. Social Insurance Contributions

The Nihon Chouzai Group has all the people who are

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

4. Influence by Disasters and Other Emergencies

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

II. Dispensing Pharmacy Business

1. Legal Regulations for Dispensing Pharmacy Business

(1) Opening Dispensing Pharmacies

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

Main relevant legal regulations are "License for pharmacy," "Health insurance pharmacy designation" and others, and we obtain required permission in all stores. Regarding reasons for disqualification for permission, they do not apply to us as of June 29, 2017.

(2) Securing Pharmacists

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

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

(3) Dispensing Operation

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

2. The Business Environment in the Dispensing Pharmacy Business

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

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

(2) Reform of the medical care system

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

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

[2] Other reforms of systems

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

3. Business Development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores including acquisition of stores, in case we cannot open stores as planned due to not being able to secure the property that conforms to the

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

4. Seasonal Variation of Sales

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

5. Impacts from Consumption Taxes

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

III. Pharmaceutical Manufacturing and Sales Business

1. Legal regulations for Pharmaceutical Manufacturing and Sales Business

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

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

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

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

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

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

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

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

3. Outsourcing of Pharmaceutical Manufacturing

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

4. Patent Litigation

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

5. Product Recall and Discontinuation of Sales

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

6. Purchase of Raw Materials and Merchandise

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

IV. Medical Professional Staffing and Placement Business

1. Legal Regulations for Medical Professional Staffing and Placement Business

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

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

Company Profile

Company Profile

Trade Name

NIHON CHOUZAI Co., Ltd.

Established

March 1980

Headquarters

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

Capital

3,953.02 million yen

Consolidated Net Sales

223,400 million yen (FY2016)

Number of Employees

Regular employees: 2,893

Part-time employees and others: 749

* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion.
(As of March 31, 2017)

Main Financing Banks

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

Our Business

Management of health insurance dispensing chain pharmacies

Shareholder Information

Total Number of Authorized Shares

44,192,000 shares

Total Number of Issued Shares

16,024,000 shares

Number of Shareholders

8,160 shareholders

Annual General Meeting of Shareholders

June

Administrator of Shareholder Registry

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

Stock Exchange for Listing

Tokyo Stock Exchange (TSE) First Section

Securities Code

3341

Settlement Date

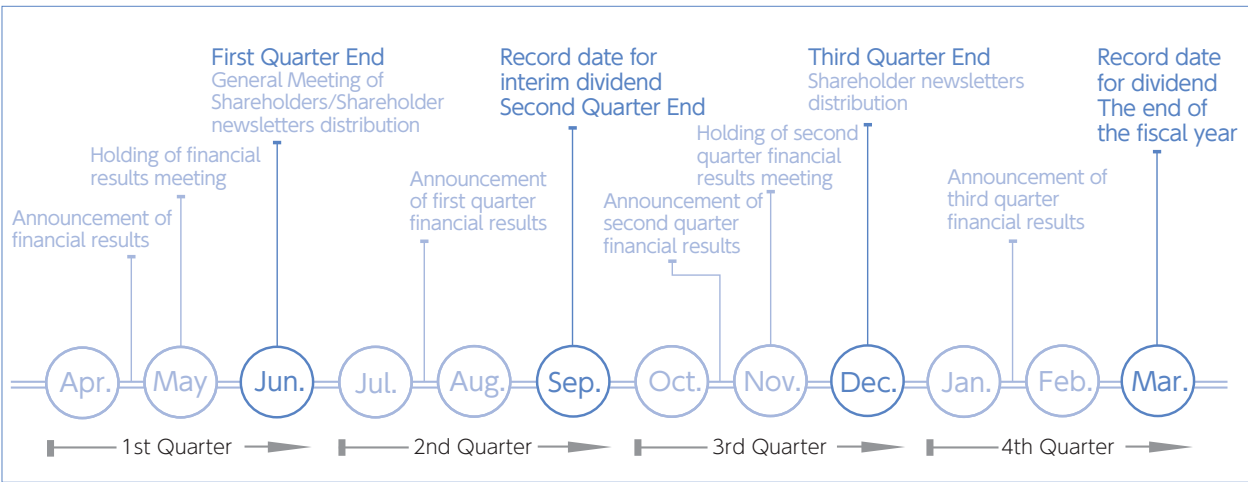
March 31

History

April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon Chouzai Yamahana dispensing pharmacy, in Chuo-ku, Sapporo City
August 1987	Opened a Tokyo branch
October 1993	Opened a Yokohama branch
January 1994	Opened a Tohoku branch Established the subsidiary Miyagi Nihon Chouzai Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.)
April 1995	Relocated the headquarters to Tokyo. Opened a Sapporo branch and a Kyushu branch
December 1999	Opened dispatching pharmacists because of liberalization in principle for worker dispatching business (The amendment of Worker Dispatching Act)
February 2000	Nihon Chouzai Pharma Staff Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.) was established (Changed the trade name and the purpose of Miyagi Nihon Chouzai Co., Ltd.)
October 2000	Opened an Osaka branch
April 2001	Opened a Nagoya branch and a Hiroshima branch
September 2004	Listed on the TSE Second Section
January 2005	Established Nihon Generic Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2005	By the revised Pharmaceutical Affairs Act (The present Pharmaceutical and Medical Devices Act), manufacture and sales of pharmaceuticals by the total outsourced manufacturing became possible
September 2006	Listing upgraded to the TSE First Section
October 2006	Established Medical Resources Co., Ltd. as a subsidiary (The current consolidated subsidiary)
November 2007	Relocated the headquarters (1-9-1, Marunouchi, Chiyoda-ku, Tokyo)
July 2008	Merged Medical Resources into Nihon Chouzai Pharma Staff (with Medical Resources as the surviving company)
October 2010	Launched the manufacture of generic drugs at Nihon Generic's Tsukuba plant
March 2011	Achieving the opening of a pharmacy in every prefecture in the country
January 2012	Established Japan Medical Research Institute Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2012	Opened a Kitakanto branch, a Higashikanto branch, a Kyoto branch, and a Kobe branch
April 2013	Made a subsidiary of Choseido Pharmaceutical Co., Ltd. (The current consolidated subsidiary)
February 2015	Nihon Generic acquired the Kasukabe plant of Teva Pharma Japan Inc. (Current Teva Takeda Pharma Ltd.)

The law amendment or system changes are written in blue.

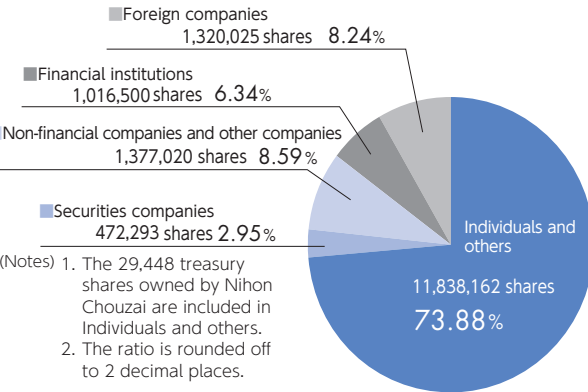
IR Calendar



Stock Information

(As of March 31, 2017)

Distribution of Shares for Each Owner



Trend of Holding Stock Ratio

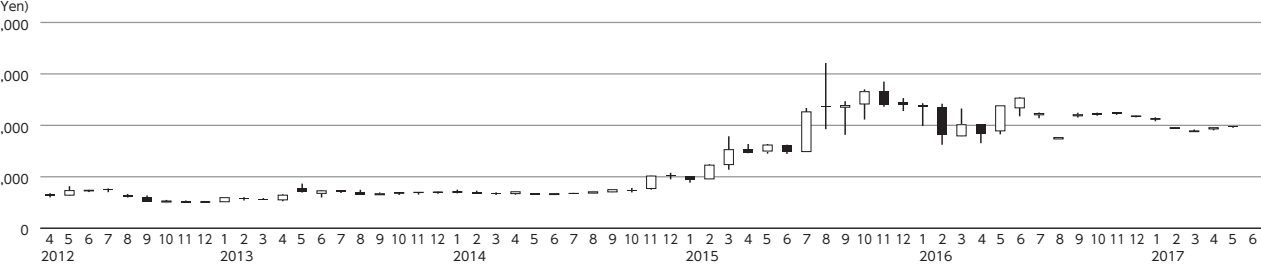
Ratio for Number of Shares	2016/3	2017/3
Individuals and others	77.46%	73.88%
Securities companies	3.10	2.95
Non-financial companies and other companies	9.00	8.59
Financial institutions	4.51	6.34
Foreign companies	5.93	8.24

Major Shareholders (Top 10 Shareholders)

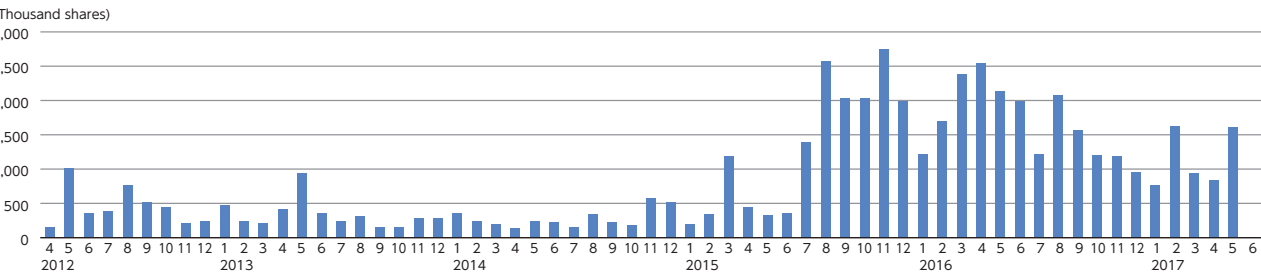
Names of the Shareholders	Number of Owned Shares (Shares)	Investment Ratio (%)
Hiroshi Mitsuhara	4,680,000	29.25
Yosuke Mitsuhara	3,320,000	20.75
Max Planning, Inc.	1,120,000	7.00
Nihon Chouzai Employee shareholding association	432,500	2.70
Yoko Mitsuhara	400,000	2.50
Keiko Mitsuhara	400,000	2.50
NOMURA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

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

Trend of Share Price



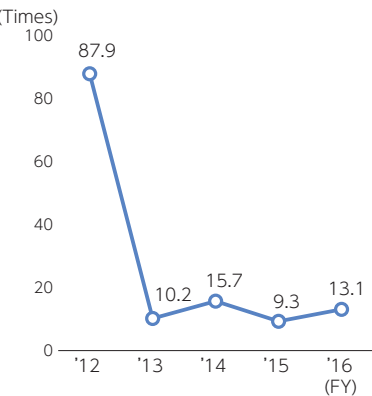
Trend of Turnover



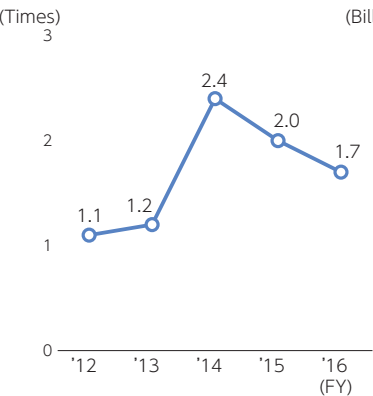
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2011.

Stock Price Index

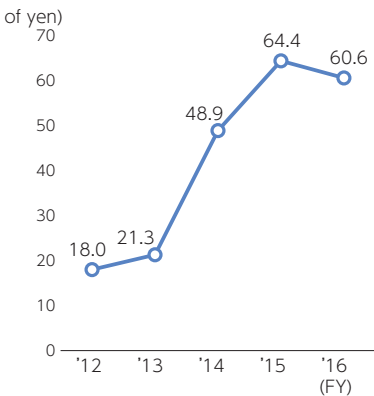
PER (Price earnings ratio)



PBR (Price-book value ratio)



Market capitalization



Determining Degree of Importance

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

Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and non-financial information in detail so that all stakeholders, and first and foremost shareholders and investors, will have an understanding of the Company's medium- to long-term creation of corporate value. The period covered in this report is fiscal 2016 (April 2016 to March 2017). However, as necessary, the contents may also cover some aspects of fiscal 2017.

Notes Concerning Forward-Looking Statements

The Corporate Report 2017 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual business performance and other information may be impacted by various risks and uncertainties, and may differ significantly from these projections. Your understanding is therefore requested. Factors that may have an impact on business performance and future outlook include, but are not limited to, the economic situation in which the Company's business domains operate, the reform status of relevant laws and regulations, conditions with regard to revisions of medical service fees, and the progress of product development.

 NIHON CHOUZAI Co.,Ltd.